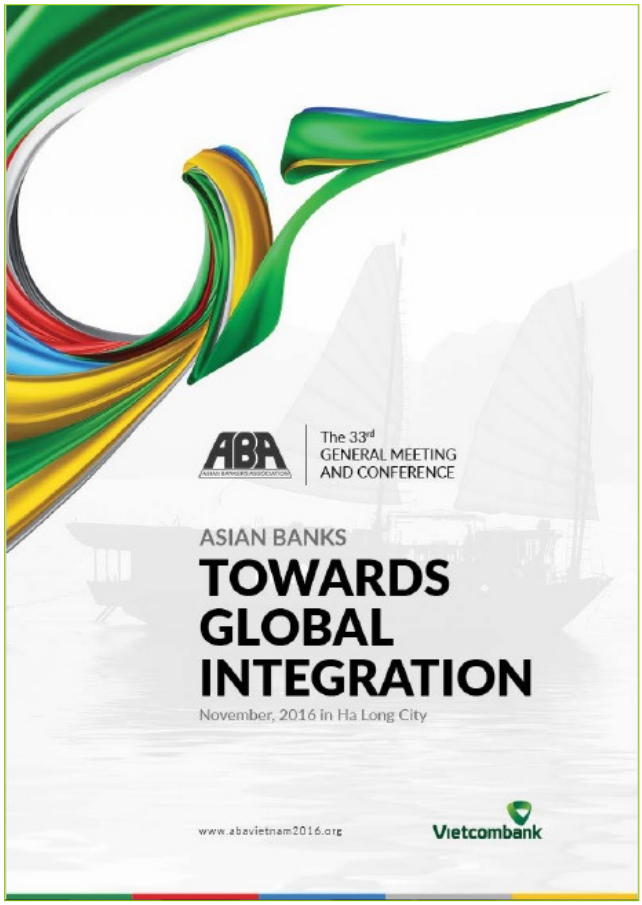
General Meeting and Conference

CEOs to speak on financial integration at the 33rd ABA Conference

Invited CEOs will speak on Financial Integration: Future Growth Drivers for the Asian Region at the CEO Forum of the 33rd ABA General Conference to be hosted by Vietcombank in Vietnam on November 10-11, 2016.

Since the Asian financial crisis, Asian policymakers have encouraged greater financial cooperation and integration not only within the region but globally as well. While not an end in itself, financial integration is being pursued because it is expected to bring important benefits to Asia. Financial integration promises higher productivity and living standards, not least by improving the allocation of savings and investment. Deeper financial integration is also seen to contribute to monetary integration; strengthen financial cooperation; help develop local financial service industries by enhancing their role of financial intermediaries; and foster financial inclusion. Nevertheless, further regional and global financial integration also carries risks, including heightened vulnerability to contagion, which would result in larger output volatility.

This session will invite CEOs to exchange views on the status of financial integration within Asia and possible factors hindering its progress. They will be requested to address the following questions: Has financial integration in Asia risen? How does it compare with that of other regions? What are the drivers of financial integration? What are the implications for Asian policymakers who want to achieve deeper financial integration within the region?



Invited Speakers include Mrs. Arundhati Bhattacharya, Chairman, State Bank of India, Dr. Noritaka Akamatsu, Senior Advisor, Financial Cooperation and Integration, Asian Development Bank; and Mr. Ahmad Faheem, President and CEO, JCR-VIS Credit Rating Co. Ltd. The forum will be chaired by Ms. Stefania Palma, Asia Editor, The Banker Magazine.

Policy Advocacy

ABA Policy Advocacy Committee chairman attends Symposium on Asian Banking and Finance

Ms. Prudence Lin, Chairman of the ABA Policy Advocacy Committee and Senior Vice President at CTBC Bank, represented the Asian Bankers Association at the Symposium on Asian Banking and Finance held on July 11-12, 2016 in San Francisco.

Jointly organized by the Federal Reserve Bank of San Francisco and the Monetary Authority of Singapore, the symposium focused on the topic "Financial Reform and Financial Stability: Does One Lead to the Other?", featuring an invitation-only discussion among industry, policy , and regulatory bodies.

Participants in the symposium included central bankers and regulators, senior officers of financial institutions, market participants and academics. Discussions covered issues such as how regional integration may affect financial stability, whether regulatory reform has contributed to this goal, and how technological innovations in banking and finance are leading – or not – to greater stability.

Managing Director Ravi Menon of the Monetary Authority of Singapore delivered the keynote address. The other speakers included, among others: Mr. John Williams, President and CEO, Federal Reserve Bank of San Francisco, Mr. Mitsuhiro Furusawa, Deputy Managing Director, International Monetary Fund; Mr. William Coen, Secretary General, Basel Committee on Banking Supervision; Mr. Adam Farkas, Executive Director, European Banking Authority; Mr. Richard Naylor, Associate Director, Banking Supervision and Regulation, Board of Governors of the Federal Reserve System; Mr. Agustin Carstens, Governor, Bank of Mexico; Mr. Shinobu Nakagawa, Deputy Director General, Global Finance, Financial System and Bank Examination Department, Bank of Japan; and Mr. Diwa Guinigundo, Deputy Governor, Bangko Sentral ng Pilipinas.

ABA represented at the 16th Annual Conference of International Insolvency Institution

Dr. Shinjiro Takagi, Senior Advisor on Informal Workout Guidelines to ABA, represented the Association at the 16th Annual Conference of International Insolvency Institution held in Tokyo on June 6-7, 2016. Dr. Takagi shared the ABA Informal Workout Guidelines during the session "Asian Business Reorganization Workout with Minimal Court Interventions. Australian Professor Richard Fisher and Mr. Francis Ed Lim from the Philippines were among the speakers, both of whom helped draft the ABA Informal Workout Guidelines and Model Agreement.

