

Philippine National Bank's 1935 High Record

Net profit ₱3,720,000 on capital of ₱10,000,000
includes, as usual, payments against capital
loans by the "bank" sugar mills

The Philippine National Bank had another excellent year during 1935, as items boxed on this page show. The items are from the bank's 1935 yearly report. Net profit in round numbers was ₱3,720,000. On December 31, 1934, the surplus of the bank was ₱7,453,224; on December 31, 1935, it was ₱929,999 more, or ₱8,383,223. This ₱929,999 is 25% of the net year's profit, the sum the law requires to be taken up in undivided surplus until the surplus equals the capital of ₱10,000,000.

The law is Act 3174, brief and excellent, that rehabilitated the bank just over 10 years ago; that is to say, it was approved November 24, 1924. Under it, the bank paid the government last year, out of net profit, ₱739,249, against money granted the bank by the government at the time the act was passed. Before these repayments are made, the bank takes care of the reserve against its circulating notes. After surplus, reserve for notes, and aid money from the government are severally taken care of, in the order given, the bank could vote dividends; and these would go to the government as almost the sole owner of the bank's 100,000 shares par ₱100 each.

On the other hand, should the surplus fall below 50% of the capital, then the bank must set aside 50% of its net yearly profit, instead of 25% as now, for surplus until this is restored to more than 50% of the capital.

This is the simple law under which the bank operates. But it collects all the time, considerable sums paid on accounts that were counted as dead loss 10 years ago and set up on the books at ₱1 each. So great has been the Islands' recovery from 1921-1924, even during the worldwide depression.

The collections referred to are aside from the payments on capital loans of the several sugar-mill corporations the bank helped in this way. Such repayments, and the sugar capital-loans repayments too, are abnormal to the bank's business as a bank; in a few years they will not exist, they will not figure in the bank's net yearly gains.

In other words, this government-owned and government-managed bank in the Philippines, that is the primary reliance of Philippine agriculture, business, and industry, is not really making almost 40% a year on its capital. If such a situation existed, it would be a most flagrant one indeed, since the bank is the people's. On the other hand, the sugar capital-loans tying the bank up with the sugar industry as they do, the bank itself may not be in a position enabling it to state clearly just what it might make from its extensive and regular banking activities independently of the repay-

ments.

It is the repayments, especially of the sugar capital-loans, that help the bank to its dominating place in the sugar industry. Both the debtor mills (as well as those that have paid off in full, or might pay off in full at any time) and the planter-owners of their shares, are good patrons of the bank.

Acting as their factor, the bank handles their sugar. As this is a large portion of the Islands' yearly crop, it provides the bank millions of pesos for exchange banking; and for its fiduciary and business services in the shipment and sale of sugar, the bank has its commissions.

The bank, of course, will never lack sugar business even after the last bank sugar mill has paid its last peso of debt. It has its branches in the sugar-producing provinces, and during the long 15 years it has been doing business with the mills and the planters it has built up goodwill of inestimable value. But it will soon lack the repayments, since they now sum less than ₱7,000,000 all told, and this will bring its profits into line with the use it may be able to make of its resources in the straight business of banking.

When this period is reached, it may be hazarded that yearly net profits will hardly exceed 5% to 7%. We are unable to see, in the bank's policy, other than the recognition of the paramount interest of the public in its solidity, and in its services; and we assume this policy will continue, eventually to the point where banking rates are lowered to what they ought to be in all countries financially sound.

The bank lowered interest rates at the end of last year. But rates of 7% to 10% are absurdly high; interest must come down in the Philippines, and to make rates come down is a duty of this great state bank. (Obstacles in the way of this, including the tax on bank deposits, should be obliterated.) If an industry begins in the Islands, at prevailing bank rates, to compete with foreign imports, either it must fail, because its competitors abroad pay reasonable bank rates only, or it must enjoy a bounty in some form: a monopoly, perhaps, as the government-

made cement enjoys, together with a tariff. Then it may not fail, but this will be only because the public is taxed heavily to support it.

