Report on the Philippine Financial System

For the First Semester of 2023

This semestral report is prepared by the Supervisory Policy and Research Department, Financial Supervision Sector, Bangko Sentral ng Pilipinas, pursuant to Section 39(c), Article V of Republic Act (RA) No. 7653 (The New Central Bank Act), as amended by RA No. 11211, RA No. 7906 (Thrift Bank Act of 1995), and RA No. 7353, as amended by RA No. 10574 (Amended Rural Bank Act of 1992).

The report is available at http://www.bsp.gov.ph.

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A. FINANCIAL TERMS

1. **Agency account** – the account wherein the trust institution (agent) binds itself to render asset management services in representation, or on behalf, of the client (principal) with the consent or authority of the latter. The trust institution, as agent, does not hold legal title to the asset as it remains with the principal. In providing wealth, asset or fund management services to the client, the trust institution exercises either discretionary or non-discretionary investment authority under an agency contract.

2. **Assigned capital** - the capital permanently assigned by a foreign bank to its branches operating in the Philippines pursuant to Section 4 of Republic Act No. 7721 (An Act Liberalizing the Entry and Scope of Operations of Foreign Banks in the Philippines and For Other Purposes).

3. **Bills payable** – the amortized cost of obligations to the BSP, interbank loans payable, deposit substitutes, and other borrowings.

4. **Bonds payable** – the amortized cost of obligations arising from the issuance of bonds.

5. **Capital** – the total of the unimpaired paid-in capital, surplus and undivided profits, subject to adjustments. The term is synonymous with unimpaired capital and surplus, combined capital accounts and net worth.

6. **Common equity Tier 1 (CET1) capital** – for domestic banks, consists of paid-up common stock, common stock dividend distributable, additional paid-in capital, deposit for stock subscription, retained earnings, undivided profits, other comprehensive income, and minority interest in subsidiary banks, subject to regulatory adjustments. For branches of foreign banks, this consists of permanently assigned capital, undivided profits, retained earnings, accumulated net earnings and other comprehensive income, subject to regulatory adjustments.

7. **Consumer loans** – loans that are granted to individual borrowers for the purpose of purchasing goods or payment for services such as: housing loans, car or auto loans, loans for the purchase of appliance and furniture and fixtures, loans for payment of educational and hospital bills, salary loans and loans for personal consumption, including credit card loans.

8. **Credit risk** – risk of default on a debt that may arise from a borrower failing to make required payments such as failure to repay a loan.

9. **Debt securities measured at amortized cost** – a debt instrument which is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and where its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

10. **Demand deposit** – deposits subject to withdrawal by check through available bank channels. Also known as current or checking accounts, these deposits may or may not earn interest.

11. **Deposit substitute** – an alternative form of obtaining funds from the public, other than deposits, through the issuance, endorsement, or acceptance of debt instruments for the borrower's own account, for the purpose of relending or purchasing of receivables and other obligations. These instruments may include bankers' acceptances, promissory notes, participations, certificates of assignment and similar instruments with recourse, and repurchase agreements. The phrase "obtaining funds from the public" shall mean borrowing from 20 or more lenders at any one time, and, for this purpose, "lenders" shall refer to individuals and corporate entities that are not acting as financial intermediaries subject to the safeguards and regulations issued by the Monetary Board. The Monetary Board shall determine what specific instruments shall be considered as deposit substitutes for purposes of Section 94 of Republic Act (RA) No. 11211, provided, however, that deposit substitutes of commercial, industrial, and other non-financial companies for the limited purpose of financing their own needs or the needs of their agents or dealers shall not be covered by the provisions of Section 94 of RA No. 11211.

12. **Derivative** – a financial instrument or other contract with all of the following characteristics:
    a. its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit

index, or other variable, provided that, in the case of a non-financial variable, the variable is not specific to a party to the contract (sometimes called the “underlying”);

b. it requires no initial net investment or an initial net investment that is smaller than what is required for other types of contracts that would be expected to have a similar response to changes in market factors; and
c. it is settled at a future date.

13. **Dividend income** – cash dividends earned or actually collected on equity instruments.

14. **Earning assets** – the sum of (i) due from BSP; (ii) due from other banks; (iii) financial assets – debt instruments measured at fair value through profit or loss (FVTPL), at fair value through other comprehensive income (FVOCI), and at amortized cost; (iv) financial assets – derivatives with positive fair value held for trading (stand-alone and embedded); and (v) total loan portfolio inclusive of interbank loans and loans and receivables arising from repurchase agreements, certificates of assignment or participation with recourse and securities lending and borrowing transactions, net of allowance.

15. **Equity investments** – investments in the equities or shares of stock of subsidiaries, associates, and joint ventures.

16. **Fee-based income** – the sum of income from payment services, intermediation services, custodianship, underwriting and securities dealership, securitization activities, fiduciary activities, and other fee-based revenues.

17. **Financial assets (other than loans and receivables)** – the sum of all investments in debt and equity instruments measured and classified based on their contractual cash flow characteristics and the business model for holding the instruments as provided under the Philippine Financial Reporting Standards 9 (PFRS 9).

18. **Financial assets measured at FVOCI** – financial assets which are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. The contractual terms of the financial asset give rise on the specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

19. **Financial assets measured at FVTPL** – financial assets which are not measured at amortized cost or at FVOCI and not part of a hedging relationship. These financial assets shall consist of financial assets held-for-trading (HFT), financial assets designated at fair value through profit or loss, as well as other financial assets which are mandatorily measured at fair value through profit or loss as defined in the PFRS 9.

20. **Financial liabilities designated at fair value through profit or loss (DFVPL)** – financial liabilities that, upon initial recognition, are designated by the bank at fair value through profit or loss.

21. **Financial liabilities HFT** – the sum of derivatives with negative fair value HFT and liability for short position.

22. **Financial soundness indicators (FSIs)** – a set of key data on the current financial health and soundness of a country's financial institutions as well as its corporate and household sectors. They include both aggregate data on individual financial institutions and indicators that are representative of the markets in which the financial institutions operate. Supervisory data are important sources for calculation of FSIs. The indicators are calculated and disseminated to support macroprudential analysis.

23. **Foreign currency deposit unit (FCDU)**– a unit of a local bank or of a local branch of a foreign bank authorized by the BSP to engage in foreign currency-denominated transactions, pursuant to the provisions of Republic Act (RA) No. 6426 (Foreign Currency Deposit Act of the Philippines), as amended.

24. **Gains/(losses) on financial assets and liabilities HFT or Trading income (loss)** – the sum of realized gains/(losses) from sale/derecognition of, and unrealized gains (losses) from marking-to-market of

financial assets and liabilities HFT as well as realized gains/(losses) from foreign exchange transactions.

25. **Gross assets** – total assets plus allowance on non-performing assets or NPA (allowance for credit losses on loans; allowance for credit losses on sales contract receivable; accumulated depreciation and allowance for losses on real and other properties acquired; and allowance for losses on non-current assets held for sale).

26. **High-quality liquid assets (HQLA)** – an asset that can be converted easily and immediately into cash at little or no loss of value in private markets to meet the banks' liquidity needs during times of stress. To qualify as HQLA, the liquid asset should possess the asset and market liquidity characteristics, and should satisfy the operational requirements, for monetization prescribed under the liquidity coverage ratio standard.

27. **Income tax expense** – the periodic provision for income tax.

28. **Interest-bearing liabilities** – the sum of financial liabilities HFT, financial liabilities at DFVPL, deposit liabilities, due to other banks, bills payable, unsecured subordinated debt, bonds payable, redeemable preferred shares, derivatives with negative fair value held for hedging, and finance lease payment payable.

29. **Liquid assets** – the sum of cash and due from banks as well as net financial assets, exclusive of equity investments.

30. **Liquidity risk** – the current and prospective risk to earnings or capital arising from a bank's inability to meet its obligations when they fall due without incurring unacceptable losses or costs. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources.

31. **Loans to regular banking unit (RBU) by FCDU/EFCDU** – FCDU/EFCDU funds lent to RBU, as allowed under existing regulations.

32. **Long-term negotiable certificates of deposit (LTNCD)** – interest bearing negotiable certificates of deposit with a minimum maturity of five years.

33. **Market risk** – the risk to earnings or capital arising from adverse movements in factors that affect the market value of instruments, products, and transactions in an institution's overall portfolio, both on- or off-balance sheet. Market risk arises from market-making, dealing, and position-taking in interest rate, foreign exchange, equity, and commodities markets.

34. **Money market investments** – investments in money market through purchase and sale of short-term debt instruments, typically with maturities spanning from a day to a year and easily converted to cash.

35. **Negotiable order of withdrawal (NOW) accounts** – interest-bearing deposit accounts that combine the payable on demand feature of checks and investment feature of savings.
accounts.

36. **Net interest income** – the difference between interest income, and the sum of provision for losses on accrued interest income from financial assets and interest expense.

37. **Net profit/(loss)** – the difference of total operating income and non-interest expenses, plus/(less) the recoveries/(losses) on financial assets, share in the profit/(loss) of unconsolidated subsidiaries, associates, joint ventures, and minority interest in profit/(loss) of subsidiaries, less provision for income taxes.

38. **Non-interest expenses** – the sum of compensation and fringe benefits, taxes and licenses, fees and commissions, other administrative expenses, depreciation and amortization, and impairment losses and provisions.

39. **Non-interest income** – the sum of dividend income, fee-based income (including income from fiduciary activities), gains on financial assets and liabilities HFT, foreign exchange profits, profits from sale/derecognition of non-trading financial assets and liabilities, profits from

sale/derecognition of non-financial assets, profits on financial assets and liabilities DFVPL, profits on fair value adjustment in hedge accounting and other non-interest income.

40. **Non-performing assets (NPAs)** – the sum of non-performing loans (NPL) and ROPA, gross, excluding performing sales contract receivable (as provided under Circular No. 380 dated 28 March 2003) and including non-current assets held for sale (as provided under Circular No. 512 dated 3 February 2006).

41. **Non-performing loans (NPLs)** – loans, investments, receivables, or any financial asset that are considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, or with signs that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. Net NPL refers to gross NPLs less specific allowance for credit losses on NPLs.

42. **Open foreign exchange position** – the extent that banks' foreign exchange assets do not match their foreign exchange liabilities. An open position may either be "positive", "long", or "overbought" (i.e., foreign exchange assets exceed foreign exchange liabilities) or "negative", "short", or "oversold" (i.e., foreign exchange liabilities exceed foreign exchange assets).

43. **Personal equity and retirement account (PERA)** – a voluntary retirement saving program that supplements the existing retirement benefits from the Social Security System, Government Service Insurance System, and employers. A Filipino citizen with the capacity to contract and obtain a Tax Identification Number can be a PERA contributor.

44. **Provision for losses on accrued interest income from financial assets** – the impairment loss on accrued interest income from loans and other financial assets, net of equity securities, charged against current operations.

45. **Real and other properties acquired (ROPA)** – real and other properties, other than those used for banking purposes or held for investment, acquired by the bank in settlement of loans through foreclosure or dation in payment (*dacion en pago*) or for other reasons, whose carrying amount will be recovered principally through a sale transaction.

46. **Real estate exposures (REEs)** – assets held by financial institutions made up of:
    a. real estate loans (RELs), which, in turn, consist of:
       - residential RELs to individual households for occupancy; and
       - commercial RELs, which refer to loans granted for purposes of financing real estate activities, to the following:
         i. individuals (including sole proprietorships), other than residential real estate loans granted to individual households for occupancy;
         ii. land developers and construction companies; and
         iii. other corporate borrowers, such as real estate brokers, real estate lessors, property management companies, and holding companies;
    b. investments in debt and equity securities issued by land developers, construction companies and other corporate borrowers for purposes of financing real estate activities.

    REEs do not include loans and investments in debt and equity securities, which are used to finance infrastructure projects for public use.

47. **Recoveries on charged-off financial assets** – the collection of accounts or recovery from impairment of charged-off financial assets and financial assets provided with allowance for credit losses.

48. **Redeemable preferred shares** – preferred shares issued that provide for redemption on a specific date.

49. **Restructured loans** – loans and other credit accommodations the original contractual terms and conditions of which have been modified in accordance with a formal restructuring agreement that sets forth a revised schedule of payments for the purpose of lessening the financial difficulty of the borrower and maximizing collection and realizable economic value on an obligation within a reasonable period of time.

50. **Sales contract receivable (SCR)** – the amortized cost of assets acquired in settlement of loans through foreclosure or dation in payment (*dacion en pago*) and subsequently sold on installment basis whereby the title to the said property is transferred to the buyers only upon full payment of the agreed selling price.

51. **Savings deposit** – interest- or non-interest-bearing deposits that are withdrawable upon demand through available bank channels.

52. **Securities** – a fungible, negotiable financial instrument that holds some type of monetary value. It is generally categorized into two: (i) equity securities, or securities that represent ownership interest held by shareholders in an entity, realized in the form of shares of capital stock, and (ii) debt securities, or securities that represent borrowed money that must be repaid, with terms that stipulate the size of the loan, interest rate, and maturity or renewal date.

53. **Tier 1 capital** – also known as going-concern capital and is composed of CET1 and additional Tier 1 capital.

54. **Time certificates of deposit** – interest-bearing deposits with specific maturity dates and evidenced by certificates issued by the bank.

55. **Total assets** – the sum of all net assets, adjusted for net due from head office, branches or agencies and due to head office, branches, or agencies of foreign bank branches.

56. **Total operating income** - the sum of net interest income and non–interest income.

57. **Trust account** – the account wherein legal title to funds or properties of the trustor is transferred to the trustee (trust institution), subject to an equitable obligation of the trustee to administer, hold and manage such funds and or properties for the use, benefit or advantage of the trustor or other designated beneficiaries. These consist of wealth, asset, or fund management services to the client where the trust institution exercises either discretionary or non-discretionary investment authority.

58. **Unit investment trust fund (UITF)** – an open-ended, pooled trust fund denominated in pesos or any acceptable currency that are operated and administered by a trust entity and made available by participation. As an open-ended fund, participation or redemption is allowed as often as stated in its rules.

B. OTHER TERMS

59. **Currency Rate Risk Protection Program Facility** – a non-deliverable USD/PHP forward contract between the BSP and a universal/commercial bank in response to the request of bank clients desiring to hedge their eligible foreign currency obligations.

60. **Digital bank** – a bank that offers financial products and services that are processed end-to-end through a digital platform or electronic channels with no physical branches offering financial products and services. This is a new bank category that is separate and distinct from existing bank classifications.