Education and Training

Training Workshop on Enterprise-Wide Risk Management Conducted by the Association of Credit Rating Agencies in Asia

The Association of Credit Rating Agencies in Asia (ACRAA) successfully conducted a training workshop on "Enterprise-Wide Risk Management" on July 28-29, 2016 at the Peninsula Manila Hotel in Makati City, Philippines.

Workshop Participants

The number of participants totaled 40, of which 12 were ACRAA members from 6 countries, and 28 were non-ACRAA members from 5 countries. Of the 28 non-ACRAA member participants, 22 were representatives of ABA member banks and the ABA Secretariat, viz: 8 from Bank of Bhutan (Bhutan); 6 from Development Bank of the Philippines (Philippines); 2 from Export-Import Bank of the ROC (Taiwan); 3 from Vietcombank (Vietnam); 2 from Bank Pasargad (Iran) and 1 from ABA Secretariat.

Workshop participants from both ACRAA and ABA member organizations pose for a group photo with the workshop speakers and ACRAA officers during a break in the program.

Workshop Objective

The objective of the two-day workshop was to help the participants develop a framework of thinking when analyzing enterprise-wide risks as they translate to credit risks. It aimed to create a wider understanding of the spectrum of risks encountered by businesses today and develop a deeper and more comprehensive analytical perspective.

Workshop Topics

- Experts gave interactive lectures on various topics, including the following:
- The Current Practice of Enterprise-Wide Risk Management
- Anatomy of Information Technology (IT) Risks)
- Enterprise-Wide Risk Evaluation and Management Applied to the Banking
- Sector
- The Bangladesh-New York-Philippines Cyber Connection
- Enterprise-Wide Risk Evaluation and Management Applied to the Manufacturing Sector
- Enterprise-Wide Risk Evaluation and Management Applied to the Transport
- Sector
- Country Risk Rating Assessment: Methodology and Approach
- Sovereign Risk Analysis: Basic Factors and How They Impact on Corporate- Specific and Project-Specific Credit Ratings
- Public-Private Partnership (PPP) Projects Risk Assessment Framework
- Understanding Systemic and Political Risk

News Updates

World Bank Raises 2016 Oil Price Forecast

The World Bank is raising its 2016 forecast for crude oil prices to $43 per barrel from $41 per barrel due to supply outages and robust demand in the second quarter.

Oil prices jumped 37 percent in the second quarter of 2016 due to disruptions to supply, particularly wildfires in Canada and sabotage of oil infrastructure in Nigeria. The revised forecast appears in the World Bank's latest Commodities Markets Outlook and takes into account a recent softening of demand and the recovery of some disrupted supply.

"We expect slightly higher oil prices for the second half of 2016 as oil market oversupply diminishes," said John Baffes, Senior Economist and lead author of the Commodities Markets Outlook. "However, inventories remain very large and will take some time to be drawn down."

Despite the recovery of oil and many other commodity prices in the second quarter of 2016, most commodity indexes tracked by the World Bank are expected to decline this year. This trend is due to persistently elevated supplies, and in the case of industrial commodities – which include energy, metals, and agricultural raw materials -- weak growth prospects in emerging market and developing economies. However, most of the declines are projected to be smaller than expected in the April outlook.

Energy prices, which include oil, natural gas and coal, are due to fall 16.4 percent in 2016, a more gradual decline than the 19.3 percent drop anticipated in April. Non-energy commodities, such as metals and minerals, agriculture, and fertilizers, are expected to ease 3.7 percent this year, a more moderate contraction than the 5.1 percent retrenchment forecast in the previous outlook.

Metals prices are projected to fall 11 percent in the coming year, a sharper decline than the 8.2 percent drop forecast in April, reflecting weak demand prospects and new capacity coming on line. Agriculture prices are forecast to fall less than projected in April as a result of reduced harvests in South America and plateauing demand for biofuels.

Because energy constitutes more than 10 percent of the cost of agricultural production, movements in energy prices have been a major factor in the path of food prices, a special feature of the Commodity Markets Outlook says. Energy prices fell 45 percent in 2015 and are projected to drop again this year. About one-third of the likely 32 percent drop in prices of grain commodities and soybeans from 2011 through 2016 is due to energy price declines.

Lower energy prices have also eased pressures to produce biofuels as an alternative energy source. Biofuels production has been an important driver of demand growth for food commodities in the past decade.

"Energy exporting emerging and developing economies have struggled to adjust to persistently low prices," said Ayhan Kose, Director of the World Bank's Development Prospects Group. "Partly because of the strong linkages between energy prices and agricultural commodities prices, agricultural producers can expect lower prices in an era of depressed energy prices. Both energy and agricultural commodity exporting countries need

to step up economic diversification efforts to bolster resilience to commodity price fluctuations."

The World Bank's Commodity Markets Outlook is published quarterly, in January, April, July and October. The report provides detailed market analysis for major commodity groups, including energy, metals, agriculture, precious metals and fertilizers. Price forecasts to 2025 for 46 commodities are presented along with historical price data.

For more information, please visit: http://www.worldbank.org/commodities *World Bank News Release*

ADB says developing Asian economies to grow 5.6 % in 2016

The Asian Development Bank said on July 18 that it had cut its 2016 growth projection for developing economies in Asia and the Pacific to 5.6 percent, down from its earlier forecast of 5.7 percent, but added that the economies' performance will remain solid and help offset softness from the U.S. economy and near-term market shocks from Britain's vote to exit from the European Union.

The Manila-based lender's report said the growth forecast for 2017 of 5.7 percent made in March remains unchanged.

"Although the Brexit vote has affected developing Asia's currency and stock markets, its impact on the real economy in the short term is expected to be small," said Shang-Jin Wei, the ADB's chief economist. "However, in light of the tepid growth prospects in the major industrial economies, policy makers should remain vigilant and be prepared to respond to external shocks to ensure growth in the region remains robust."