For many years the Philippines have paid excessively for cement, the supply coming only from within the Islands, because of the high tariff, and the government's supply, and that for public works let to contractors, limited to the output of the government plant. This is not success in cement

	December 1934	1935
Cash on hand	₱7,713,793	₱5,345,956
Deposits with U. S. banks	2,500,000	2,500,000
Due from U. S. banks and for bonds	11,374,313	16,672,836
Due from local banks	64,655	137,064
Checks and other cash	128,579	260,084
Total cash and due from banks	₱21,741,160	₱24,896,731
Banks' acceptances and liquid loans	₱4,516,101	₱2,882,123
Real estate loans	₱5,322,236	₱4,770,600
Other loans	26,614,769	31,867,240
Total	₱38,653,297	₱43,728,564
Bonds and Securities—F. I. and U. S. Government, State, Municipal, etc.	₱20,067,309	₱20,631,000
Total	₱58,720,606	₱64,359,564
Premium on bonds	35,468	678,161
Other securities	15,799	15,799
Total	₱37,043,715	₱10,764,066
Assets acquired—Bk. site and Equipmt., Interoffice Boat, Miscellaneous Assets	1,432,780 443,108 110,891 53,813	816,091 865,243 2,527,233 36,313
Capital	₱10,000,000	₱10,000,000
Reserves—F. I. and U. S. Government, State, Municipal, etc.	7,453,224	8,383,223
Reserve for miscellaneous	438,600	518,000
Contingencies	1,432,780	816,091
	4,883,604	5,374,254
Total	₱23,207,888	₱25,121,566
Discount unearned	₱ 219,003	₱ 197,559
Not collected	824,917	834,956
Government Deposits	2,901,181	2,696,749
Individual Deposits	30,247,416	37,920,598
Trust deposits	28,530,983	45,288,535
	49,882	90,146
Total	₱38,827,281	₱73,365,299
Due Gov't profit	347,335	739,249
Due to banks	141,310	56,223
Due local branches	1,374,981	1,349,475
Notes circulating	3,782,912	7,284,193
Real estate mortgage	1,200,000	29,800
Int. payable	348,631	337,769
Reserve for taxes	321,220	436,634
Other liabilities	623,094	9,864,613

The increase in private deposits was most remarkable. Interest on savings was cut from 3 1/2% to 2% on fixed deposits, from 3% to 2 1/2% on time deposits, and the rate of 1% on current accounts, averaging daily balances of ₱3,000 remained at 1%.

The bank saw fit to retire during the year 1935, nearly the whole of its 6% real estate loans.

making; it is success in tax collecting, and the distribution of this tax is widely among the poor. Centent goes into scores of bridges built under the revolving fund for that purpose; at these bridges, while they are being paid for, passenger-carrying trucks, patronized only by the poor, pay heavy tolls until the cost of the bridges is liquidated—and the truck lines must get these tolls from their ticket revenue, as they do.

Such things figure back into high bank rates. With all the building revival in America, cement is only \$1.65 a barrel, about 30 cents a barrel having been added during the past year; and yet this price is far below what the public must pay in the Philippines. Where bank rates are high, everything is high: you calculate from the basis of the worth of money at usury; that is, on loan, in use. (We have long since placed a place for this aside about cement, and find it now; we have wanted to correct the public impression that cement is cheap here, the fact being that it is extraordinarily high).

The sugar capital-loans having been summed up last year, this will be done again.

These loans (on which more discursive comment will be found in our story of Bacolod and Occidental Negros, in this issue) were originally some \$48,000,000; or better said, about this figure when the bank was rehabilitated in 1924. There has been paid on them some \$41,000,000; and by way of interest, some \$17,000,000, the total being \$58,000,000. There remains by way of unpaid principal, some \$7,000,000. But the most tardy of the mills is in such an excellent position that offers to purchase are being received; and also, the planter shareholders themselves come forward with a refunding plan to pay off this balance in a few yearly equal instalments.