61. **Financial conglomerates** -refers to a group of entities under common control or influence, which engage in significant financial activities in at least two of the regulated banking, securities, or insurance sectors that the Financial Sector Forum (FSF) member agencies licensed under their respective laws to operate.

62. **Financial reporting package (FRP)** – a set of financial statements for prudential reporting purposes composed of the balance sheet, income statement and supporting schedules. The FRP is primarily designed to align the BSP reportorial requirements with the provisions of the PFRS and Basel Capital Adequacy Framework. It is also designed to meet the BSP's statistical requirements.

63. **Gross domestic product (GDP)** – the sum of the gross value added of all resident producer units. Gross value added is defined as the value of output less the value of intermediate consumption. Output, in turn, refers to the goods and services produced by an establishment. It is equal to the value of sales adjusted for the changes in inventories of finished goods, that is, goods produced

and ready for sale but not yet sold, or goods sold adjusted for sales of goods produced in an earlier period. Meanwhile, intermediate consumption consists of the value of the goods and services consumed as inputs by a process of production, excluding fixed assets whose consumption is recorded as consumption of fixed capital.

64. **Investment management activity** – any activity resulting from a contract or agreement primarily for financial return whereby the bank (investment manager) binds itself to handle or manage investible funds or any investment portfolio in a representative capacity as financial or managing agent, adviser, consultant or administrator of financial or investment management, advisory, consultancy or any similar arrangement which does not create or result in a trusteeship.

65. **Islamic bank** – refers to a bank that conducts banking business with objectives and operations that do not involve interest *(riba)* as prohibited by the *Shari'ah* and which conducts business in accordance with the principles of the *Shari'ah*.[1]

66. **Repurchase agreements** - the amortized cost of borrowings in the form of sale of securities to another bank/counterparty with an agreement to repurchase (buy back) them at a fixed price on a specified future date.

67. **Residential real estate price index (RREPI)** – a BSP indicator of change in the prices of residential properties in the Philippines over a period of time. The growth rate of the index measures house price inflation.

68. ***Shari'ah*** – the practical divine law deduced from its legitimate sources: the *Qur'an, Sunnah*, consensus of Muslim scholars (*Ijma*), analogical deduction (*Qiyas*) and other approved sources of Islamic law. *Shari'ah* defines a set of rules and principles governing the overall Islamic financial system.

69. ***Sukuk* (Islamic Bonds)** – are certificates that represent a proportional undivided ownership right in tangible assets or pool of tangible assets and other types of assets. These assets could be in specific project or specific investment activity that is *Shari'ah*-compliant.

70. **Sustainable finance** – any form of financial product or service that integrates environmental, social and governance criteria into business decisions that support economic growth and provides lasting benefit for both clients and society while reducing pressures on the environment. This also covers green finance, which is designed to facilitate the flow of funds towards environmentally friendly economic activities as well as climate change mitigation and adaptation projects.

71. **Trust** – a relationship or an arrangement whereby a person called a trustee is appointed by a person called a trustor to administer, hold and manage funds or property of the trust or for the benefit of a beneficiary.

72. **Trust business** – any activity resulting from a trustor-trustee relationship (trusteeship) involving the appointment of a trustee by a trustor for the administration, holding, and management of funds and properties of the trustor by the trustee for the use, benefit, or advantage of the trustor or of others called beneficiaries.

C. FINANCIAL AND OTHER PRUDENTIAL RATIOS

1. **Basel III leverage ratio (BLR)** – the percentage of capital (i.e., Tier 1 capital) to exposure measure (composed of on-balance sheet exposures, derivatives, securities financing transactions and off-balance sheet items). The BLR is designed to act as a supplementary measure to the risk-based capital requirements aimed at restricting the build-up of leverage in the banking sector.

2. **Capital adequacy ratio (CAR)** – the percentage of total qualifying capital to risk-weighted assets computed in accordance with the risk-based capital adequacy framework. The current capital framework incorporates credit risk (Circular No. 280 dated 29 March 2001), market risk (Circular No. 360 dated 03 December 2002), operational risk (Circular No. 538 dated 4 August 2006), capital conservation buffer (Circular No. 781 dated 15 January 2013), countercyclical capital buffer (Circular

[1] Republic Act No. 11439 dated 22 Aug 2019 (An Act Providing for the Regulation and Organization of Islamic Banks).

No. 1024 dated 06 December 2018), and higher loss absorbency capital requirement for domestic systemically important bank (D-SIB) (Circular No. 856 dated 29 October 2014, as amended).

3. **Common equity tier 1 (CET1) ratio** – the percentage of regulatory CET1 capital to risk-weighted assets.

4. **Cost-to-income ratio** – the percentage of non-interest expenses, net of impairment losses, to total operating income.

5. **Deposits to loans ratio** – the percentage of total deposits to total loan portfolio, exclusive of interbank loans.

6. **Earning asset yield** – the percentage of interest income to average earning assets.

7. **Efficiency ratio** – measures the ability of the bank to generate income using its assets. It is the percentage of total expenses to total revenues.

8. **Funding cost** – the percentage of interest expenses to average interest-bearing liabilities.

9. **Interest spread** – the difference between earning asset yield and funding cost.

10. **Liquid asset ratio** – the percentage of liquid assets to total assets.

11. **Liquid asset-to-deposit ratio** – the percentage of liquid assets to total deposits.

12. **Liquidity coverage ratio (LCR)** – the percentage of high-quality liquid assets to total net cash outflows.

13. **Loan concentration by counterparty** – the percentage of lending to major counterparties to total loan portfolio.

14. **Loan concentration by economic activity** – the percentage of lending to major economic activities to total loan portfolio.

15. **Minimum liquidity ratio (MLR)** – the percentage of a banks or quasi-bank's (QB) eligible stock of liquid assets to its total qualifying liabilities. This is applicable to standalone thrift banks, rural and cooperative banks, and QBs.

16. **Non-interest income to total operating income ratio** – the proportion of non-interest income to total operating income.

17. **Net interest margin (NIM)** – the percentage of net interest income to average earning assets.

18. **Net stable funding ratio (NSFR)** – the percentage of a covered bank's/quasi-bank's available stable funding to its required stable funding.

19. **NPA coverage ratio** – the percentage of allowance on NPAs to total NPAs.

20. **NPA ratio** – the percentage of NPAs to total assets, gross of allowance for credit losses.

21. **NPL coverage ratio** – the percentage of allowance for credit losses on loans to total NPLs.

22. **NPL ratio** – the percentage of NPLs to total loans (gross of allowance for credit losses), inclusive of interbank loans.

23. **Return on assets (RoA)** – the percentage of net profit or loss to average assets.

24. **Return on equity (RoE)** – the percentage of net profit or loss to average capital.

Prologue

The **Report on the Philippine Financial System** is a semestral report prepared by the Supervisory Policy and Research Department, Financial Supervision Sector (FSS), Bangko Sentral ng Pilipinas (BSP), to be submitted by the Governor to the President and the Congress, pursuant to Section 39 (c), Article V of Republic Act (RA) No. 7653 or The New Central Bank Act, as amended by RA No. 11211, and other pertinent laws.

RA No. 11211 expanded the BSP's supervisory powers over money service businesses, credit granting businesses and payment system operators. Meanwhile, RA No. 11127 (The National Payment Systems Act) mandated the BSP to oversee the payment systems in the country. Moreover, RA No. 11439 (An Act Providing for the Regulation and Organization of Islamic Banks) mandated the BSP to regulate and supervise the operations of Islamic banks in the country.

The report analyzes the insights from various periodic reports submitted by BSP-supervised and regulated financial institutions to the Department of Supervisory Analytics, FSS. As of June 2023, these consisted of 490 banks with 12,845 branches and other offices, 2,064 non-bank financial institutions with 22,440 branches, and one offshore banking unit.

Effective 03 July 1998, the BSP's powers of supervision and regulation over certain non-banking financial institutions were turned over to the Securities and Exchange Commission for corporations and partnerships, and to the Department of Trade and Industry for single proprietorships, in accordance with Section 130 of RA No. 7653. Likewise, the supervision and regulation over building and loan associations were transferred to the Home Guarantee Corporation effective 07 February 2002, in accordance with Section 94 of RA No. 8791 (The General Banking Law of 2000).

Highlights of the Report

OVERVIEW

The Philippine financial system maintained strong performance in the first half of 2023. This was on the back of improving macroeconomic conditions as well as prudent regulatory and supervisory reforms.

The banking sector remained a key provider of credit to the economy.[1] It exhibited satisfactory performance and sustained resilience, supported by a strong balance sheet, profitable operations, sufficient capital and liquidity buffers, and ample loan loss reserves. Amid inflationary pressures and a high-interest rate environment, key indicators of capital, asset quality, profitability, and liquidity still point to the stability and soundness of the banking sector.

Banks' assets increased by 9.1 percent year-on-year to ₱23.3 trillion in June 2023. This was faster than the 7.8-percent growth recorded last year. Assets were largely channeled into loans, at 52.8 percent, and mainly financed by deposits. By banking group, universal and commercial banks (UKBs) had the largest share of assets at 93.9 percent.

The full reopening of the domestic economy improved the credit climate. Banks' loans rose by 8.8 percent, reaching ₱12.7 trillion. Lending remained broad-based and supportive of key productive sectors, including households. Most loans went to real estate; wholesale and retail trade; electricity, gas, steam, and air-conditioning supply; manufacturing; as well as financial and insurance activities. These sectors, including household consumption, collectively accounted for 68.4 percent (₱8.7 trillion) of banks' total loans.

Credit allocation to specialized sectors persisted. Based on the latest monitoring report of the Bangko Sentral ng Pilipinas (BSP), banks' credit allocation to micro, small, and medium enterprises amounted to ₱461.4 billion at the end of June 2023. In parallel, banks' consolidated loans for socialized and low-cost housing reached ₱514.2 billion (or about 20.0 percent of total real estate loans) as of March 2023.

Financial conglomerates continue to dominate much of the Philippine financial system. As such, the BSP pursued initiatives to strengthen its supervision by establishing a supervisory college (*Box Article 1*). The BSP also enhanced its monitoring and reporting of credit risks by introducing the Comprehensive Credit and Equity Exposures Report (*Box Article 2*). In response to the demands of modern banking and financial supervision, the BSP then adopted the Application Programming Interface–Extensible Markup Language (API-XML) for submitting prudential reports (*Box Article 3*).

[1] As of June 2023, the banking system represented 82.6 percent of the total resources of the Philippine financial system, which excludes the assets of the BSP but includes the assets of banks and non-bank financial institutions (NBFIs). Among the NBFIs are BSP-supervised financial institutions, the Social Security System, the Government Service Insurance System, and private insurance companies (i.e., life insurance companies, non-life insurance companies, and professional reinsurers). Source: BSP website

Alongside improved economic indicators and sustained growth in credit activity, loan quality remained satisfactory, supported by ample loan-loss reserves. As of June 2023, the non-performing loan (NPL) ratio was low at 3.4 percent, while the NPL coverage ratio was high at 101.7 percent. The BSP is confident that the NPLs of the banking system will stay manageable, owing to banks' prudent credit standards and robust risk governance framework.

Investments grew by 9.2 percent, reaching ₱6.6 trillion. A large chunk of these investments were debt securities measured at amortized cost (60.0 percent), followed by securities measured at fair value through other comprehensive income (34.3 percent).

Deposits aggregated ₱17.8 trillion in June 2023. This marked an 8.1-percent increase, indicating the continued trust of the public in the banking sector. Resident transactions helped keep deposits stable. Other sources of funding, such as bills and bonds payable, remained minimal. Conversely, the capital position held firm and provided banks with a reliable buffer in times of crisis. Total capital increased by 11.0 percent, reaching ₱2.9 trillion.

Banks continued to be well capitalized as capital ratios were well above the minimum thresholds set by the BSP and the Bank for International Settlements. As of March 2023, the capital adequacy ratios (CARs) of the banking system were at 16.0 percent and 16.6 percent on solo and consolidated bases, respectively. All banking groups also maintained high capital ratios. The consolidated CAR of the UKB industry stood at 16.4 percent. Meanwhile, the CARs of stand-alone thrift banks (TBs), rural and cooperative banks (RCBs), and digital banks (DGBs) settled at 20.8 percent, 21.3 percent, and 20.0 percent, respectively. For subsidiary TBs, RCBs, and DGBs, the CARs were at 17.3 percent, 15.0 percent, and 126.4 percent, respectively. Based on the results of the latest stress test exercises, the banking system's post-shock CAR would remain above the regulatory minima under assumed scenarios, including a possible shock in the property market. The BSP conducts regular and ad hoc stress tests as part of its enhanced surveillance toolkit (*Box Article 4*).

Banks maintained sufficient buffers to meet their liquidity and funding requirements. Based on preliminary data, the UKB industry's solo liquidity coverage ratio and net stable funding ratio stood at 183.1 percent as of June 2023 and 139.1 percent as of March 2023, respectively. Both were well above the 100-percent minimum threshold set by the BSP. Similarly, the minimum liquidity ratios of stand-alone TBs, RBs, and CBs surpassed the 20.0-percent minimum requirement.

The operations of the banking system remained profitable, driven by revenues from lending and investing activities. For the six-month period ending in June 2023, net profit increased by 27.7 percent to reach ₱182.8 billion. Amid challenging economic conditions, banks were able to manage their portfolios and temper the impact of high borrowing costs. These were likewise observed in other earning indicators, particularly return on equity and return on assets, which improved from 9.6 percent and 1.2 percent in 2022 to 12.8 percent and 1.6 percent in 2023, respectively.

The number of bank offices also continued to expand. The total number of offices increased to 13,335, with 490 head offices and 12,845 other offices. Banks also bolstered their competitiveness by investing in technological advancements. The BSP promotes prudent innovation among its supervised financial institutions through the establishment of a Regulatory Sandbox Framework (*Box Article 5*).

The BSP further supports the national government in its efforts to optimize untapped opportunities and promote Islamic banking in the country. The forthcoming issuance of sovereign *sukuk* will mark an important footprint in the Philippine Islamic finance ecosystem (*Box Article 6*). This signals the country's readiness to accept new players in the Islamic banking system and improve the domestic bond market, where banks play a key role.

Meantime, both the foreign currency deposit unit (FCDU) and trust operations of banks posted strong performance, with a share to total assets of 14.7 percent and 25.1 percent, respectively. The total assets of the FCDU grew by 6.2 percent to reach US$61.9 billion (₱3.4 trillion), which consisted largely of investments and loans. Loan quality remained satisfactory and matched with high loss reserves. As of June 2023, the NPL ratio stood at 1.2 percent, while the NPL coverage ratio was at 181.1 percent. Deposits, which posted a record-high growth of 5.1 percent, were mostly from residents. However, alternative sources of funding, such as bills payable, was also obtained to manage borrowing costs. Overall operations continued to be profitable as interest income from loans and investments increased at a double-digit rate, tempering borrowing costs. Net profit rose by 0.9 percent to US$502.6 million (₱27.7 billion) for the six-month period ending in June 2023.