China, the world's second-biggest economy, is on track to meet earlier growth projections of 6.5 percent in 2016 and 6.3 percent in 2017, with the government expected to continue fiscal and monetary stimulus measures to support its targets. For East Asia as a whole, growth forecasts are unchanged at 5.7 percent in 2016 and 5.6 percent in 2017 despite muted activity in Hong Kong and South Korea, the report said.

But growth this year and next will be led by South Asia, which is expected to be the fastest growing sub-region, with India likely to meet projected growth target of 7.4 percent this year and 7.8 percent next year, supported by brisk consumer spending and growth in the rural economy.

In Southeast Asia, growth projections for 2016 and 2017 remain unchanged at 4.5 percent and 4.8 percent. Solid performance of most economies in the sub-region for the first half of this year was driven by private consumption, except for Vietnam where a worsening drought caused a contraction in the agricultural sector.

In Central Asia, 2016 growth forecast was trimmed to 1.7 percent from 2.1 percent, and for 2017 it was cut to 2.7 percent from 2.8 percent due to a slump in revenues from hydrocarbon exports of Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan and the recession in Russia.

Growth this year in the Pacific is expected to slow to 3.9 percent from 7.1 percent in 2015, with the Fijian economy reeling from Cycline Winston. But stronger-than-expected tourism receipts are boosting the economies of Cook Islands and Samoa while post-cyclone reconstruction is helping Vanuatu's economy. *Associated Press*

IMF cuts 2016 Global Economic Growth Outlook after Brexit vote

Uncertainty caused by U.K. referendum takes toll on confidence, investment

The International Monetary Fund on July 19 downgraded its forecast for global economic growth as Britain's surprise vote to leave the European Union last month weighs on consumer confidence and investor sentiment.

The IMF notched down its global growth estimate for this year and next by 0.1 percentage point, putting 2016 at 3.1% and on par with last year's pace, the slowest since the financial crisis. The fund expects a mild pickup next year to 3.4% annual growth.

But it warned that a host of threats—including geopolitical turmoil, rising protectionism and terrorist attacks—could push growth into a deeper rut. Meanwhile, central banks appear to be running out of options to juice output, reflected in part by bonds yields plumbing new depths around the world. Many emerging markets are still struggling to cope with China's deceleration and the long-term slump in trade and commodity prices.

A British flag flies above an English St. Georges Cross flag near the Big Ben clock tower in London. The International Monetary Fund says Britain's vote to leave the European Union is weighing on consumer confidence and investor sentiment. Photo: Agence France-Presse/Getty Images

The British referendum "adds downward pressure to the world economy at a time when growth has been slow amid an array of remaining downside risks," said IMF chief economist Maurice Obstfeld. The IMF had been prepared before that vote to nudge up its outlook on the back of firmer commodity prices and less-severe contractions in Brazil and Russia. "But Brexit has thrown a spanner in the works," he said.

The IMF's latest World Economic Outlook sets the tone for a meeting of the world's top finance ministers and central bankers in China. Officials from the Group of 20 leading advanced and developing economies will call on each other to deliver on long-promised policies meant to spur growth.

Brexit will likely take center stage, with officials focusing on "the near and long-term implications of the decision by voters in the U.K. to exit the EU," a senior U.S. Treasury official said on July 18.

"Continued uncertainty in the global outlook underscores the importance of all countries using all policy tools—monetary, fiscal and structural—in combination to boost growth," the U.S. official said.

Though many markets have stabilized after a post-Brexit selloff, the IMF warned the vote's impacts will likely play out over time. The IMF cut prospects for eurozone growth next year across the board, including 0.9 percentage point for the U.K. to 1.3% and 0.4 percentage point for Germany to 1.2%.

But the fund's current outlook is based on a "benign assumption" that the U.K. and the EU preserve much of their key trade, finance and economic relationship.

That is by no means assured, however, due to the lack of clarity about the U.K.'s ultimate relationship with the EU. "More negative outcomes are a distinct possibility," fund

economists warned in the report.

A prolonged and acrimonious negotiation could drag down global economic growth to 2.8% this year and next, the IMF said. Brexit has already drawn new attention to Europe's legacy banking weaknesses, with some officials warning the financial system could face another full-blown crisis.

"This overlay of extra uncertainty, in turn, may open the door to an amplified response of financial markets to negative shocks," Mr. Obstfeld said.

Fund economists said policy makers need to "stand ready to act more aggressively and cooperatively should the impact of financial market turbulence and higher uncertainty threaten to materially weaken the global outlook."

The fund also trimmed its forecast for U.S. growth this year by 0.2 percentage point to 2.2% on the back of a weaker-than expected first quarter as a strong dollar and souring energy sector hit the economy.

Brexit added to Japan's exchange-rate headaches as capital fleeing London sought refuge in the yen, one of the world's safe-haven currencies. Instead of a planned upward revision for the world's third-largest economy, a stronger yen forced the IMF to cut the country's growth prospects for this year by 0.2 percentage point to a measly rate of 0.3% this year. Tokyo's decision to delay a consumption tax increase means the country will avoid a recession. But the economy is only expected to expand by 0.1% next year.

Africa's largest economy, Nigeria, took the largest revision as plummeting oil prices, production cuts, power outages and souring investor confidence took their toll on the nation. The fund cut its forecast by 4.1 percentage points for 2016 and 2.4 percentage points for 2017, putting the economy in a 1.8% contraction this year and a mild 1.1% expansion next year.

While the overall outlook is gloomy, the IMF cited a few bright spots in the global economy such as market resilience in the face of the surprise Brexit vote. The fund also raised its forecasts for Brazil and Russia, projecting the two commodity exporters will pull out of deep recessions next year. *Wall Street Journal*

Special Feature

The digital challenge from a Philippine banking perspective

BY LIEW NAM SOON & VICKY LEE-SALAS

It is almost a cliché by now when banks cite Know-Your-Customer (KYC) processes and controls as the biggest risk management challenge when going digital but it might be even more so in the case of the Philippines.