Nothing more is needed to show that a million tons of sugar a year is the backbone of all prosperity here, to say nothing of its being the fortune of the Philippine National Bank; and therefore, quite distinctly, that of the government and of the general commerce and industry of the Islands.

One of the boxes shows the resources of the 10 provincial branches and 39 provincial agencies of the bank, a total in itself of nearly \$33,000,000 and a fundamental expansion of the bank's services. Note that the Bacolod branch in Occidental Negros has resources of \$7,958,749; and that at Iloilo, \$9,059,140, while that at Cebu has resources of \$3,864,424. Though the general commerce of Cebu exceeds that of Iloilo, sugar excepted, on account of sugar Iloilo has the much richer branch-bank. Bacolod's branch has twice the resources of Cebu's.

Another factor to place just here is the period during the year that the bank makes its greater profit. It is when sugar is moving briskly to the United States. Of the \$929,999 (25% of its net 1935 profit) the bank added to its undivided surplus last year, \$683,583 related to the first half of the year when sugar shipments were heavy, and only \$246,416 to the last half of the year when sugar shipments were light. Besides excellent public revenue conditions in the sugar-growing provinces, these provinces are in the front rank in public improvements, especially public buildings and fine systems of highways improved with permanent bridges.

—An exception is the want of a modern port for Negros.

Resources of the bank's branches compare with those of banks in American cities of 50,000 to 100,000 population; that is to say, the commercial centers in the farm states. No other fact better illustrates the economic advancement American commerce has stimulated in the Islands: the cities (with-out charters) these branches serve are not so large, but in the sugar-growing provinces their hinterland is richer.

The agencies are most economically managed. They are associated with the provincial treasuries and the treasurers are paid a mere gratuity, \$50 a month, or perhaps \$60 or a little more, for managing them. Yet a number of them have very material resources: Batangas, \$329,567; Ilokos Norte, \$526,712; Leyte, \$250,697; San Fernando (Pampanga, a sugar region), \$298,005. Among the 39, no less than 13 have resources above \$100,000 each, while their total resources are \$3,550,012.

Agencies in the prime cropping provinces where farms and plantations growing the main export crops, sugar, Manila hemp, copra, have resources mainly in loans. In general their deposits are small, their interest revenue high. They are therefore of primary importance in the making and moving of crops for export. The same rule prevails in the great rice provinces in the central Luzon valley, where rice is grown for interprovincial export.

This changes when you reach the Ilokos provinces, of small farms, more rugged soil, and perforce a harder-working and more thrifty population with whom money counts large. Here the husbandman supplements his farming with any industry he may carry on; and notably his family does so. There are sons off in Hawaii, thousands of them, working on the plantations there and sending back to their homes some of their wages. In the bank branches here, deposits are large and loans small; the people are poor and have a horror of debt. They have their ancient weaving industry, good home-woven cotton textiles at moderate prices. In Manila they have their own stores selling these goods, bed spreads, dress patterns, towels. The women are eager merchants, most capable; they have pride in their wares, as they ought to have.

What a sight it was, hardly to be surpassed at a great fair anywhere, during the closing period of the Philippine carnival, to see girls and women mount the counters of their provincial exhibits and unfold these cloths and spread them out to tempt the milling crowds to buy. In a single booth you saw as many as a dozen women at this.

Their peasant dress was colorful, the blues they like (that Tagalogs don't much like) predominating. All lights glowed their brightest. Handling the heavy cloth was hard, but the women laughed about it; and they kept at it, until morning—until the last customer strolled sleepily away and the last hope of selling anything more went with him.

Then they packed and moved the unsold goods back to their stores and their market stalls. They are keen enough to know the value of this industry; they know the market grows better every year, and that their industry is going to net them more money all the time. Such folk want small bank loans; it is a neat balance in their bank books that overjoys them. Applaud them for the best-founded large household industry in the Islands, and for many other thrifty habits besides.