Meanwhile, the total trust assets maintained the growth momentum, rising by 14.9 percent to ₱5.9 trillion, and remained domestic-oriented and highly liquid. In terms of accountabilities, agency and trust accounts held around 54.3 percent (₱3.2 trillion) and 34.3 percent (₱2.0 trillion), respectively. Unit investment trust funds (UITFs) had a 14.3 percent share (₱834.7 billion). UITFs posted an increase in the number of participants due to the promotional efforts of trust entities and the BSP, including the offering of retail UITF products. The Personal Equity and Retirement Account (PERA) also picked up amid growth in the number of contributors, reaching 5,402 as of June 2023. Consequently, total PERA contributions amounted to ₱368.0 million. Despite changing market conditions, the trust industry recorded around ₱3.6 billion net profit.

Overall, the Philippine financial system continued to be resilient and supportive of the financing needs of the economy. Moving forward, the BSP remains committed to implementing the necessary reforms in the financial sector toward a sustainable, inclusive, and dynamic financial system.

THE PHILIPPINE BANKING SYSTEM

OVERVIEW

Banks continued their strong performance in the first half of 2023. Sufficient capital and liquidity buffers and ample loan loss reserves accompanied banks' growth in assets, loans, deposits, and profits. This enabled banks to provide financial products and services to their clients and to support the recovery of the country's economy. Overall, the banking sector remains safe and sound, as reflected in the financial soundness indicators of capital, asset quality, liquidity, and profitability.

Assets
₱23.3 trillion

Deposits
₱17.8 trillion

Loans ₱12.7 trillion
NPL Ratio 3.4 percent
NPL Coverage Ratio 101.7 percent

Capital ₱2.9 trillion
CAR* 16.4 percent
CETI Ratio* 15.4 percent

Net Profit ₱182.8 billion
RoA 1.6 percent
RoE 12.8 percent

LCR 182.9 percent**
NSFR* 139.4 percent**

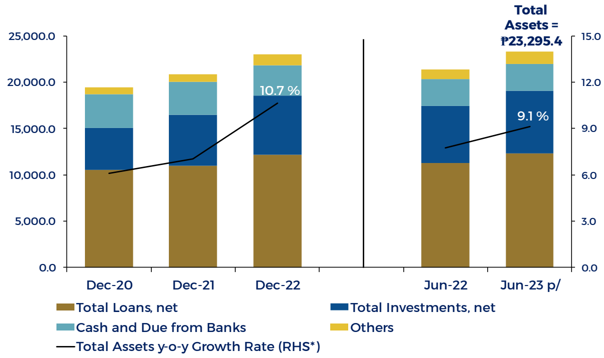
Net FX to Regulatory Capital 1.9 percent

** This refers to consolidated CAR and CET1 ratio of universal and commercial banks (UKBs) and their subsidiary banks/quasi-banks as of March 2023.*
*** This refers to consolidated LCR of UKBs as of March 2023.*
**** This refers to consolidated NSFR of UKBs as of March 2023.*

ASSETS GREW ANEW AND WERE MOSTLY CHANNELED TO LOANS

By the end of June 2023, banks' total assets increased by 9.1 percent year-on-year[1] (y-o-y), reaching ₱23.3 trillion (*Figure 1*). Deposits mainly funded this growth, faster than the 7.8-percent figure recorded one year ago. However, it still fell short of the pre-pandemic average of 11.0 percent.[2] Most of the assets were channeled to lending and investing activities, with shares of 52.8 percent (₱12.3 trillion[3]) and 29.1 percent (₱6,770.9 billion[4]), respectively.

Figure 1
PBS Total Assets
as of end-periods indicated; in billion pesos;growth rate in percent



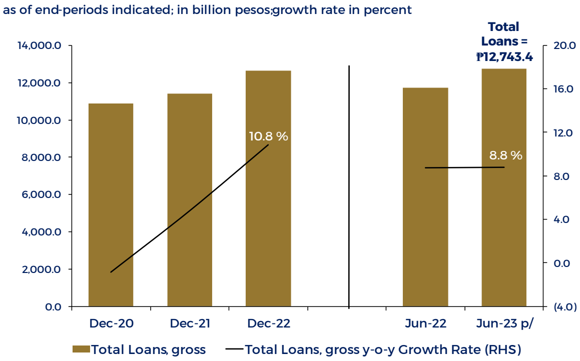
* RHS - righ-hand side
Source: Department of Supervisory Analytics (DSA) p/ preliminary

Of the different types of banks, universal and commercial banks (UKBs) held the largest percentage of assets, accounting for 93.9 percent (₱21.9 trillion). The remaining share was distributed among thrift banks (TBs, 4.1 percent, ₱949.7 billion), rural and cooperative banks (RCBs, 1.7 percent, ₱385.7 billion), and digital banks (DBs, 0.3 percent, ₱77.1 billion).

LENDING CONTINUED, BACKED BY GROWTH IN LOANS TO HOUSEHOLDS AND KEY PRODUCTIVE SECTORS

Total loans reached ₱12.7 trillion with an 8.8 percent growth rate, slightly higher than the 8.7 percent recorded at the end of June 2022 (*Figure 2*).[5] The expansion was largely driven by loans granted to households,[6] which rose by ₱322.7 billion or approximately 26.3 percent. All types of household loans increased, with credit card receivables and salary loans having the most significant growth rate at 29.3 percent (up by ₱140.3 billion) and 48.9 percent (up by ₱135.7 billion), respectively. Loans to key productive sectors such as electricity, gas, steam, and air-conditioning supply (up by 11.6 percent or ₱128.9 billion), wholesale and retail trade (up by 8.7 percent or ₱110.1 billion), real estate activities (up by 3.9 percent or ₱86.9 billion), financial and insurance activities (up by 7.7 percent or ₱74.1 billion), and information and communication (up by 11.2 percent or ₱62.8 billion) also contributed to the credit expansion. On aggregate, loans to households and these five productive sectors represented about 64.0 percent (₱8.2 trillion) of the banks' total loans.

Figure 2
PBS Total Loans
as of end-periods indicated; in billion pesos;growth rate in percent



Source: DSA p/ preliminary

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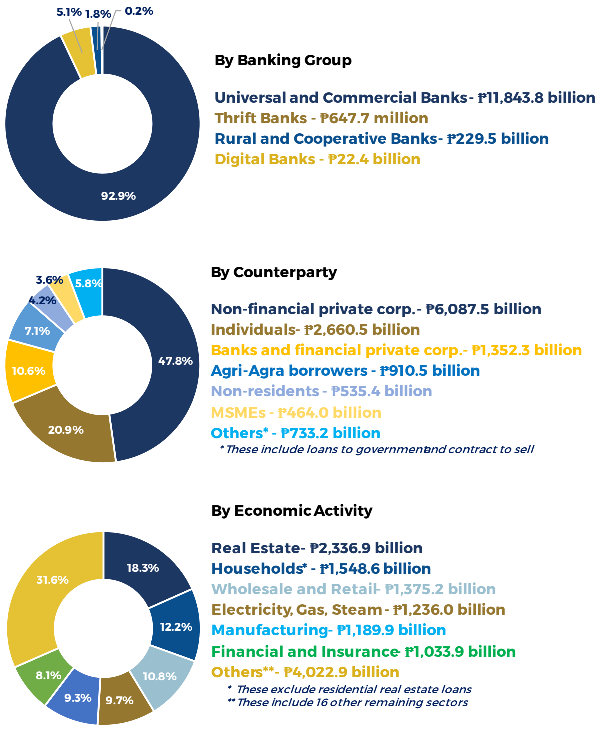
1 Data are preliminary. All the discussed growth rates and reporting periods pertain to y-o-y and end-June 2023, respectively, unless otherwise stated.
2 The pre-pandemic compounded annual growth rate (CAGR) of total assets was computed using data from end-December 2015 to end-December 2019.
3 Includes interbank loans receivable (IBL) and reverse repurchase (RRP), net of allowance for credit losses.
4 This is comprised of investments in debt and equity securities and derivatives and equity investments in subsidiaries, associates, and joint ventures, net of allowance for credit losses, as applicable.
5 The pre-pandemic CAGR of loans was 13.8 percent.
6 This excludes loans to individuals for housing purposes or residential real estate loans.

Figure 3
Percent Share of Total Loans
as of end-June 2023 p/; share in percent



Source: DSA

p/ preliminary

As shown in *Figure 3*, UKBs provided the most loans at 92.9 percent (₱11.8 trillion) of the total loans, compared to other banking groups. These loans were mostly extended to domestic borrowers,[7] with loans to resident non-financial private corporations, resident individuals, and resident private financial corporations[8] accounting for approximately 47.8 percent (₱6.1 trillion), 20.9 percent (₱2.7 trillion) and 10.6 percent (₱1.4 trillion), respectively. The loans were diversified across key economic sectors, with the largest share going to real estate activities at 18.3 percent (₱2.3 trillion). Other key sectors, including wholesale and retail trade (10.8 percent, ₱1.4 trillion), electricity, gas, steam, and air-conditioning supply (9.7 percent share, ₱1.24 trillion), manufacturing (9.3 percent, ₱1.19 trillion), and financial and insurance activities (8.1 percent, ₱1.0 trillion) collectively held around 37.9 percent (₱4.8 trillion). Loans to households had a 12.2 percent share (₱1.5 trillion).

The continued increase in credit activity of banks is echoed by results of the latest industry survey which report increased loan demand in the second quarter of 2023[9]. There was also a 7.6-percent decrease in total restructured loans, which now stands at ₱313.3 billion, due to borrowers' improved paying capacity amid easing economic conditions.

Bank credit to micro, small and medium enterprises or MSMEs continued to increase (*Figure 3*). By the end of June 2023, the total MSME credit allocation banks reached ₱461.4 billion, which was 3.1 percent higher than the ₱447.7 billion posted in June 2022. Most of the credit, around 78.5 percent, was provided by UKBs.[10] Since MSMEs play a vital role in the country's economy, the BSP has implemented a wide range of policies and reforms that promote and facilitate this industry's access to credit.[11]

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7 Based on the Financial Soundness Indicators (FSIs) developed by the International Monetary Fund (IMF), a lack of diversification in the loan portfolio may signal the existence of a vulnerability in the financial system. Loan concentration in a specific economic sector or activity (measured as a share of total loans) renders banks vulnerable to adverse development in that industry. Hence, sectors of the economy where bank credit tends to concentrate are closely monitored for macroprudential purposes. FSIs are indicators of the financial health and soundness of a country's financial institutions and their corporate and household counterparts. They include both aggregated individual institution data and indicators that are representative of the markets in which the financial institutions operate. Source: IMF Financial Soundness Indicators Compilation Guide, c2006, 2019.

8 Include resident banks.

9 Based on Q2 2023 SLOS, loan demand in Q2 2023 from both enterprises and household showed an overall net increase across all firm classifications and household consumption categories. The overall increase in enterprise loans was largely due to customer inventory financing and accounts receivable financing requirements along with improvement in customers' economic prospects. Meanwhile, overall increase in household loans was associated with higher household consumption and housing investment as well as banks' more attractive financing terms.

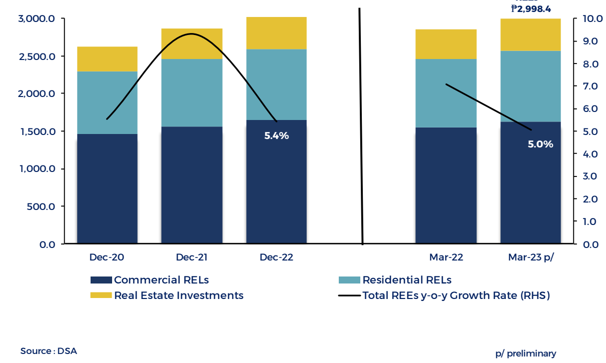
10 The share of credit allocation to MSMEs of TBs, RCBs, and DGBs to that of the banking system stood at 9.9 percent (₱45.6 billion), 11.7 percent (₱53.8 billion), and 0.01 percent (₱41.9 million), respectively.

11 These include promoting innovative financing approaches/mechanisms (i.e., agricultural value chain financing, conduct of supply chain finance market study) and improving digital and financial infrastructure (i.e., development of credit risk database), among others. Moreover, some of the BSP's relief measures that encouraged continued MSMEs lending remain in place until end-June 2023. Some of these relief measures include the reduction in credit risk weight of loans granted to MSMEs, the utilization of peso-denominated loans to MSMEs and large enterprises (LEs) as alternative compliance with the reserve requirements (RR), and the temporary increase of single borrower limit to 30 percent. The temporary relief measure on alternative RR compliance lapsed for UKBs effective 01 July 2023. TBs and RCBs can still utilize their outstanding loans to MSMEs and LEs as alternative compliance with the RR until such loans are fully paid, but not later than 31 December 2025, subject to certain conditions. In particular, the outstanding MSME and LE loans of TBs and RCBs as of June 2023 that become past due or non-performing or are extended, renewed, or restructured shall no longer be eligible as alternative compliance with the RR. Likewise, new MSME and LE loans granted by banks after June 2023, the expiry of the relief measure shall not be eligible as alternative compliance with the RR.

REAL ESTATE EXPOSURES EXPANDED AT A SLOWER PACE...

As of end-March 2023, the total real estate exposures or REEs of UKBs and TBs, on a consolidated basis, modestly increased by 5.0 percent, reaching ₱3.0 trillion.[12] This growth was slower compared to the 7.1 percent from the previous year.[13] As shown in *Figure 4*, real estate loans (RELs), which make up 85.8 percent (₱2.6 trillion) of the REEs, dominate the market while real estate investments only make up 14.2 percent (₱425.5 billion).

Figure 4
PBS Real Estate Exposures of UKBs and TBs (Consolidated)
as of end-periods indicated; inbillion pesos; growth rate in percent



Figures 5 and 6 present the type of RELs, namely, commercial RELs (₱1.6 trillion, 63.1 percent share) and residential RELs (₱950.1 billion, 36.9 percent share).