In our survey of more than 20 financial services institutions (FSIs) operating in ASEAN on the risk, compliance, and change management challenges they face in their digital journey, they mentioned KYC processes and controls, customer experience, cybersecurity, regulations, FinTech, internal organisational resistance, and emerging vendor risks as the top concerns.

Resolving some of these challenges would go some way towards enabling digital banking, which presently, the Philippines has one of the lowest digital banking adoption rates in the region.

This is also important to allow Philippine banks to compete against global banks who are looking to capture the market in this space, given the increasing demand from the consumers to try new digital banking products and solutions that meet their needs.

Addressing the KYC and customer experience digital challenge

In our report on "Managing change and risk in the age of digital transformation; digital journey of ASEAN FIs," KYC processes and controls are seen as hampering the move to "digital-only" for critical processes such as account opening, loan applications, or investment advisory.

Currently, ASEAN FIs are continuing to rely on employee-assisted onboarding or some level of physical intervention to verify a customer's identity. Proven solutions are available to automate this process, but their adoption remains limited. For example, electronic signatures, although accepted by most regulators, are not considered to be sufficiently user-friendly or convenient for the customer.

Likewise, a few ASEAN banks have trialed mobile data capture to verify the customer by taking a photo of the signature, an ID card, or the customer themselves, but concerns about security outweigh the added convenience. After all, the signed original still has to be delivered by mail, which fundamentally reduces the benefits of a straight-through process.

Banks in the Philippines meanwhile are taking active steps to address the above issues in a bid to improve the online banking experience for their customers. For example, Metrobank has been narrowing loan processing time and approval turnaround within the application period, which has helped their digital banking growth.

China Bank Savings (CBS) recently partnered with Lendr. Lendr is the country's first 24/7 digital loans marketplace. With the partnership, clients of CBS can now complete their loan application process online, track their loan application status, and monitor their monthly loan repayments, balance, and amortizations.

Cybersecurity is also a key concern amongst the Philippine banks, who see potential risks involved due to a lack of security measures such as two-factor authentication and transaction signing to secure transactions.

To address this, the local banks have put in place several measures, to protect the banking system and its consumers from risks associated with electronic-banking operations. Banks have migrated from the use of magnetic stripe technology to the use of globally recognised EMV. For internet banking, clients would receive the transaction password via email or SMS message.

The regulatory challenge with regards to FinTech

Given how FinTech now plays a key role in more banks' digital journey, in the Philippines however, the FinTech landscape is still at infancy stage.

While regulators are not prohibiting banks from working with FinTechs and other start-ups, they are just uncomfortable with a digital-only strategy because of KYC issues.

Dealing with emerging vendors also requires FSIs to rethink many aspects of the traditional FI-vendor relationship. These include: procurement, third-party risk management, regulatory reviews and audits for outsourcing services, data privacy and security, business continuity, and integration with legacy systems.

Most Philippine banks are still not prepared to deal with FinTechs in terms of organisational mindset and policies, which makes it difficult to incorporate them into their existing systems and structures. Most banks also do not have a clear set of evaluation criteria to help them assess the suitability of a FinTech vendor that comes into the picture.

From a regulatory standpoint, the responsibility to do appropriate due diligence checks on prospective vendors lies with the banks.

The Bangko Sentral ng Pilipinas (BSP) has put in place a regulatory environment that properly guides banks on how to deal with risks and ensure consumer protection as they pursue technological advancement. Banks are rated for its IT Risk management, thereby encouraging banks to adhere to high standards of IT security as they enhance their services with the use of modern technology.

Given the regulatory requirement, banks prefer to work with the larger, more established vendors, limiting the playing space for FinTech start-ups, though they may have the right technology to help banks advance their digital strategy.

Global players cashing in on the digital growth potential, local players to follow closely

What all this means is an opportunity for global banks to establish their foothold to try and gain first mover's advantage in the digital consumer market using their existing technological capabilities without having to partner with a FinTech to develop one.

For example, Citi Direct3 was the first to establish digital presence in the Philippines in 2000. It started the banking alerts wherein clients received SMS and email alerts on banking and credit card transactions in 2009.

Another innovation is a Citibank Ph mobile app compatible with most mobile phones as well as the eAdvice in 2012. During the year, the bank also launched the Citi Philippines Facebook account.

That said, the major domestic banks have the advantage of in-country expertise and home-grown familiarity with their existing customer base, and are expected to give the global players stiff competition.

All in all, though challenges still need to be addressed, Philippine consumers are using more of the internet and mobile platforms for their financial transactions.

We foresee that this will in turn drive more innovation and competitive product offerings in the digital space by both the global and local players alike, giving Philippine consumers more choices.

The views reflected in this article are the views of the authors and do not necessarily reflect the views of the global EY organisation or its member firms.

Liew Nam Soon is Managing Partner, Financial Services, ASEAN, Ernst & Young while Vicky Lee-Salas is Financial Services Leader, Philippines, Earnst & Young.

Member Personality

RCBC names new president and representative to the ABA Board

Rizal Commercial Banking Corp. (RCBC) has tapped Development Bank of the Philippines president Gil Buenaventura as its new president.

Buenaventura, a seasoned banker, is the new president and chief executive officer of RCBC effective July 1. He will also be representing RCBC in the ABA Board of Directors.

Buenaventura, 63, steered DBP to unprecedented growth in terms of income and total resources. DBP is among the top 10 banks in the country.

DBP is the Philippine's seventh largest bank in terms of assets with 508.46 billion pesos and 10th in terms of capital with 37.66 billion pesos last year.

Buenaventura was a former senior executive vice president and chief operating officer of the Bank of the Philippine Islands (BPI) and president and chief executive officer of Prudential Bank when it was acquired by BPI.

He also served as executive vice president of Citytrust Banking Corp. and a Citibanker for 18 years where he started as chief of staff to the country head and rose to become vice president, group head and senior credit officer.