(Please turn to page 8)

National Bank Branch Resources	
Bacolod	7,958,749
Batavia	274,955
Cabanatuan	2,132,620
Cebu	3,864,424
Davao	806,465
Davao Oriental	1,072,366
Iloilo	9,059,140
Ilokos Norte	1,079,591
Luzon	1,212,583
Tarlac	711,946

Agency Resources	
Abra	9,304
Agooon	16,274
Albay	49,586
Antique	60,290
Bataan	4,000
Batangas	329,567
Bolobol	183,820
Bulacan	97,404
Cagayan	117,649
Camaguey Norte	26,598
Camaguey Sur	147,592
Capiz	11,174
Cebu	17,578
Cebu	40,466
Cotabato	7,928
Ilokos Norte	326,712
Maros Sur	195,375
Iloilo	34,234
Izabela	113,266
Luzon	81,791
La Union	111,422
Leyte	250,697
Marinduque	21,514
Maabate	18,881
Mindoro	3,905
Misamis Oriental	111,536
Misamis Oriental	20,485
Negros Occidental	13,488
Negros Oriental	57,294
Nueva Ecija	54,013
Nueva Vizcaya	81,091
Pampanga	298,004
Pangasinan	16,316
Rizal	19,452
Sorsogon	14,671
Sulu	99,557
Tayabas	18,173
Zambales	13,446
Zamboanga	161,900

gained the Koreans' confidence, Chosen soon ceased to be a problem. Land titles were cleared; schools, hospitals, agricultural stations and a leper colony were established. Koreans gained a large measure of self government. Saito resigned after 10 years, and was raised to a viscount for his services.

In 1927 he represented Japan at the second disarmament conference, an incident of which, till now unpublished, he related to me. The United States and Britain were at loggerheads over cruisers. Intervention by Viscount Islii and Viscount Saito effected a tentative agreement, and the American delegation cabled Washington. In the absence of the Secretary at a golf game, a subordinate handled the inquiry in a routine way: "Adhere to previous instructions."

The conference broke up without accomplishing much. Saito told me he believed the psychological moment when the world was ready to accept armament control had been lost. On his return to Japan he was made a member of the imperial privy council, advising the emperor on knotty state matters; and when past 70 he returned for 2 years to the government of Chosen. Soon came the Manchurian incident, the campaign at Shanghai, and world-wide suspicion of Japan.

Conditions in Japan were extremely tense. Constitutional and representative government seemed to have been caught in the avalanche of warlike sentiment. Japan's greatest banker, Inoue, had been murdered. And on May 15, 1932, young military and naval officers assassinated not only Baron Dan but Premier Inukai as well.

Said Saito:

"Into this maelstrom of chaos, with the military marching through Manchuria and the navy guns still pointed at Shanghai, His Majesty commanded me to take charge of the government. I devoted my energy to bringing Japan into the middle of the road. Fervent brows had to be cooled and the rule of reason as opposed to hysteria had to be restored!"

Japan's withdrawal from the League of Nations was necessary in order to improve the domestic situation within the empire, Viscount Saito felt.

That the career of Viscount Saito as premier was stormy is well known to all. Yet literally day by day Japan's internal condition improved and her position abroad was strengthened. After 2 years as the head of the government, Viscount Saito resigned as premier on July 3, 1934.

Admiral Keisuke Okada was commanded to form a cabinet and from July 1934 until the present day he has carried on the broad policies initiated by Viscount Saito. Four of Saito's cabinet members aided him. One of them was the financial genius, Korekiyo Takahashi.

The purists who struck at dawn on February 26, robbed Japan of its strongest financial mind. It is the opinion of many observers that his loss will be an irreparable blow to Nippon in this era of rapid governmental and commercial expansion when clear headed, long vision is so needed to steer the financial ship of state.