Figure 5
PBS Commercial RELs of UKBs and TBs(Consolidated)
as of end-periods indicated; inbillion pesos; growth rate in percent

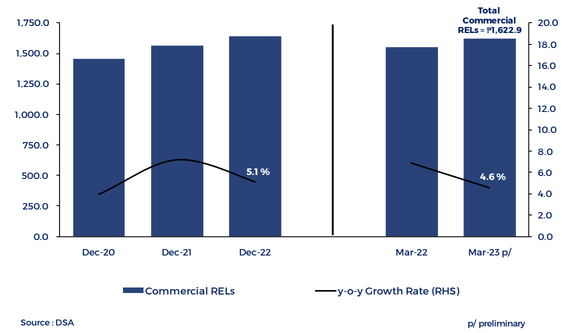
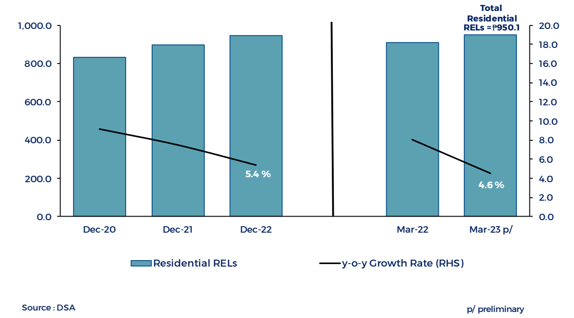


Figure 6
Residential RELs of UKBs and TBs (Consolidated)
as of end-periods indicated; inbillion pesos; growth rate in percent



Commercial RELs, largely unsecured,[14] grew by 4.6 percent as of March 2023, slower than the 6.9-percent growth from the same period a year ago. Most of these commercial RELs were used to finance land development, acquisition, construction, and/or improvement of commercial real estate units.[15] These had a residual maturity of over one year to five years.[16] Alongside the expansion of commercial RELs, total non-performing commercial RELs improved, declining by 14.1 percent (or ₱5.6 billion). This led to a better non-performing commercial REL ratio of 2.1 percent, which is an improvement compared to the end of March 2022 when it was at 2.6 percent.

The residential RELs, which hold the remaining 36.9-percent share (₱950.1 billion), registered a slower growth rate at 4.6 percent compared to the 8.0 percent recorded during the same period last year. Most of these residential RELs were mid-end (44.1 percent share, ₱418.9 billion) and low-cost (41.3 percent share, ₱392.2 billion) housing, with the majority having a residual maturity of over 10 years.[17] Moreover, the total non-performing residential REL ratio decreased to 7.5 percent from the 9.3 percent posted at the end of March 2022. This improvement was due to the combined effect of a 15.7-percent decline in non-performing loans and growth in residential RELs.

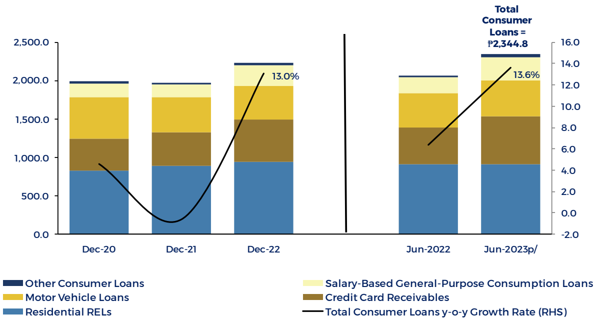
[12] These include the trust department of banks, with a share of around 11.0 percent (₱0.3 trillion) of total REEs as of March 2023.
[13] The pre-pandemic CAGR was 13.2 percent.
[14] This comprised around 75.8 percent share.
[15] This comprised around 81.3 percent share.
[16] This comprised around 47.6 percent share.
[17] This comprised around 51.4 percent share.

RELs, both commercial and residential, are expected to grow further in the coming quarters on the back of an upbeat property market outlook.[18] Similarly, the most recent BSP survey results show that residential real estate prices in the country increased faster in Q1 2023 compared to a year ago. The rise in residential RELs granted for all types of new housing units nationwide was accompanied by price increases in residential properties.[19]

Since the real estate industry remains integral to the country's financial system and economy, the BSP closely monitors the banking system's real estate exposures using prudential limits/measures and an enhanced surveillance toolkit. Apart from employing a REL limit,[20] a stress test exercise on potential property market downturn is performed regularly. The latest real estate stress test results disclosed that the banking system continues to be well capitalized even after the assumed stress scenario.[21]

CONSUMER CREDITS SUSTAINED STRONG GROWTH...

Figure 7
PBS Consumer Loans of UKBs and TBs (Solo)
as of end-periods indicated; in billion pesos; growth rate in percent



Source: DSA
p/ preliminary

On a solo basis, consumer loans[23] by UKBs and TBs have been growing double-digit (*Figure 7*) since September 2022. This growth is expected to continue amid rising household demand and easing banks' credit standards linked to favorable economic performance.[22] As of end-June 2023, these loans accounted for around 18.4 percent of the banking system's total loans and increased by 13.6 percent to reach ₱2.3 trillion. This growth was substantially higher than the 6.4 percent recorded at the end of June 2022 and closer to pre-pandemic average.[23] Credit card receivables (CCRs) and salary loans continued to be major drivers of growth in consumer lending. All types of consumer loans experienced growth, with CCRs and salary loans posting substantial increases of 29.3 percent (up by ₱140.3 billion) and 46.1 percent (up by ₱95.9 billion), respectively. Motor vehicle loans (up by 7.0 percent) and residential RELs (up by 0.1 percent) registered the lowest growth among consumer loans. As the latest consumer survey indicated, this was due to consumers' downbeat buying intentions for motor vehicles, houses, and lots. Consumers also reported that loans used to purchase basic goods and for business start-ups/expansion accounted for a significant portion of their total loan proceeds and outstanding loans.[24]

Most consumer loans in June 2023 were used for housing, specifically residential RELs, making up 39.0-percent share (₱915.2 billion). Other types of consumer loans included CCRs at 26.4 percent (₱618.7 billion), motor vehicle loans at 20.0 percent (₱469.8 billion), and

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[18] Based on Collier's Q2 2023 Property Market Report–Office, the demand for commercial space, particularly the Metro Manila office market, posted a higher net take-up than a quarter ago. Meanwhile, rents and vacancies continued to improve for this quarter. Similarly, Collier's Q2 2023 Property Market Report–Residential disclosed that rents and prices recovered due to improving vacancies in Metro Manila. The pick-up in residential leasing over the past six months was partly due to demand from foreign employees of outsourcing firms, consular offices, and multilateral lending firms based in Metro Manila. This development positively influenced rents and prices. Launches and take-up also picked up in the pre-selling market.

[19] Based on Q1 2023 Residential Real Estate Price Index or RREPI.

[20] Based on the latest data, RELs of UKBs subject to the 25 percent regulatory cap amounted to ₱1.5 trillion or around 12.9 percent of the UKB industry's total loans.
The REL limit, which applies to all UKBs, covers commercial real estate loans extended to finance the acquisition and development of land and construction of buildings and structures, including housing units for sale/lease, for income-generating purposes.

[21] The real estate stress test, or REST, as of end-March 2023, showed the post-shock capital adequacy ratio of UKBs, including subsidiary TBs, above the 10.0 percent minimum.

[23] This includes residential RELs.

[22] Based on Q2 2023 SLOS.

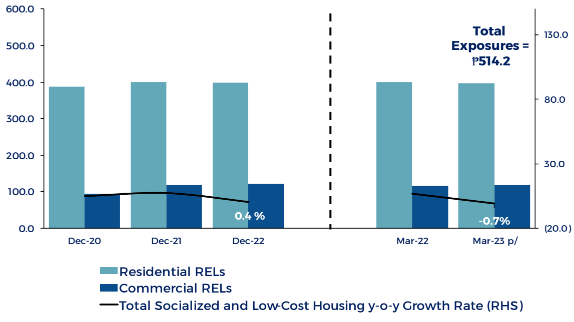
[23] The pre-pandemic CAGR was 15.7 percent.

[24] Based on the Q2 2023 Consumer Expectations Survey.

salary loans at 13.0 percent (₱303.7 billion). The record-high share of salary loans was due to consumers using the loan proceeds for education and healthcare expenses. CCRs increased as consumers availed of reasonable credit card pricing following the retention of existing credit card interest ceilings.[25] Other consumer loans were minimal at 1.6 percent (₱37.4 billion).

As of the end of March 2023, the most recent data reveals that consolidated loans of UKBs and TBs for socialized and low-cost housing contracted by 0.7 percent and reached ₱514.2 billion, roughly 20.0 percent of total RELs.[26] This is in contrast to the 6.9-percent growth rate in March 2022 (*Figure 8*). Loans granted to individual households for their residential units accounted for approximately 77.0 percent of these loans.

Figure 8
PBS Exposure of UKBs and TBs to Socialized and LowCost Housing
as of end-periods indicated; in billion pesos; growth rate in percent



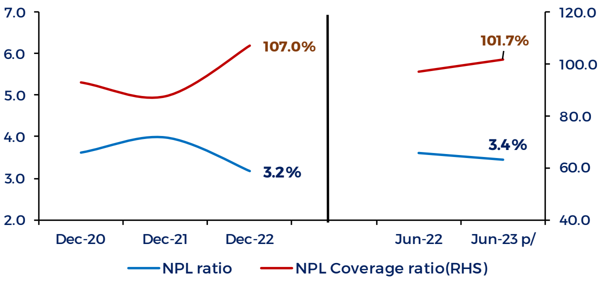
Source: DSA p/ preliminary

SATISFACTORY LOAN QUALITY, MATCHED WITH ADEQUATE PROVISIONS

As of end-June 2023, the banking system's total non-performing loans (NPLs) increased by 3.9 percent and reached ₱437.6 billion. This may seem like a reversal from the 12.8-percent contraction in June 2022, but it is still considered modest and within the BSP's expectations, given the high inflation and interest rates. However, it should be noted that the NPLs remained manageable and backed with high loss-reserves.

As shown in *Figure 9*, the banking system's NPL ratio eased to 3.4 percent compared to 3.6 percent recorded a year ago. This can be attributed to a slower increase in NPLs and faster loan growth. Moreover, the NPLs remained well-covered as banks continued to boost their loss reserves. The system's NPL coverage ratio[27] stood at 101.7 percent, relatively higher than the 97.1 percent recorded a year ago.

Figure 9
PBS NPL Ratio and NPL Coverage Ratio
as of end-periods indicated; ratio in percent



Source: DSA p/ preliminary

Banks have also strengthened their management of NPL through various measures such as intensifying collection and resolution efforts, reducing risk exposures, and using credit risk mitigants. Banks' prudent credit underwriting practices and risk management on their credit exposures have allowed banks to report satisfactory loan quality even in the face of high-interest rates and inflationary pressures. Overall, the banking system's NPLs will continue to be manageable and well-supported by loan loss provisioning.

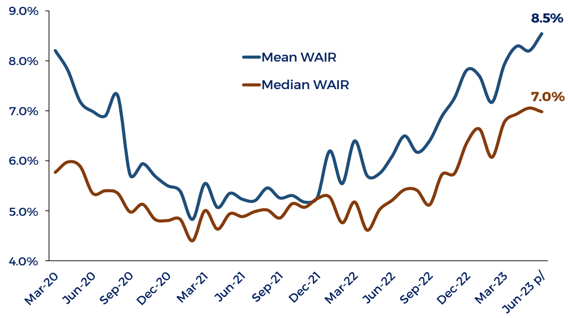
[25] Circular No. 1098, dated 24 September 2020, as amended by Circular No. 1165
[26] The BSP monitors the exposure of banks to socialized and low-cost housing based on existing BSP data on real estate loans under RA No. 7835 (Comprehensive and Integrated Shelter Financing Act of 1994).
[27] Ratio of allowance for credit losses – total loans to gross NPLs.

LENDING RATES FURTHER INCREASED AMID HIGH-INTEREST RATES

The latest data for June 2023 indicate that lending rates of UKBs have further increased as the economy fully reopened and the BSP kept policy rates high.[28]

The overall mean and median weighted average interest rate (WAIR) of 8.5 percent and 7.0 percent, respectively, were higher than those recorded in March 2020 and June 2022 (*Figure 10*).

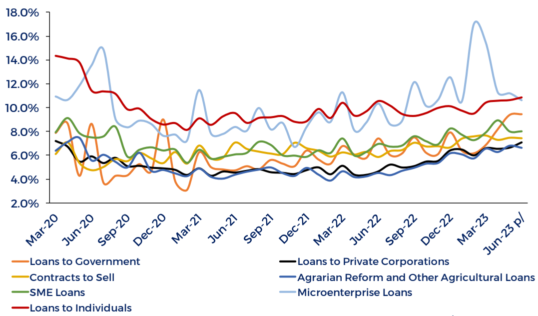
Figure 10
PBS WAIR on Loans of UKBs
for end-periods Indicated; ratio in percent



Source: DSA
p/ preliminary

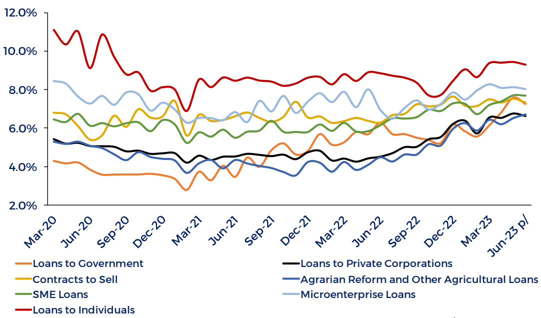
All loan types showed an increase in mean and median WAIR for June 2023 compared to the same month a year ago (*Figures 11 and 12*). Among loan types, agri-agra loans and loans to private corporations had the lowest mean and median WAIR. Meanwhile, micro-enterprise loans and loans to individuals had the highest mean and median WAIR, which is attributed to the borrower's inherent risk profile.