Buenaventura obtained his Bachelor of Arts in Economics from the University of San Francisco and his MBA in Finance from the University of Wisconsin.

At BPI, he was in charge of the bank's major revenue-generating businesses and was either chairman or a member of the board of directors of BPI's various subsidiaries.

He also managed the bank's special business units and several subsidiaries, and exercised direct oversight over non-revenue areas including information systems, human resources, and central operations. *Philippine Star*

Former ABA chairman re-elected as Ceylon Chamber vice chairman

Former ABA Chairman Mr. Rajendra Theagarajah was re-elected Vice Chairman of Ceylon Chamber of Commerce at the organization's annual general meeting held in June.

Mr Theagarajah is a veteran banker with a wealth of experience in the Banking and financial services sector. He counts over 30 years in banking both locally and overseas.

Prior to his appointment as Director / Chief Executive Officer (CEO) of National Development Bank PLC (NDB), he served as CEO/ Managing Director at Hatton National Bank PLC for 9 years. Mr Theagarajah was also a past Chairman of Sri Lanka Bankers' Association (Guarantee) Ltd, Financial Ombudsman Sri Lanka (Guarantee) Ltd, and former Director of Colombo Stock Exchange. He has also served as a Council Member of the Sri Lanka Institute of Directors.

He currently serves as immediate past Chairman of the Chartered Institute of Management Accountants (UK) Sri Lanka Governing Board. He is also Sri Lanka's representative in the CIMA UK's Global Council, member of the Board of World University Service Canada while he also serves as Treasurer cum Director of the American Chamber of Commerce in Sri Lanka. He is also an independent non-executive Director of Carson Cumberbatch PLC and several companies in the NDB Group. *NDB*

Among Member Banks

- **BEA wins Best SME's Partner Award for 9th consecutive year** - The Bank of East Asia, Limited (BEA) has won the "Best SMEs Partner Award" in the awards program organized by the Hong Kong General Chamber of Small and Medium Business, a prominent local organization that supports small and medium enterprises (SMEs). BEA received the award in recognition of its dedication to the SME sector through the provision of corporate banking services of outstanding quality during the year. This is the ninth consecutive year that BEA has been named recipient of this award. Theresa Tang, head of BEA's Commercial Lending Department, received the award on behalf of the bank at a ceremony held on June 28, 2016. "BEA is honored to receive the Best SME's Partner Award for the ninth straight year," said Ms. Tang. "Throughout our history, we at BEA have dedicated ourselves to serving the financial needs of local SMEs and providing tailored products and services that cater to the specific needs of our corporate customers. Looking ahead, we shall continue to develop and deliver effective financial solutions to help SMEs grow and meet their banking needs in an ever-changing and challenging business environment." *BEA News Release*

- **ICICI Bank launches 'Swachh Society Awards' -** ICICI Bank Ltd, India's largest private sector bank, on July 11 announced the launch of a unique contest for residential housing societies to recognize and reward clean and green initiatives in the Mumbai Metropolitan Region (MMR). Christened, 'Swachh Society Awards', the initiative aims at sustaining the spirit of the 'Swachh Bharat Abhiyan. Spanning over 50 days, the programme will evaluate, identify and acknowledge residential societies for their efforts such as energy conservation, rainwater harvesting, waste management, adoption of clean-green technology among others. Selected entries stand to win prizes of 30 lakh in various categories like Gold, Silver & Bronze and 'Clean Crusader Innovation Award' among others. The 'Swachh Society Awards' is open to all residential societies registered with the Municipal Corporations of Mumbai, Thane, Kalyan-Dombivli, Ulhasnagar, Bhiwandi-Nizampur, Navi Mumbai and Vasai-Virar; and Municipal Councils of Panvel, Kharghar and Kalamboli. *ICICI News Release*

- **MUFG optimizes certain businesses and functions of BTMU and MUSHD; BTMU submits notification of withdrawal as Japanese Government Bond Special Participant -** Mitsubishi UFJ Financial Group, Inc. (MUFG) on July 13 announced the commencement of the banking-securities business optimization of the respective Sales & Trading businesses of the Bank of Tokyo-Mitsubishi UFJ Ltd. (BTMU) and subsidiaries of Mitsubishi UFH Securities Holdings Co., Ltd (MUSHD) in EMA and Asia on July as a key initiative of MUFG"s current medium-term business plan. This business optimization for S&T business is also scheduled to be implemented in the Americas and Japan this coming autumn. Following these optimizations, MUFG aims to provide its clients with higher quality service and

improved offerings of financial products. Pursuant to this group-driven strategy, BTMU submitted a notification of its withdrawal as a Japanese government bond market special participant to the Ministry of Finance as BTMU's Japanese Government Bond (JGB) primary dealer function will be consolidated within Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. (MUMSS), a subsidiary of MUSHD. *MUFG News Release*

- **Maybank appoints two new directors -** Malayan Banking Bhd (Maybank) has appointed Nor Hizam Hashim and Dr Hasnita Datuk Hashim as independent directors to its board. Maybank chairman Tan Sri Megat Zaharuddin Megat Mohd Nor said the new appointments are part of the group's on-going efforts to ensure the board is equipped with the appropriate experience and diverse skills sustainably, also with the view to future succession planning. "Our new board members bring new insights and will help inject fresh perspectives in guiding management to continue creating value for all our stakeholders. The appointments of a new lady member, Hasnita, also reflect our strong commitment in supporting the group's inclusiveness and diversity agenda," he said in a statement. *The Star*