Takahashi was a colorful figure. He battled around the world in his youth, in California, South America, Europe. He dabbled in politics and government in the middle '90s became chief of Japan's monopoly-patents bureau. With his facility in English and his understanding of continental ways, he traveled in Europe studying patent laws. But Takahashi did not find his stride until he went into banking. His first brilliance came in obtaining loans abroad to help finance the Japanese-Russian War.

By 1911 he had risen by his bootstraps to the presidency of the all powerful Bank of Japan. Two years later he resigned to become minister of finance and acquired himself with distinction.

Then he again look to politics as president of the Seiyukai party in 1924.

But when Saito needed his assistance Takahashi took the portfolio of finance again. Always outspoken, fearless in his warnings, dynamic in his actions, Takahashi was a thorn in the side of those who resented restraint, who felt that funds for the military should be supplied without question and without proletarian prerogative. His recent warnings regarding bonded indebtedness did not set well with the purists and it is quite logical that to be successful in their purge Takahashi had to go.

Although outbursts of violent political opposition have been deadly in their toll, the progress of Japan's governmental development has been inexorable. Premier Hamaguchi died from the wounds of a purist. A finance minister met death in 1931. Baron Dan added to the toll.

The May 15 (1932) incident is still subject for conversation in Tokyo. Count Makino, who was wounded in the present purge, was a marked man in 1932. His house was damaged along with those of other Japanese leaders.

The recent Japanese elections clearly showed that the people, the common people who foot the bills, expressed themselves at the polls and

demanding more voice in the government. In short, whether appreciated by the rank and file or not, parliamentary government is a growing force in the life of the Japanese nation.

At present the army and the navy are not responsible to the government, only to the emperor. Soldiers and sailors do not come under civilian jurisdiction. And even when minor police incidents have happened, men in army and navy uniforms have questioned (with force when necessary) the right of police to interfere. The purist theory is that each man in uniform is a representative of the emperor and therefore if civilian police place the hand of restraint or regulation on a man wearing the emperor's uniform, he is insulting the emperor!

The control the civil government can exercise on the military is the matter of annual financial requirements. But should the budget be not approved, the amount provided the year before becomes automatically operative.

But to purists, who are certain beyond a shadow, just as positive of their divine appointment as Joan of Arc that God sent them to save the nation, budgets, elections, and liberal policies are but subterfuges to undermine the glory of His Majesty, the Emperor. Ultra-nationalism breaks forth with the sword. Nevertheless, the driving force of the ballot toward the goal of popular government in Japan is as unending in its forward movement as is the power of wind, sun and tide. The world was shocked at the untimely death of Viscount Saito, General Watanabe and Finance Minister Takahashi. Three of Japan's best minds were lost to the Empire. But their spirit will lead where they themselves could not go on.

Philippine National Bank's . . .

(Continued from page 5)

The bank is 20 years old this year. It was originally chartered in 1916. It cut down its note circulation P2,500,000 last year; keeping surplus notes in its vaults, it saves something in taxes. It made its deposits in the United States, to take its share of the Manila Railroad bonds the government helped the road retire at London's offer of 80 cents on the dollar. Its most singular experience during the year was the rise in individual deposits from P28,530,983 to P45,288,555, an increase of nearly P17,000,000 in the 12 months. While some of this was bookkeeping, as the classification of the Metropolitan Water District account as individual instead of a government account, about P13,000,000 of it was a genuine uptick of individual accounts; and best of all, numbers of business company accounts.

But while this is best as a good bank showing, it of course is not best as a good business showing; for it shows that capital is accumulating in the Islands that commerce and industry either can not or will not use, and it goes back to the contention made at the outset of this summary, bank rates are still too high. This however is not dogmatically true, it is only a true generalization. Last year business companies, some of them large, dealing with this bank, turned overdrafts into cash balances. This healthy situation is also reflected in the increased deposits. The fat goes with the lean.



SAY "ISUAN"

The BEST MIXERS

in the ORIENT