Figure 11
PBS Mean WAIR on Loans of UKBs (by Loan Type)
for end-periods indicated; ratio in percent



Source: DSA
p/ preliminary

Figure 12
PBS Median WAIR on Loans of UKBs (by Loan Type)
for end-periods indicated; ratio in percent

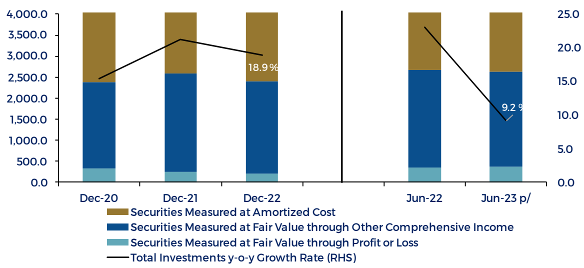


Source: DSA
p/ preliminary

CONTINUED GROWTH IN INVESTMENTS, DRIVEN BY A DOUBLE-DIGIT INCREASE IN SECURITIES MEASURED AT AMORTIZED COST

Total investments[29] reached ₱6.6 trillion, a 9.2-percent increase from the previous year. The growth rate was slower than the 23.1 percent recorded in June 2022.[30] The majority of the banking system's investments, around 60.0 percent share or ₱4.0 trillion, were comprised of debt securities measured at amortized cost (AC). In comparison, securities measured at fair value through other comprehensive income[31] (FVOCI) has a 34.3-percent share

Figure 13
PBS Investments by Type
as of end-periods indicated; in billion pesos; growth rate in percent



Source: DSA
p/ preliminary

28 Since May 2022, the BSP has increased the policy rate by 425 basis points (bps). In particular, the BSP policy rate was increased by 25 bps effective 20 May 2022 and 24 June 2022, 75 bps effective 14 July 2022, 50 bps effective 19 August 2022 and 23 September 2022, 75 bps effective 18 November 2022, 50 bps effective 16 December 2022 and 16 February 2023, and 25 bps effective 24 March 2023. During the meetings in May 2023 and June 2023, the BSP decided to maintain the policy rate. Currently, the interest rate on BSP's overnight reverse repurchase facility is at 6.25 percent, while the interest rates on the overnight deposit and lending facilities are at 5.75 percent and 6.75 percent, respectively.

29 Gross of allowance for credit losses, as applicable. This excludes equity investments in subsidiaries/associates/joint ventures.

30 The pre-pandemic CAGR was 10.6 percent.

31 As of the end of May 2023, these investments in securities were mostly debt securities (₱2,179.1 billion, 97.9 percent share). By counterparty, debt securities issued by the NG accounted for 71.2 percent (₱1,585.0 billion) of total investments in securities measured at FVOCI.

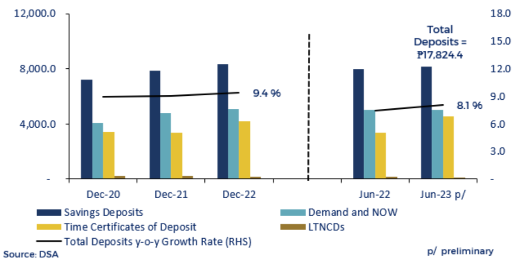
(₱2.3 trillion). Securities measured at fair value through profit or loss (FVTPL) made up only 5.7 percent or ₱372.8 billion (*Figure 13*).

As of June 2023, the share of securities measured at FVOCI decreased to 34.3 percent from the 38.5 percent the previous year. Meanwhile, the share of securities measured at AC increased to 60.0 percent from 55.8 percent in June 2022.

CONTINUED GROWTH IN DEPOSITS, LED BY DOUBLE-DIGIT GROWTH IN TIME DEPOSITS

Deposits continue to be a reliable funding source for banks due to the sustained confidence of depositors. As of June 2023, the total deposits reached ₱17.8 trillion, an increase of 8.1 percent (*Figure 14*) compared to the previous year. This growth, higher than the 7.5 percent posted a year ago, was largely driven by the double-digit increase in time deposits.

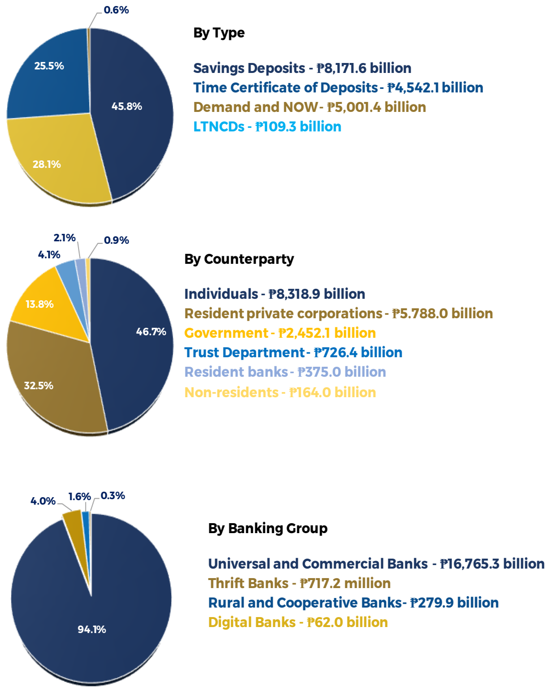
Figure 14
PBS Deposits (by Type)
as of end-periods indicated; in billion pesos; gorwth rate in percent



Source: DSA
p/ preliminary

Moreover, around 84.6 percent (₱15.1 trillion) of the total deposits were denominated in peso, while 99.1 percent (₱17.7 trillion) were sourced from resident depositors. This deposit mix provides insulation to the banking system from potentially significant funding withdrawals by investors due to developments in the global financial markets.

Figure 15
Share of Total Deposits
as of end-June 2023 p/; share in percent



Source: DSA
p/ preliminary

As illustrated in *Figure 15*, savings deposits[32] accounted for the majority of the total deposits at 45.8 percent (₱8.2 trillion), followed by demand deposits and negotiable order of withdrawal (NOW), and time deposits with shares of 28.1 percent (₱5.0 trillion) and 25.5 percent (₱4.5 trillion), respectively.

By counterparty, resident individuals and resident private corporations owned 46.7 percent share (₱8.3 trillion) and 32.5 percent share (₱5.8 trillion), respectively, of total deposits.

Among banking groups, UKBs held the largest share of total deposits at 94.1 percent (₱16.8 trillion). Meanwhile, TBs, RCBs, and DGBs each had around 4.0 percent (₱717.2 billion), 1.6 percent (₱279.9 billion), and 0.3 percent (₱62.0 billion) share, respectively.

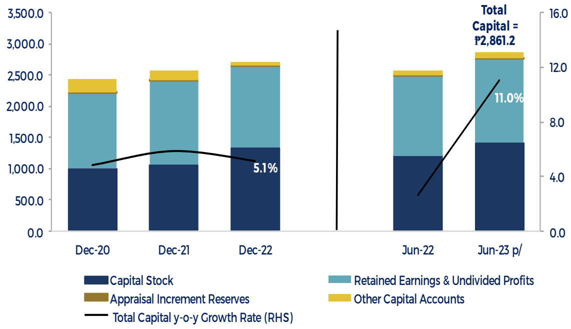
Bills payable and bonds payable were minimal sources of funding for banks, accounting for around 3.3 percent (₱669.4 billion) and 2.4 percent (₱487.5 billion) of the banking system's total liabilities.

[32] Savings deposits were mainly comprised of regular savings (79.5 percent share, ₱6,498.9 billion), other savings (19.5 percent, ₱1,592.0 billion), kiddie and teen savings (0.7 percent, ₱54.3 billion), and basic deposit accounts (0.3 percent, ₱26.3 billion). Other savings accounts refer to an interest-bearing special savings account that offers tiered interest rates depending on the deposit size and usually carries a higher interest rate than the regular savings account rate.

STRONGER CAPITAL POSITION, POSTING DOUBLE-DIGIT GROWTH

Banks have shown a stronger capital position, growing by 11.0 percent, and reaching ₱2.9 trillion as of the end of June 2023 (*Figure 16*). This surpassed the 2.7-percent growth from a year ago.[33] In terms of composition, paid-up capital had the largest proportion at 49.3 percent (₱1.4 trillion). The 16.4-percent growth in paid-up capital was due to public offering and additional stock issuances. This was followed closely by retained earnings with 47.2-percent share (₱1.3 trillion), growing by 5.8 percent. The sustained trust of investors in the banking sector is reflected in the continuous rise in banks' paid-in capital stock.

Figure 16
PBS Capital Composition
as of end-periods indicated; in billion pesos; gorwth rate in percent



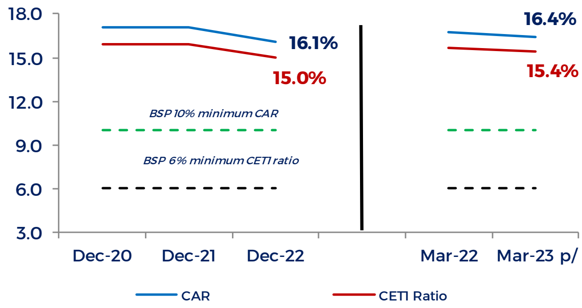
Source: DSA p/ preliminary

UKBs continue to have the largest share of the banking system's total capital at 91.7 percent (₱2.6 trillion). The remaining share was held by TBs, RCBs, and DGBs at 5.3 percent (₱152.3 billion), 2.5 percent (₱72.2 billion), and 0.4 percent (₱11.6 billion), respectively.

...AND REMAINED WELL-ABOVE REGULATORY MINIMA

As of end-March 2023, the UKB industry's consolidated capital adequacy ratio (CAR)[34] of 16.4 percent and common equity tier 1 (CET1)[35] ratio of 15.4 percent continued to be well above the minimum thresholds set by the BSP (*Figure 17*). These capital ratios, however, were lower than the 16.8 percent and the 15.7 percent posted from the previous year, he most recent stress test results confirm that bank capital is resilient to assumed stressed scenarios, including potential shock in the real estate market.

Figure 17
PBS CAR and CET1 Ratio of UKBs (Consolidated)
as of end-periods indicated; ratio in percent

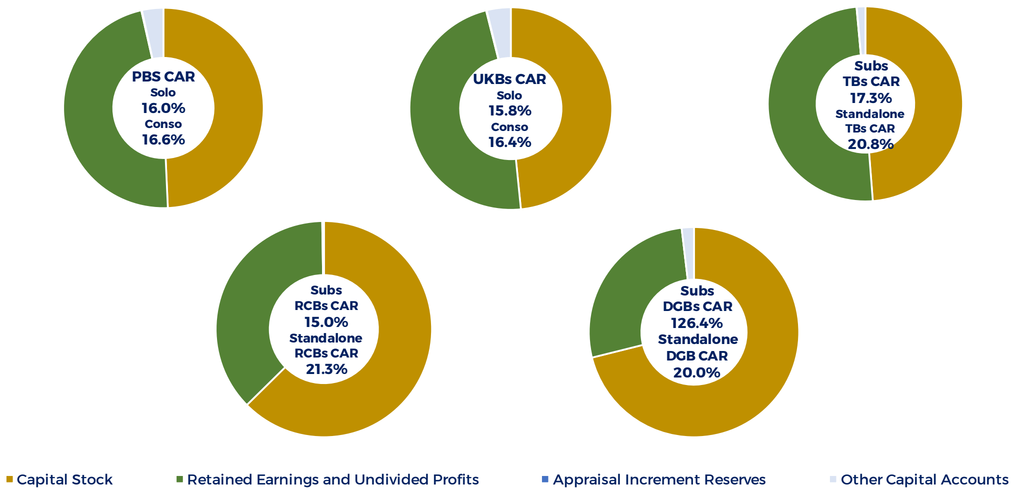


Source: DSA p/ preliminary

The banking system and all banking groups maintained high capital ratios (*Figure 18*), with the CAR of the banking system at 16.0 percent and 16.6 percent, respectively, on solo and consolidated basis. Stand-alone TBs, RCBs,[36] and DGBs reported their CARs at 20.8 percent, 21.3 percent, and 20.0 percent, respectively.[37] Meanwhile, CARs of subsidiary TBs, RCBs, and DGBs were 17.3 percent, 15.0 percent, and 126.4 percent, respectively.[38]

[33] The pre-pandemic CAGR was 11.3 percent.
[34] Regulatory capital to risk-weighted assets (RWAs).
[35] Regulatory CET1 capital to RWA. The CAR and CET1 ratios are the most common measures of capital adequacy under the Basel Committee on Banking Supervision (BCBS) standards.
[36] Under the Basel 1.5 framework.
[37] Based on solo basis capital computation. Ratios are a combination of Basel III and Basel 1.5 frameworks.
[38] Under the Basel III framework.

Figure 18
PBS Capital Composition by Banking Groups
as of end-March 2023p/; ratio in percent

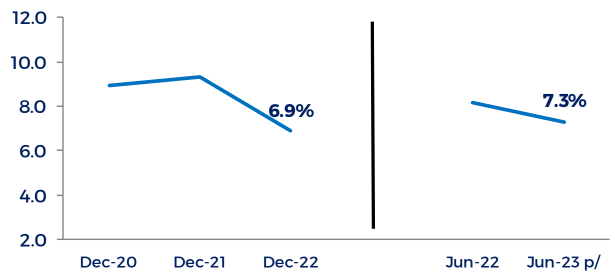


Source: DSA

p/ preliminary

The BSP is closely monitoring the ratio of net NPLs[39] to the banking system's total capital to identify any potential weaknesses in asset quality. This is an important measure of a bank's capital to withstand losses on NPLs. At the end of June 2023, this ratio improved to 7.3 percent from 8.2 percent the previous year (*Figure 19*). This improvement can be attributed to a decline in NPLs, higher provisions[40], and total capital[41]. It is worth noting that banks continue to build loss reserves to keep pace with the increase in NPLs, which will help protect their capital should losses materialize.

Figure 19
PBS Net NPL to Capital Ratio
as of end-periods indicated; ratio in percent

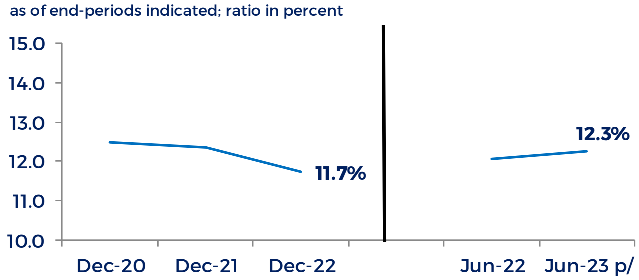


Source: DSA

p/ preliminary

On bank leverage, the BSP closely monitors the banking system's capital-to-asset ratio[42] and Basel III leverage ratio (BLR).[43] The former identifies how much of an asset's funding comes from the bank's resources, while the latter compares a bank's tier 1 capital to its total on- and off-book exposures. As of the end of June 2023, the capital-to-asset ratio was 12.3 percent, higher than last year's 12.1 percent (*Figure 20*). This ratio remained relatively stable in recent years, indicating that banks have maintained an acceptable level of capital to finance their assets. Meanwhile, the UKB industry's solo and consolidated BLR at the end of March 2023 were 9.0 percent and 9.5 percent,

Figure 20
PBS Capital-to-Asset Ratio
as of end-periods indicated; ratio in percent



Source: DSA

p/ preliminary

39 This is net of provisions.
40 At the end of June 2023, specific allowance for credit losses increased by 8.3 percent to ₱228.7 billion. As a result, bank's net NPL declined by 1.0 percent to ₱208.2 billion. Relatedly, banks recorded an NPL coverage ratio of 101.7 percent, with UKBs posting NPL coverage ratios of 107.7 percent.
41 As of end-June 2023, total capital increased by 10.9 percent to ₱2.9 trillion.
42 This pertains to the ratio of total capital accounts to total assets.
43 The BLR is expressed as a percentage of capital measure (Tier 1 capital) to exposure measure. The BLR is a simple, transparent, and non-risk-based "backstop" measure. It aims to "restrict the build-up of excessive leverage in the banking sector to avoid destabilizing deleveraging processes that can damage the broader financial system and the economy." Source: BCBS press release on Basel III Leverage Ratio Framework and Disclosure Requirements, 12 January 2014.