- **Abu Dhabi merger to create $175 billion banking heavyweight -** National Bank of Abu Dhabi NBAD.AD and First Gulf Bank FGB.AD won board approval on July 3 for a merger to create a banking heavyweight with $175 billion in assets, part of the emirate's plan to revamp its economy hit by lower oil prices. The newly-branded National Bank of Abu Dhabi will become one of the Middle East and Africa's biggest banks when the tie-up is completed in the first quarter of 2017, rivaling Qatar National Bank QNBK.QA, which has just purchased Turkey's Finansbank. The tie-up comes as the Gulf's oil-rich countries take new steps to diversify their economies after two years of lower oil prices have weighed heavily on state revenues. By creating a national banking champion, Abu Dhabi hopes to better service its own changing economy and those of the region, as well as take on global banking rivals at home and abroad. *Reuters*

- **DBS to leverage Amazon Web Services Cloud -** DBS Bank, which has been on the forefront of digital transformation, continues to lead the charge in re-architecting its technology so as to be more "fintech-like" and responsive to customer needs. The bank said on July 27 that it has signed an agreement with leading infrastructure provider, Amazon Web Services (AWS), to leverage its cloud technology. With this, DBS will create a hybrid cloud environment optimized for rapid changes of capacity and functionality, which is complementary to the bank's traditional use of data centers. DBS' early adoption of cloud among financial sector players comes amid a digital revolution that is redefining the banking industry. With the use of cloud, the bank is better able to experiment in a digital way as well as deliver new applications rapidly, while adhering to the highest standards of security. Said DBS Head of Technology and Operations, David Gledhill: "In today's fast-changing world, companies such as Amazon, Facebook, Google and Netflix are widely acknowledged as leaders in innovation. What sets them apart is their ability to constantly experiment, automatically scale and rapidly bring new features to market. They are able to do this in

part by leveraging the flexibility provided by cloud technology." *DBS News Release*

- **UOB employees and customers across Asia raise more than S$1.1 million for children's charities at the annual UOB Heartbeat Run/Walk -** More than 11,000 United Overseas Bank (UOB) employees and their families and customers, participated in the annual UOB Heartbeat Run/Walk event held in six markets in Asia, namely China, Hong Kong, Indonesia, Malaysia, Singapore and Thailand. Together, they raised over S$1.1 million which will go towards improving the lives of children in Asia who are underprivileged or have special needs. In Singapore alone, the annual event saw more than 7,000 runners and walkers at East Coast Park, the highest number of participants since it was first held 10 years ago. A mainstay in the Bank's calendar, the UOB Heartbeat Run/Walk embodies its key corporate social responsibility focus on children, education and art. The event features a three-kilometre walk, and a five-and 10-kilometre run. In the areas of children and education, the more than $1 million raised will go towards initiatives such as early intervention programs for children with special needs. This will benefit 1,600 children and youth from the ages of five to 21, who will be taught social and work skills. The beneficiaries this year are the Movement for the Intellectually Disabled in Singapore Towner Gardens School, Pathlight School and Rainbow Centre –Yishun Park School. *UOB News Release*

- **Bangkok Bank launches "AEC Business Leader Program" to lead Thai entrepreneurs to invest in ASEAN market -** Bangkok Bank will hold the first class in the "AEC Business Leader Program" which will give Thai business owners and entrepreneurs the confidence to enter ASEAN markets. This program will provide essential marketing tools and knowledge about ASEAN to help with business development and support the Thai economy. Bangkok Bank Executive Vice President Chaiyarit Anuchitworawong, the director of this program, said that Bangkok Bank organized the AEC Business Leader Program to help motivate Thai business owners and entrepreneurs to start businesses in other ASEAN countries. Participants will gain access to marketing tools and receive a thorough understanding about doing business in each ASEAN country, including their differences in geography, culture, trade and investment regulations, and guidelines. The program will provide information about business opportunities in ASEAN; teach international business management skills, especially in the ASEAN region; impart practical advice about how to enter ASEAN markets; and build networks between entrepreneurs from many different business fields, with the aim of encouraging business collaboration, as well as providing practical experience. *Bangkok Bank*

Banking and Finance Newsbriefs

Hong Kong

New guidelines will smooth path for firms and foreign investors looking to open Hong Kong bank accounts

The Hong Kong Monetary Authority will roll out guidelines to help companies rebuffed while trying to open accounts at banks under pressure from anti-fraud regulations and new compliance requirements.

Many international banks have strengthened internal due diligence requirements in recent years after a number received hefty fines for transgressions such as money laundering and terrorist financing.

Sarah Kwok, head of the authority's banking conduct department, said foreign investment had always been welcomed in Hong Kong but the tighter measures could cost the city its reputation as an international financial center. *South China Morning Post*

India

India opens doors to banking licenses

India's central bank has declared itself permanently open to applications for banking licenses, ending its earlier practice of issuing them only during rare windows, as it pushes for greater competition in the sector.

Since it began liberalizing its banking industry in 1993, India has invited applications to launch private-sector banks only once a decade: there were 10 successful applications that year, two in 2003, and another two during the latest six-month window in 2013.

But entities meeting the Reserve Bank of India's criteria would now be able to apply for a bank license at any time, it said on August 1, citing an argument that this would "increase the level of competition and bring new ideas into the system".

India's banking system remains dominated by the state-owned banks that control 70 percent of the sector's assets, but whose credit growth has collapsed as they struggle to deal with a burgeoning stock of distressed loans. *Financial Times*

Japan

Clouds lifting for Japan's banks as negative rates stay put

The Bank of Japan's decision not to drag interest rates further below zero provides relief for the nation's banks after shrinking lending profits crimped first-quarter earnings.

Combined net income at Mitsubishi UFJ Financial Group Inc. and its two mega-bank peers fell 28 percent from a year earlier to ¥505.8 billion ($4.9 billion) in the three months ended June 30, the first full quarter under negative rates. Their net interest income slid 15 percent as the BOJ's policy squeezed margins on loans and income from securities investments.

Bank shares rallied following the BOJ's announcement on July 29, with the Topix Banks Index having the biggest two-day gain since February after central bank Gov. Haruhiko Kuroda also ordered a review of its policies. The industry group had been the worst performer in Japan this year as investors worried that the monetary authority would deepen negative rates even after facing criticism over the policy's impact on bank profits. *Bloomberg*

Korea

South Korea overhauls capital control rules, tells banks to prepare for sudden outflows

South Korea is priming its banks for crisis. Regulators will ease forex liquidity regulations for banks in preparation for potential capital outflows and less accommodative US monetary policy.

In a joint statement, the Ministry of Strategy and Finance and the central bank noted that caps of FX forward positions will be raised starting July 1. Caps for local banks will be raised from 30% to 40%, while caps for foreign bank branches will be raised from 150% to 200%.

The regulators will also revise laws to temporarily impose lower rates in case of sudden capital outflows. While banks will be required to meet the Basel III liquidity coverage ratio by 2017, the government will revise laws to temporarily require lower ratios in case of a crisis. *Asian Banking and Finance*

Indonesia

Indonesia, Malaysia ink deal in banking

After years of discussion, Indonesian and Malaysian banking authorities have finally inked an agreement that will supposedly make banking operations easier for each local lender.

On August 2, Indonesia's Financial Services Authority (OJK) and Bank Negara Malaysia (BNM), Malaysia's central bank, signed a bilateral agreement enabling both countries to establish banking subsidiaries with domestic privileges.

President Joko "Jokowi" Widodo and Malaysian Prime Minister Najib Abdul Razak witnessed the signing, which took place at the Merdeka Palace. In addition to banking, the leaders also witnessed the signing of a follow-up agreement on the establishment of the Council of Palm Oil Producer Countries.

"Indonesia welcomes the agreements that have been signed, both the host country's agreement for the secretariat council of palm oil producer countries and the ASEAN Banking Integration Framework [ABIF] agreement between the Financial Services Authority and Bank Negara Malaysia," Jokowi said in a joint press statement following the bilateral meeting.

Najib concurred and said the two countries were doing well economically at present. "Malaysia is the second largest investor in Indonesia and we want trade between the two countries to reach US$30 billion," he said. *The Jakarta Post*

Philippines

Brexit impact on Philippine banks seen 'minimal'

Bangko Sentral ng Pilipinas (BSP/Central Bank of the Philippines) Governor Amando M. Tetangco Jr. sees only a minimal effect on the domestic banking industry of the United Kingdom's decision to leave the European Union.

"The claims of Philippine banks on the UK and the EU account for only 0.6 percent of the total assets of the Philippine banking system," Tetangco told reporters on July 21.

He also pointed out that these claims were equivalent to just 5.4 percent of the banking system's total capitalization.

In a stress test conducted by the BSP, with a worst-case scenario that all claims would be written off due to Brexit effects, the country's 14 domestic systemically important banks (D-SIBs) or lenders deemed "too big to fail" would still meet the minimum capital

requirements, Tetangco said.

Even in an extreme scenario, the earnings of most D-SIBs would also be sufficient to cover potential losses, the BSP chief added. *Philippine Daily Inquirer*

Russia

Russian economy edges near end of recession as contraction eases

Russia's economy contracted the least since it slipped into recession at the start of last year as industry and farming added to oil's biggest quarterly gain since 2009 to steady the world's biggest energy exporter.

Gross domestic product shrank 0.6 percent in the second quarter from a year earlier after a decline of 1.2 percent in the previous three months, the Economy Ministry said on July 28 in a monthly report on its website. The Federal Statistics Service will publish its first estimate next month. GDP in June slipped 0.5 percent from a year earlier and was flat on a seasonally adjusted basis for the first time since February, according to the ministry.

"Industrial production, transport and agriculture were the main factors behind the contraction slowdown," the ministry said. "Construction and retail sales continue having a negative impact."

The economy is on track for its longest recession in almost two decades after low oil prices pummeled public finances, prompting spending cutbacks by the government and forcing the central bank to allow the ruble to trade freely. While the International Monetary Fund forecasts GDP will return to growth in 2017 with a gain of 1 percent, President Vladimir Putin has warned that the economy will stagnate near zero if no new growth drivers are found. *Bloomberg*

Singapore

Plunging oil prices create bad-loan headache for Singapore banks

The plunge in oil prices is catching up with Singapore's three largest banks.

On July 28, Swiber Holdings Ltd, a small Singapore company that provides construction services for international oil and gas projects, said it filed a petition to liquidate its operations, after facing payment demands from creditors at a time when its business was under pressure.

DBS Group Holdings, one of the largest lenders to Swiber, said it only expects to recover about half of the S$700 million it loaned to the firm and its units.

DBS and Singapore's two other large banks, Oversea-Chinese Banking Corp and United Overseas Bank, are exposed to the downturn in the energy sector as a result of their lending to local companies which provide construction, shipping and maintenance services to the oil and gas industry. Many of those companies are suffering as the plunge in crude prices since 2014 curtailed exploration and other activity by oil and gas producers. *Straits Times*

Taiwan

CIER lowers growth forecast to 0.84% on soft global demand

Dragged down by the weak global recovery, Taiwan's economy will grow just 0.84 percent this year, Chung-Hua Institution for Economic Research (CIER) forecast on July 20.

The figure is 0.52 percentage points lower than CIER's April prediction, marking the third time this year that the institute has cut its GDP growth forecast.

Taiwan's exports have suffered as the economy has remained flat in the U.S., Europe and China, CIER said. Compared to sluggish foreign demand, domestic consumption has made a larger contribution to the nation's GDP, it added.

Private consumption and fixed asset investment in the nation will grow 1.33 percent and 1.06 percent, respectively, according to CIER's report. Merchandise exports, on the other hand, are estimated to retreat 3.68 percent.

The growth forecast for 2017 was also trimmed from 2.06 percent to 1.8 percent. *China Post*

Thailand

National e-payment scheme set to drive online banking

Thailand's online and mobile banking market could reach maturity within six years, largely driven by the national e-payment system and significant growth in mobile broadband penetration, say leading technology experts.