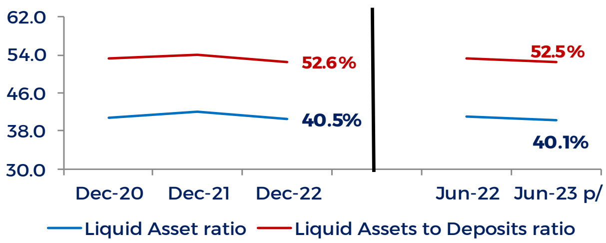
respectively, lower than the 9.2 percent and 9.7 percent posted a year ago. The decline in BLR was due to the slower growth of capital measure components in relation to bank's total on- and off-book exposures, particularly credit exposures arising from expansion in lending and investment activity. Nonetheless, the UKB industry's BLR remained well above the 5.0 percent BSP and the 3.0 percent international thresholds.

BANKS WERE HIGHLY LIQUID, WITH MORE THAN ADEQUATE BUFFER FOR LIQUIDITY AND FUNDING NEEDS

As banks' overall assets grow, particularly their loan and investment portfolios, liquidity acts as a buffer against potential increases in risk exposures. The banking system's liquidity ratios remained robust based on the latest data. This demonstrates that banks will maintain a strong liquidity position even during financial shocks to meet their clients' funding and liquidity needs.

The BSP regularly monitors the banking system's liquid asset ratio[44] and liquid assets to deposit[45] ratios to assess the liquidity position of banks. At the end of June 2023, the banking system's liquid asset ratio and liquid assets to deposits were 40.1 and 52.5 percent, respectively, showing a modest decline from 41.1 percent and 53.3 percent as of June 2022 (*Figure 21*).

Figure 21
PBS Liquid Asset & Liquid Assets to Deposits Ratios
as of end-periods indicated; ratio in percent

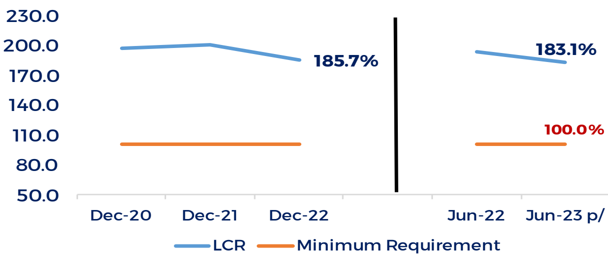


Source: DSA
p/ preliminary

There are also other liquidity metrics that BSP employs in its surveillance and monitoring, namely, (i) liquidity coverage ratio or LCR, (ii) minimum liquidity ratio or MLR, (iii) net stable funding ratio or NSFR,[46] and (iv) intraday liquidity.[47]

As of the end of March 2023, the LCRs of the UKB industry, both solo and consolidated, were at 183.3 percent and 182.9 percent, respectively. According to preliminary data as of end-June 2023, the solo LCR of the industry remained high at 183.1 percent (*Figure 22*). These ratios are well above the regulatory threshold of 100 percent, indicating that the industry has ample liquidity.

Figure 22
PBS LCR of UKBs (Solo)
as of end-periods indicated; in percent



Source: DSA
p/ preliminary

As of the end of March 2023, the stand-alone TBs, RBs and CBs had an MLR of 30.9 percent, 59.0 percent, and 41.3 percent, respectively. These rates exceed the minimum requirement of 20 percent for smaller banks[48].

[44] This refers to the ratio of liquid assets to total assets.
As compared with ASEAN counterparts (latest available data): Indonesia (Q2 2023: 15.1 percent), Malaysia (Q1 2022: 22.8 percent), Thailand (Q1 2023: 22.2 percent), and Vietnam (Q2 2022: 11.2 percent). (Source: IMF FSIs–Data and Metadata Tables).

[45] This refers to the ratio of liquid assets to deposits (a proxy for short-term liabilities), which indicates the deposits that would have to be covered by asset sales if access to funding is lost.

[46] Based on Circular No. 1034, dated 15 March 2019, and Circular No. 1035 dated 15 March 2019.

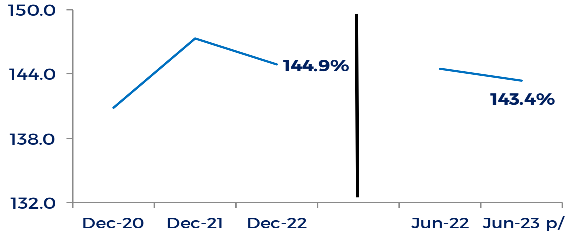
[47] Based on Circular No. 1154, dated 14 September 2022, all UKBs and their subsidiary TBs and digital banks shall submit the report on a solo basis. The Report aims to appropriately monitor the intraday liquidity position of supervised entities, their sources of intraday liquidity, and their ability to meet payment and settlement obligations on a timely basis under normal and stressed conditions.

[48] The BSP calibrates its banking regulations in such a way that these remain sensitive to the peculiarities and conditions of different types of financial institutions operating in the country without compromising regulatory objectives.

Meanwhile, the solo and consolidated NSFR of the UKB industry at the end of March 2023 remained well above the BSP's required minimum of 100 percent. The figures stood at 139.1 percent and 139.4 percent, respectively. These high liquidity ratios demonstrate banks' robust liquidity position and ability to withstand any potential liquidity disruptions.

The BSP also uses the ratio of deposits to loans[49] to assess the banking system's liquidity. As shown in *Figure 23*, the ratio stood at 143.1 percent by the end of June 2023, slightly lower than 144.5 percent from the previous year but still well above 100 percent. This indicates that the banks have more than one-to-one correspondence between deposits (source of funds) and loans (use of funds).

Figure 23
PBS Deposits to Loans
as of end-periods indicated; ratio in percent

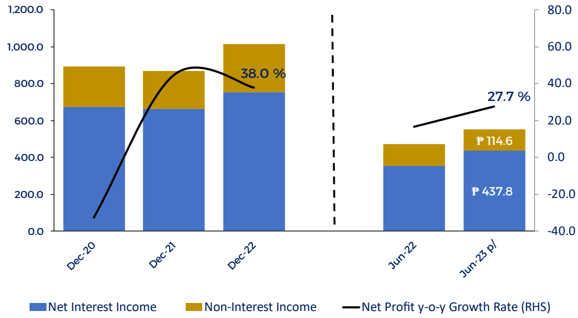


Source: DSA p/ preliminary

PROFITABLE OPERATIONS, DRIVEN BY REVENUES FROM LENDING AND INVESTING ACTIVITIES

For the six-month period ending June 2023, banks sustained double-digit growth in net profit, increasing by 27.7 percent and reaching ₱182.8 billion (*Figure 24*). This was higher than the 16.7-percent growth recorded for the same period a year ago. The satisfactory performance was due to higher interest income, which expanded by 48.4 percent from the 6.4 percent growth for the same period a year ago. Loans to private corporations and households, as well as investments in securities, generated the largest share of interest income, contributing around 36.5 percent (₱221.6 billion), 21.4 percent (₱129.9 billion), and 21.4 percent (₱130.3 billion) share, respectively.

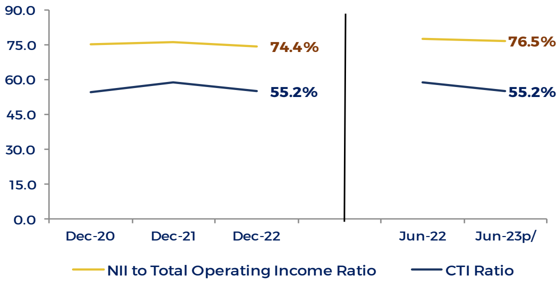
Figure 24
PBS Sources of Revenue
for the periods-ended indicated; in billion pesos; growth rate in percent



Source:DSA p/ preliminary

Banks reported high funding costs, which affected their overall results of operations. The interest expenses on deposits and bills payable surged by 280.1 percent (₱101.8 billion) and 353.9 percent (₱11.7 billion), respectively. The increase in interest expense on deposits was largely driven by the rapid expansion of time deposits compared to other low-cost deposits. Time deposits have been growing by double digits since August 2022, three months after BSP increased its policy rates in May of the same year. The high-interest rate environment affected the annualized net interest income ratio to banks' total operating income, which declined to 76.5 percent from 77.7 percent a year ago, as shown in *Figure 25*.

Figure 25
PBS Selected Performance Indicators
for the periods -ended indicated; ratio in percent



Source: DSA p/ preliminary

[49] For this purpose, loans refer to total loans excluding interbank loan receivables. This also represents the core loans of the banking system.

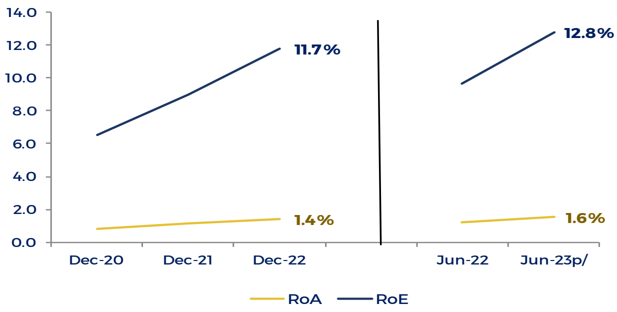
Meanwhile, there was an increase in interest expense on bills payable as banks turned to less expensive funding sources. As a result, funding cost rose to 1.5 percent, from 0.6 percent recorded for the same period a year ago. Despite this, the net interest margin (NIM) improved to 4.0 percent from 3.5 percent for the period ending in March 2022 and surpassed pre-pandemic performance.

Similarly, the 2.1 percent contraction in non-interest income, although marginally better than the 7.3 percent drop from a year ago, contributed to the slower growth of banks' net profit. The decline was due to the double-digit contraction in other income and profit from the sale/ derecognition of non-financial assets of 27.1 percent (down by ₱7.6 billion) and 27.5 percent (down by ₱5.5 billion), respectively. Trading income also saw a 3.1-percent dip (down by ₱325.5 million), mainly due to a decline in realized gains from the sale and/or redemption of trading securities by 12.1 percent (₱938.3 million) and an increase in unrealized losses from mark-to-market transactions by 78.2 percent (₱1.5 billion).

Total operating expenses rose by 16.0 percent, reaching ₱309.7 billion as banks invested in new technology, hired, and developed their personnel, and incurred higher administrative costs than a year ago. The increase in total operating expenses was significantly higher than the 5.2-percent growth for June 2022. About 71.3 percent (₱220.7 billion) of the total operating costs were used for other administrative expenses and compensation/fringe benefits. Both expenditures grew by 16.0 percent (up by ₱16.6 billion) and 11.9 percent (up by ₱10.7 billion), respectively, higher than the 6.2 percent and 3.8 percent posted a year ago.

The double-digit increase in operating expenses affected the overall performance of banks. Notwithstanding, the cost-to-income (CTI) ratio remained better at 55.2 percent over 58.9 percent a year ago (*Figure 25*). This ratio, which measures efficiency in banking operations, has been maintained below 60 percent since the onset of the pandemic.[50] Other profitability metrics, like return on equity (RoE) and return on assets (RoA), also reflected the strong performance of banks. For the period ending June 2023, these ratios improved to 12.8 percent and 1.6 percent, respectively, from 9.6 percent and 1.2 percent a year ago (*Figure 26*).

Figure 26
PBS Return on Assets and Return on Equity
for the periods -ended indicated; ratio in percent



Source: DSA

p/ preliminary

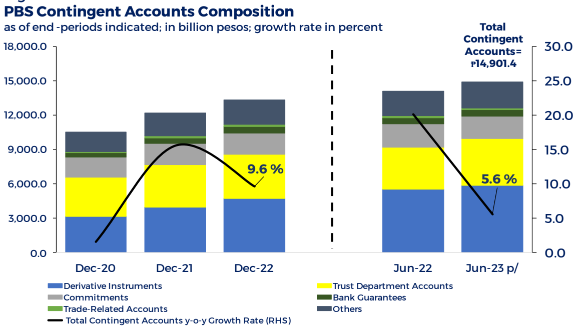
CONTINGENT ACCOUNTS MODERATED AND REMAINED RESIDENT-DRIVEN TRANSACTIONS

Banks' off-balance sheet assets[51] grew by 5.6 percent and reached ₱14.9 trillion at the end of June 2023, a slowdown from the 20.2 percent growth a year ago. The increase in growth can be attributed to the rise in derivative instruments, trust department accounts, and bank guarantees. Derivative instruments rose by 6.6 percent, which amounts to ₱365.2 billion, while trust department accounts increased by 9.8 percent, which translates to ₱364.1 billion. Bank guarantees also saw an increase of 11.6 percent, amounting to ₱59.1 billion. These accounts comprised 70.5 percent (₱10.5 trillion) of the banking system's total contingent assets. By counterparty, the majority were resident transactions at 83.7 percent or ₱12.5 trillion.

[50] The CTI ratio ranged between 60.3 percent and 64.7 from 2015 to 2019 (before the pandemic) and 54.9 percent and 59.1 percent from 2020 to 2022.

[51] This accounted for 57.9 percent share (₱14,901.4 billion) of total assets in June 2023, declining from the 58.4 percent share (₱12,171.3 billion) in 2022.

Figure 27
PBS Contingent Accounts Composition
as of end -periods indicated; in billion pesos; growth rate in percent



Source: DSA
p/ preliminary

As shown in *Figure 27*, derivative instruments made up the most significant portion, accounting for 39.4 percent (₱5.9 trillion) of the total amount, followed by trust department accounts (27.3 percent, ₱4.1 trillion), others[52] (15.3 percent, ₱2.3 trillion), and commitments (13.1 percent, ₱2.0 trillion). Bank guarantees and trade-related accounts remained minimal at 3.8 percent (₱566.4 billion) and 1.1 percent (₱167.4 billion), respectively.

All contingent accounts increased except for commitments and trade-related accounts, with derivatives and trust department accounts posting the largest growth in terms of level at 6.6 percent (up by ₱365.2 billion) and 9.8 percent (up by ₱364.1 billion), respectively. The growth in derivatives was driven by the increase in foreign exchange contracts,[53] which grew by 5.9 percent (up by ₱244.5 billion). Foreign exchange contracts comprised the largest portion of derivative instruments, amounting to 85.1 percent (₱4.4 trillion) of the total derivatives instruments. A more detailed discussion of the trust operations is provided in a separate section of this report.

Meanwhile, the 3.4-percent decline (down by ₱68.8 billion) in commitments was expected as borrowers drew on their lines of credit and converted their unused credit commitments into loans. The decline in unused commitments coincided with the banking system's total loan portfolio growth. Relatedly, trade-related accounts contracted by 22.7 percent (down by ₱49.1 billion) due to a slowdown in trading activities.[54]

In addition, banks reported an overbought foreign exchange (FX) position of US$784.7 million at the end of June 2023. This level, which the BSP closely monitors, remained manageable with the ratio of the net open FX position to the regulatory capital of UKBs at 1.9 percent,[55] marginally higher than the 1.8 percent posted a year ago. The low ratio denotes that banks have been actively managing their FX exposures.

CONTINUED NETWORK EXPANSION AMID DIGITAL TRANSFORMATION

The banking industry continued its expansionary move in a bid to reach out and serve the financial needs of the majority of Filipinos.

At the end of June 2023, the total number of bank offices reached 13,335, an improvement from 13,190 a year ago. The increase was due to banks' beefing up their branches and branch-lite units (collectively referred to as other offices), which grew by 153 to reach 12,845. The number of head offices stood at 490, lower than 498 a year ago, owing to some banks' mergers, consolidations, and closures in line with the ongoing financial system strengthening.

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52 This is largely comprised of securities held under custodianship by the bank proper at 12.6 percent share (₱1.9 trillion) of total contingent accounts.
53 This excludes spot foreign exchange contracts.
54 At the end of June 2023, the country's total external trade in goods, total exports, and total imported goods amounted to US$17.3 billion (an annual decline of 9.5 percent from US$19.1 billion), US$6.69 billion (an annual increment of 0.9 percent from US$6.64 billion), and US$10.6 billion (an annual decrease of 15.0 percent from US$12.5 billion), respectively. Source: Philippine Statistics Authority
55 The net FX position to unimpaired capital ratio is a metric that provides valuable insights into how banks are exposed to FX fluctuations and their ability to withstand potential FX-related losses. Under BSP Circular No 1120 dated 21 June 2023, the bank's consolidated net open FX position (either overbought or oversold) should not exceed 25 percent of qualifying capital or US$150 million, whichever is lower.

As shown in *Table 1*, UKBs remained the industry leader in the number of total offices, followed by RCBs.

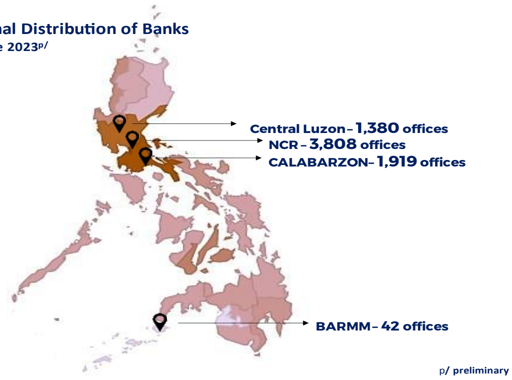
Table 1
PBS Network
as of end-June 2023

	PBS	UKBs	TBs	RCBs	DGBs
Head Offices	490	45	43	396	6
Other Offices	12,845	7.160	2,566	3,119	-
Total Offices	**13,335**	**7.205**	**2,609**	**3,515**	**6**

Source: DSA

Moreover, as seen in *Figure 28*, bank offices remained highly concentrated in Luzon, with the National Capital Region (NCR) having the greatest number of bank offices (3,808, 28.7 percent), followed by CALABARZON (1,919, 14.4 percent), and Central Luzon (1,380, 10.4 percent). The Bangsamoro Autonomous Region in Muslim Mindanao (BARMM) has the fewest bank offices (42, 0.3 percent).

Figure 28
PBS Regional Distribution of Banks
as of end-June 2023p/

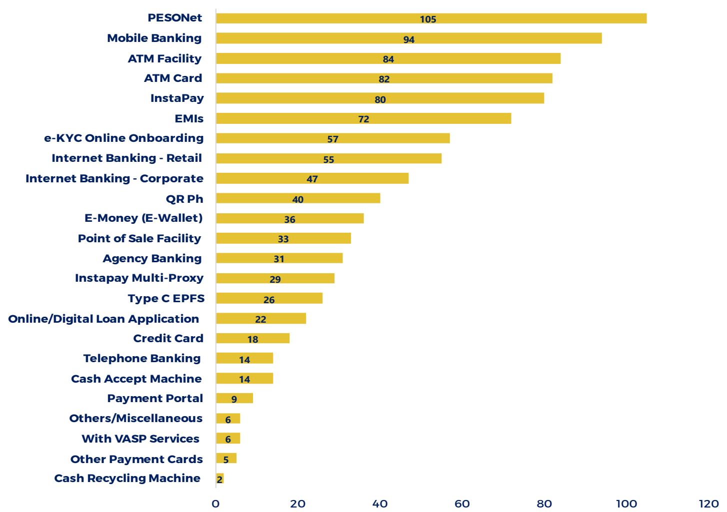


Source: DSA
p/ preliminary

Amid the digitalization and rise of fintech players, traditional banks maintained their competitiveness by investing in technological advancements and digital offerings to adapt to the changing financial landscape. This is consistent with the BSP's reforms and initiatives that aim to promote a responsive and innovative financial ecosystem while ensuring the protection of financial consumers.

Electronic and digital payments as a medium for financial transactions also continued to further financial inclusion. As illustrated in *Figure 29*, automated teller machines or ATMs (card and facility) remained the most favorable electronic facility used by the majority of BSP-supervised entities (166 users), followed by PESOnet (105 users), and mobile banking (94 users).

Figure 29
PBS Electronic Payment and and Financial Services (EPFS)
as of end-June 2023p/



Source: DSA
p/ preliminary

FOREIGN CURRENCY DEPOSIT UNIT OPERATIONS

OVERVIEW

Banks' foreign currency deposit unit (FCDU) operations showed strong performance. This was reflected in the growth of assets, loans, deposits, and net profits. Investment and lending activities, which were mostly residents' transactions, continued despite monetary policy tightening, providing credit support to key economic sectors of the country. Deposits, which were mostly held by domestic clients, also hit a record high. Relatedly, other borrowing sources, such as bills payable, expanded as banks managed their funding costs amid a high-interest rate environment. In view of banks' efforts, the results of operations remained profitable as interest income from loans and investments increased at a double-digit rate, balancing out borrowing costs.

Assets*
US$61.9 billion (₱3.4 trillion)

** This accounted for 14.7 percent of the Philippine banking system's total assets.*

Investments
US$28.2 billion (₱1.6 trillion)

Loans**
US$21.3 billion (₱1.2 trillion)

***This includes Interbank Loans Receivables.*

NPL and NPL Coverage Ratios
1.2 percent and 181.1 percent

Deposits
US$49.0 billion (₱2.7 trillion)

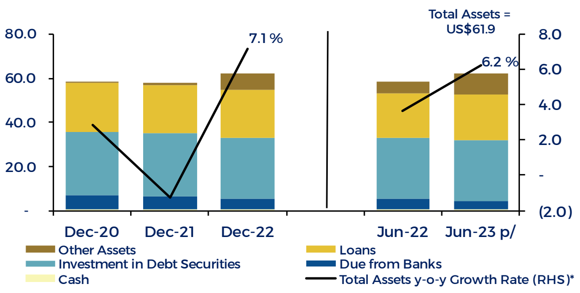
Net Profit
US$0.5 billion (₱27.7 billion)

Based on closing rate of ₱55.2 as of end-June 2023.

ASSET GROWTH CONTINUED

Total FCDU assets[1] increased by 6.2 percent year-on-year (y-o-y)[2], reaching US$61.9 billion (₱3.4 trillion) as of end-June 2023. This growth was faster than the 3.7-percent increase in the same period last year and was closer to the 6.6-percent growth before the pandemic.[3] These assets consisted of investment in securities,[4] loans,[5] other assets,[6] and cash and due from banks with shares of approximately 44.4 percent (US$27.5 billion), 33.8 percent (US$20.9 billion), 14.7 percent (US$9.1 billion), and 7.1 percent (US$4.4 billion), respectively (*Figure 1*). Loans to regular banking unit (RBU) registered a marked growth of 83.2 percent.[7] This was due to the easing of FCDU rules in end-2021, which gave banks flexibility in managing their foreign currency exposures and allowed FCDU to support lending and funding RBU requirements subject to certain prudential requirements and conditions.

Figure 1
FCDU Asset Composition
as of end-periods indicated; in billion US dollars; growth rate in percent



**RHS - right-hand side*
Source: Deparment of Supervisory Analytics (DSA)
p/ preliminary

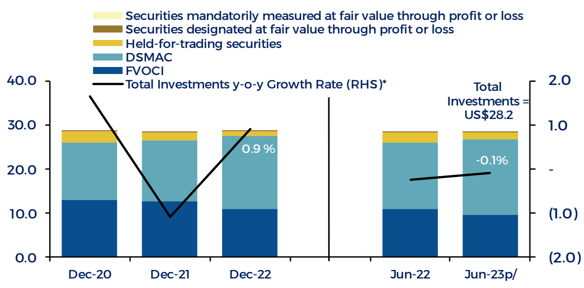
The growth in FCDU assets was supported by an expansive network of 76 banks. Universal and commercial banks reported the largest number of FCDU/expanded FCDU (EFCDU) licenses at 45 (3 FCDU and 42 EFCDU). In addition, there were 20 thrift banks, 10 rural and cooperative banks, and one digital bank with FCDU licenses.

INVESTMENT IN DEBT SECURITIES MEASURED AT AMORTIZED COST EXPANDED FURTHER

The total FCDU investments,[8] valued at US$28.2 billion (₱1.6 trillion), posted a slight decline of 0.1 percent (*Figure 2*). This was an improvement compared to the 0.3-percent contraction at the end of June 2022.

Since 2021, banks have been increasingly investing in debt securities measured at amortized cost (DSMAC) as a strategy to protect their financial

Figure 2
FCDU Investment Composition
as of end-periods indicated; in billion US dollars; growth rate in percent



Source: DSA
p/ preliminary

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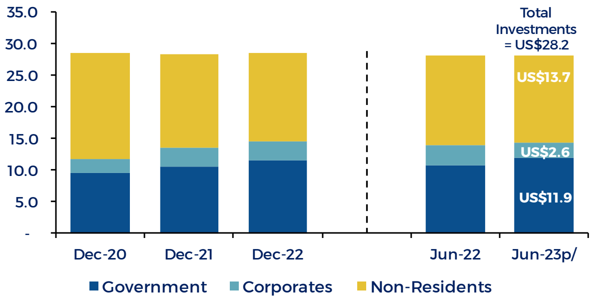
1 This is net of due from head office, branches, and agencies as well as due from FCDU and RBU.
2 All the discussed growth rates and reporting periods pertain to y-o-y and end-June 2023, respectively, unless otherwise stated.
3 The pre-pandemic compounded annual growth rate (CAGR) was computed using data as of end-December 2015 to end-December 2019.
4 This is net of allowance for credit losses and accumulated market gains or losses, as applicable.
5 This is net of allowance for credit losses. Inclusive of Interbank Loans Receivables (IBL) and loans to the BSP.
6 As of end-June 2023, the share of Other Assets stood at 14.7 percent, substantially higher than the 8.8 percent and the 1.4 percent posted as of end-June 2022 and end-June 2021, respectively.
7 Loans to RBU accounted for around 91.7 percent share (US$8.3 billion, ₱460.3 billion) of Other Assets, net of allowance for credit losses.
8 The pre-pandemic levels of total investments amounted to US$22.31 billion in 2015, US$22.33 billion in 2016, US$22.5 billion in 2017, US$27.2 billion in 2018, and US$28.2 billion in 2019. During the pandemic, these stood at US$28.6 billion in 2020 and US$28.3 billion in 2021. The pre-pandemic CAGR of investments was at 6.0 percent.

position from mark-to-market fluctuation. As of end-June 2023, DSMAC grew by 12.6 percent and comprised 60.8 percent (US$17.1 billion, ₱944.6 billion) of total FCDU investments, higher than the 53.9-percent share recorded in the same period in the previous year. Investment in securities measured at fair value through other comprehensive income (FVOCI) followed with 34.5-percent share (US$9.7 billion, ₱536.7 billion), a decrease from the 38.4-percent share at the end of June 2022.

The data also show a gradual shift in investment composition by counterparty. The share of investment in securities issued by the Philippine government[9] increased to 42.2 percent (US$11.9 billion, ₱656.5 billion) compared to 38.6 percent at the end of June 2022. The growth of government-issued securities was due to an increase in bank holdings of US dollar-denominated Republic of the Philippines (ROP) bonds, which expanded by 10.5 percent at the end of June 2023. In contrast, the share of investment in securities issued by non-residents[10] and resident private corporations decreased to 48.7 percent (US$13.7 billion, ₱756.9 billion) and 9.1 percent (US$2.6 billion, ₱141.0 billion), respectively, from the 50.4 percent and the 11.0 percent posted at the end of June 2022 (*Figure 3*). The decline in these investments was due to a lesser number of issuances of debt securities by banks and other corporates given the high-interest rate environment.

Figure 3
FCDU Investments (by Issuer)
as of end -periods indicated; in billion US dollars

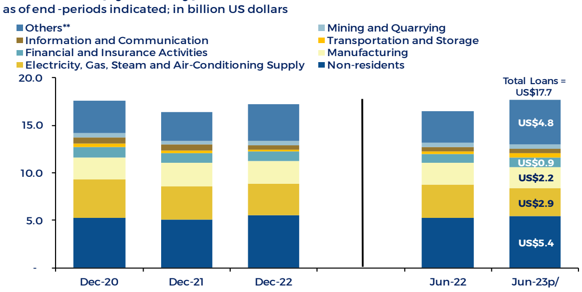


Source: DSA p/ preliminary

LENDING RECOVERED, BUOYED BY SUBSTANTIAL GROWTH IN LOANS ARISING FROM REPURCHASE AGREEMENTS

FCDU lending[11] increased by 7.7 percent and reached US$17.7 billion (₱976.9 billion), reversing the 0.01-percent contraction from the previous year (*Figure 4*). This recovery was largely due to substantial growth in loans from repurchase agreements[12] (repo) as banks took advantage of the refinancing needs of borrowers, particularly non-residents[13]. As of end-June 2023, loans to repo amounted to US$2.7 billion and reported a 161.8-percent growth. Since 2022, the share of loans from repo has been increasing from 6.2 percent (US$1.0 billion) at end-June 2022, 10.5 percent (US$1.8 billion) at end-December 2022, to 15.1 percent (US$2.7 billion) at end-June 2023.