"The adoption of mobile banking in Thailand has shown a significant increase," Michael Araneta, associate vice-president of IDC Financial Insights, said at a recent seminar hosted by the Bangkok Post, "By 2021, over 85% of the population will go online via a mobile phone, up from 31% currently."

In comparison, 86% of the population of South Korea goes online via mobile phones. Around the region, corresponding figures include 77% for New Zealand, followed by Singapore (74%), Australia (67%), Malaysia (53%), Indonesia (30%), the Philippines (16%) and India (15%). Mr Araneta said IDC predicts the mobile financial service market in Asia-Pacific to reach US$500 billion in less than 12 months.

South Korea, India and Indonesia have mobile commerce markets 19, 17 and four times the size of Thailand's, respectively.

Mr Araneta said Thailand is just on its way to the starting point, thanks to the launch of the national e-payment system. *Bangkok Post*

Vietnam

BIDV, Vietinbank, Vietcombank propose increasing foreign ownership limitation to 35%

According to Maybank Kim Eng, in order be more attractive, BIDV (BID), Vietinbank (CTG), Vietcombank (VCB) have proposed reducing the ownership of the State bank in their banks (95.28% at BID, 77.11% at VCB and 64.46% at CTG), as well as increasing the foreign ownership limitation (FOL) to above the current threshold of 30%. The CTG CEO has proposed a specific roadmap to increase FOL first to 35% then 40%.

The VCB chairman has also suggested increasing the banks' general FOL to 35%. However, it is clear that even when the FOL of these banks is lifted, the State will likely still maintain a controlling interest of at least 51%.

In other words, it may be expected that the the FOL will be raised more significantly among the smaller banks. So far, Saigon Commercial Bank (SCB) has proposed raising its FOL to 50%. If approved, this would be a key milestone in the development of the domestic banking sector.

Several banks also plan to list on the main board in order to improve transparency, as well as to further attract investors, especially foreign institutional ones. These include Techcombank, VP Bank before the end of the year, Maritime Bank (in 2017), and VIB Bank (in 2018). *Asian Banking and Finance*

Publications

Commercial Bank Innovations in Small and Medium-Sized Enterprise Finance: Global Models and Implications for Thailand

Ways to engage mainstream commercial banks in microfinance should be explored to promote financial access in Thailand.

In Thailand, the government has long recognized the importance of small and medium-sized enterprises (SMEs) to the economy and has given a large amount of financial support to this sector. Still, SMEs are not able to catch up with larger enterprises and the constraints to SME financing remain the main topic of policy discussion today. Against this background, the important issue for Thailand may not be about the lack of financial assistance per se but about how to design an appropriate market-friendly business model and supporting scheme to help SMEs gain access to credit on a sustainable basis. Given the success of microfinance around the world, a large number of commercial banks have made a profitable business out of this sector.

This paper explores various business models by commercial banks in microfinance and provides policy implications for Thailand. By making use of commercial banks' competitive advantage, Thailand can create a more market-friendly environment for SME financing. This will also ensure that lending to small-business clients is not a burden to the government and is self-sustaining in the long run.

Contact for details: ADB Publishing
Website: www.adb.org/publications

Deploying Mobile and Branchless Banking in Bhutan

An ADB project is helping Bhutan promote financial literacy and strengthen financial inclusion by supporting the development and awareness of mobile and branchless banking.

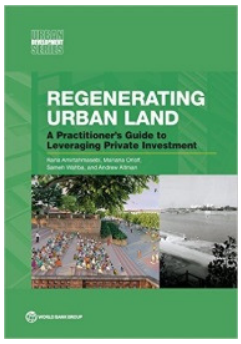
In line with the government's priority under the Eleventh Five-Year Plan (2013–2018) to improve the business climate for the private sector—which is critical for employment generation and poverty reduction, the Strengthening Economic Management Program II (SEMP II) identified the possibility of high, nationwide impact from promoting mobile and branchless banking that extends the reach of financial services to remote areas.

To strengthen financial inclusion, SEMP II also envisaged a financial literacy program to create awareness of access to formal financial services in Bhutan and promote a culture of savings and responsible personal financial management.

Contact for details: ADB Publishing

Website: www.adb.org/publications

How Eight Cities Succeeded in Rejuvenating their Urban Land



The single most crucial component in rejuvenating decaying urban areas around the world is private sector participation, according to a report released from the World Bank and the Public Private Infrastructure Advisory Facility (PPIAF) during the World Cities Summit in Singapore.

"Urban regeneration projects are rarely implemented solely by the public sector. There is a need for massive financial resources that most cities can't meet," said Ede Ijjasz-Vasquez, Senior Director for the World Bank's Social, Urban, Rural and Resilience Global Practice. "Participation from the private sector is a critical factor in determining whether a regeneration program is successful – programs that create urban areas where citizens can live, work, and thrive."

Regenerating Urban Land: A Practitioner's Guide to Leveraging Private Investment looks at regeneration programs from eight cities around the world – Ahmedabad, Buenos Aires, Johannesburg, Santiago, Singapore, Seoul, Shanghai, and Washington DC – documenting the journeys they have faced in tackling major challenges in this area.

Contact for details: World Bank Publications
Website: https://publications.worldbank.org

ASIAN BANKERS ASSOCIATION

The Asian Bankers Association (ABA) *serves as a forum for advancing the cause of the banking industry and promoting regional economic cooperation. Established in 1981, it provides a venue for an exchange of views and information on banking opportunities in the region; facilitating networking among bankers; and encouraging joint activities that would enhance its members' role in servicing the financial needs of their respective economies and in promoting regional development. With 100 members from 25 Asian countries, the ABA holds annual meetings and conferences on issues of concern to the banking sector, with the view to broadening its members' perspective on the situation and opportunities in the region. For more details, visit http://www.aba.org.tw*

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