Figure 4
FCDU Loans* (by Industry)
as of end -periods indicated; in billion US dollars



** This excludes Interbank Loans Receivable (IBL) and loans to BSP.*
***This includes loans to other productive sectors and loans arising from repurchase agreements*

Source: DSA p/ preliminary

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9 The Philippine government includes national and local government, and government instrumentalities and agencies.

10 Non-residents include central banks, central governments, non-financial corporations, banks, public sector entities, and multilateral agencies. The investments in securities issued by non-residents consisted of securities issued by central banks and central governments and corporations with 55.9-percent share (US$7.7 billion) and 28.3-percent share (US$3.9 billion), respectively.

11 This excludes IBL and loans to BSP.

12 This refers to loans and receivables arising from repurchase agreement (RA), certificates of assignment/participation with recourse (CA/PR), and securities lending and borrowing (SLB) transactions.

13 This accounted for 88.5 percent (US$2.4 billion) of loans arising from RA, CA/PR, and SLB transactions.

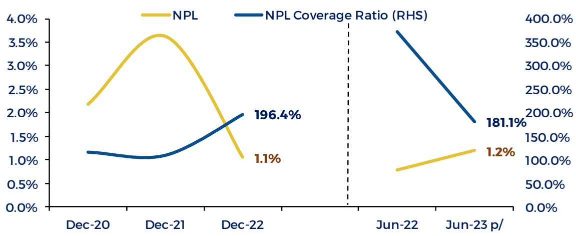
By economic activity, FCDU lending remained broadly diversified with US$6.1 billion (₱337.8 billion) or approximately 34.6-percent share of total loans channeled to key economic sectors in the country, namely, electricity, gas, steam, and air-conditioning supply (16.7-percent share, US$2.9 billion), manufacturing (12.6-percent share, US$2.2 billion), and financial and insurance (5.3-percent share, US$0.9 billion). Banks also extended loans to non-residents,[14] amounting to US$5.4 billion (₱300.6 billion) or approximately 30.8-percent share of total FCDU loans.

Moreover, around 44.6 percent (US$7.9 billion) of total FCDU loans had long-term maturity profiles while short- and medium-term FCDU loans had shares of about 32.0 percent (US$5.7 billion) and 23.4 percent (US$4.1 billion), respectively. Across tenors, short-term FCDU loans notably increased by 32.2 percent, following the growing demand for short-term financing given industry expectations that interest rates would start to normalize by next year.

SATISFACTORY LOAN QUALITY DUE TO PRUDENT CREDIT STANDARDS

The non-performing loan (NPL) ratio increased to 1.2 percent, slightly higher than the 0.8 percent recorded at the end of June 2022. This can be attributed to a faster increase in NPLs, growing by 64.8 percent compared to the 7.5 percent growth in lending as of the same reference period. Total NPLs reached US$212.6 million as of end-June 2023, higher than US$129.0 million recorded in the same period a year ago. The growth in NPLs, particularly in the agriculture, forestry, and fishing sector, was driven by the contraction in farm output caused by high input costs and the adverse effects of the African swine flu.[15] As of end-June 2023, the NPLs in this sector increased by US$74.6 million, accounting for approximately 89.3 percent of the total increase in NPLs (US$83.6 million). Other sectors that contributed to the increase in NPLs were arts, entertainment, and recreation (US$14.7 million, 17.6-percent share); loans to non-residents (US$13.8 million, 16.5-percent share); as well as information and communication (US$12.5 million, 15.0-percent share). Nonetheless, banks continued to implement prudent credit standards and actively monitor their portfolios to manage NPLs. They also maintained high reserves to ensure sufficient coverage for potential credit losses. The NPL coverage ratio stood at 181.1 percent. This was lower than the 371.9 percent recorded at the end of June 2022 due to the rate of increase in NPLs (*Figure 5*).

Figure 5
FCDU NPL and NPL Coverage Ratios
as of end -periods indicated; ratio in percent



Source: DSA

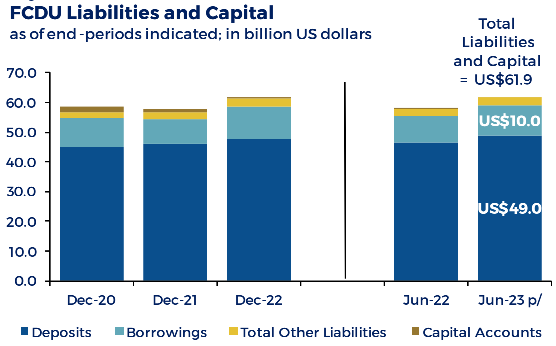
p/ preliminary

[14] This excludes loans arising from RA, CA/PR, and SLB transactions.
[15] Philippine Statistics Authority. (2023, August 9). *Value of Production in Agriculture and Fisheries Decreased by -1.3 Percent in the Second Quarter of 2023*. http://www.psa.gov.ph/content/value-production-agriculture-and-fisheries-decreased-13-percent-second-quarter-2023

DEPOSIT GROWTH ACCELERATED INDICATING CONFIDENCE IN BANKS

Deposits grew anew on the back of high interest rates, reaching a record high of US$49.0 billion (₱2.7 trillion) and growing by 5.1 percent (*Figure 6*). This growth, which was more than double the 2.1-percent growth posted in the previous year, was driven by strong remittances from Overseas Filipinos (OFs).[16] As most deposits remained domestically oriented, with approximately 97.4 percent (US$47.7 billion) owned by residents, banks are less vulnerable to global funding shocks. Deposits comprised 79.6 percent of total liabilities.

Figure 6
FCDU Liabilities and Capital
as of end-periods indicated; in billion US dollars



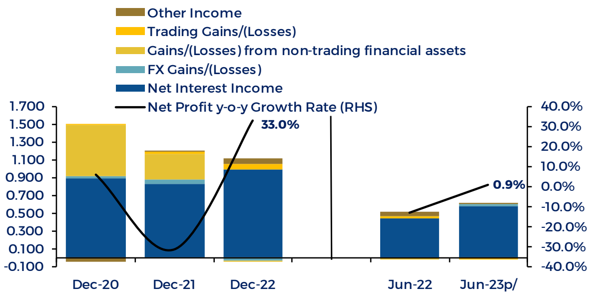
Source: DSA
p/ preliminary

Banks likewise obtained alternative funding to manage borrowing costs. These other sources consisted of bills and bonds payable, which collectively accounted for 16.3 percent (US$10.0 billion) of total liabilities. As of end-June 2023, bills payable substantially grew by 73.9 percent, while bonds payable contracted by 31.6 percent due mainly to maturity of issued bonds. In addition, capital expanded by 35.5 percent and reached US$326.7 million due to the 11.8-percent increase in undivided profits. The increase in undivided profits tempered the impact of net unrealized losses on investment in securities measured at FVOCI of US$615.6 million on capital.

EARNINGS IMPROVED AMID DOUBLE-DIGIT GROWTH IN INTEREST REVENUE

Despite tighter monetary conditions and market volatility, banks' net profit grew by 0.9 percent to US$502.6 million (₱27.7 billion) for the six-month period ending June 2023, reversing the 13.0-percent contraction in the same period in the previous year (*Figure 7*). Net profit was supported by 87.6-percent growth in interest revenue from lending and investing activities which was partly dampened by high borrowing costs and losses on held-for-trading (HFT) securities.[17] Reduced operating expenses, particularly those related to employee compensation and benefits, also contributed to improved overall performance.[18] Other administrative expenses[19] occupied the biggest portion of total operating

Figure 7
FCDU Income Accounts
for the periods-ended indicated in billion US dollars; growth rate in percent



Source: DSA
p/ preliminary

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16 Personal remittances from OFs grew by 2.2 percent y-o-y to reach US$3.13 billion in June 2023 from US$3.06 billion recorded in the same month in 2022. This resulted in cumulative growth in personal remittances of 2.9 percent to US$15.8 billion in the first half of 2022 from US$15.4 billion recorded in the comparable period in 2022. Likewise, cash remittances coursed through banks grew by 2.1 percent y-o-y to US$2.8 billion in June 2022. Source: BSP Press Release dated 15 August 2023

17 Both interest income and interest expense grew by 87.6 percent and 224.3 percent, respectively, and reached US$1.1 billion and US$569.6 million, respectively, for the six-month ending June 2023. Meanwhile, losses on HFT securities amounted to US$20.0 million, reversing the US$28.7 million gains in the same period in the previous year.

18 Compensation/fringe benefits, which accounted for 15.1 percent of total operating expenses, declined by 33.2 percent and reached US$13.6 million for the six-month ending June 2023.

19 Insurance and other expenses accounted for 45.9 percent and 32.8 percent, respectively, of other administrative expenses.

expenses at approximately 69.4 percent (US$62.4 million), followed by compensation/fringe benefits and fees and commission expenses with shares of 15.1 percent (US$13.6 million) and 6.8 percent (US$6.2 million), respectively.

Key performance measures also demonstrated efficient asset management with net interest margin, return on assets, and cost-to-income ratio all improved to 2.1 percent, 1.8 percent, and 13.3 percent, respectively, from 1.5 percent, 1.3 percent, and 18.0 percent posted in the same period in previous year.

TRUST OPERATIONS

OVERVIEW

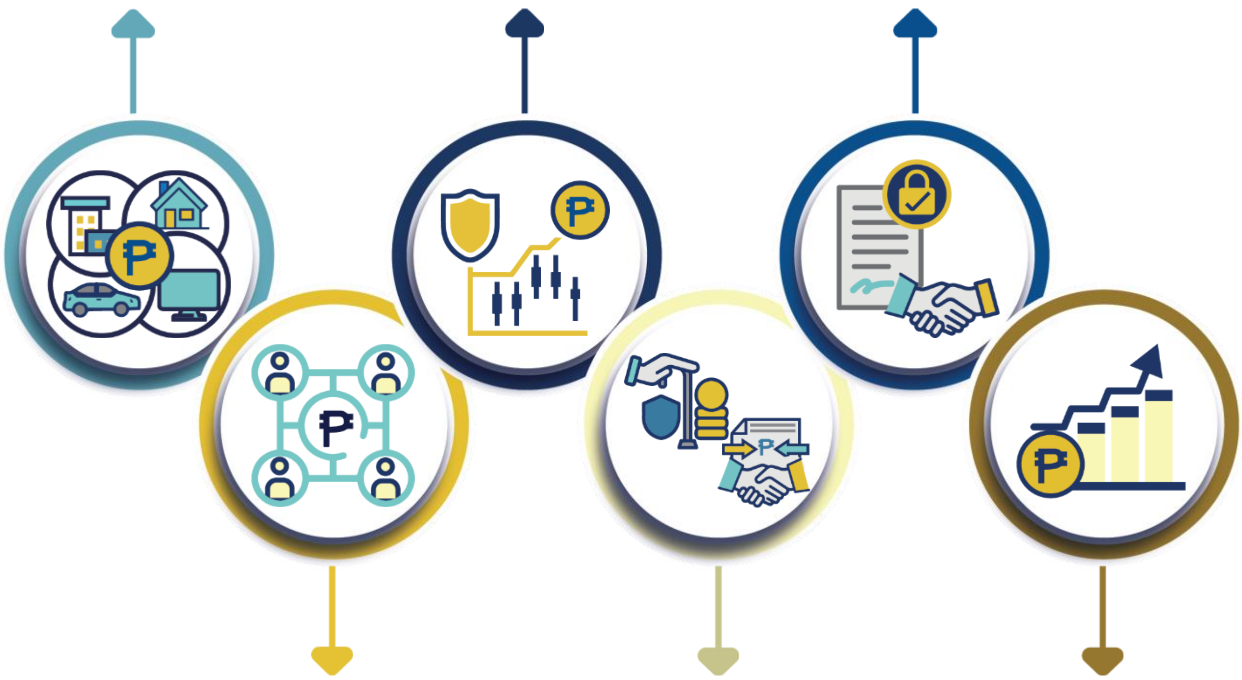
The industry maintained strong asset growth, driven by the double-digit expansion in agency accounts. Assets, which mostly came from residents' transactions, remained largely in the form of investments in debt securities and deposits in banks. In terms of total accountabilities, agency accounts grew significantly, balancing the decline in trust accounts, particularly those from unit investment trust funds (UITFs). Meanwhile, the Personal Equity and Retirement Account (PERA) continued to be an attractive investment alternative as it drew in new participants and generated more contributions than last year. Despite the tighter policy stance, operations remained profitable, demonstrating the resilience of the industry amid changing market conditions.

Assets*
₱5.9 trillion

Investments in Securities
₱3.9 trillion

Agency Accounts
₱3.2 trillion

Trust Accounts
₱2.0 trillion



UITFs
₱834.7 billion

PERA
₱368.0 million

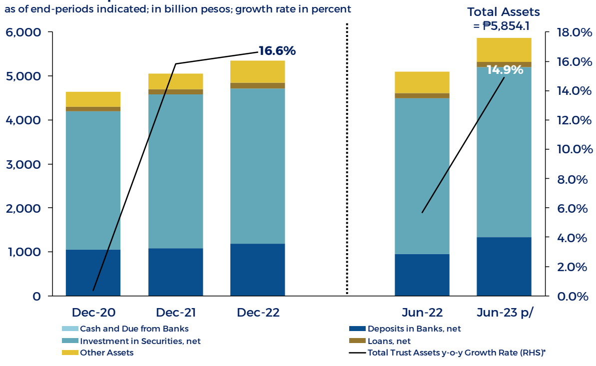
Net Profit
₱3.6 billion

**This accounted for 25.1 percent of the Philippine banking system's total assets.*

ASSET GROWTH SURPASSED PRE-PANDEMIC RECORD, PROPELLED BY AN INCREASE IN AGENCY ACCOUNTS

Total trust assets expanded by 14.9 percent year-on-year (y-o-y), reaching ₱5.9 trillion by the end of June 2023.[1] This growth, which was faster than the 10.4-percent pre-pandemic[2] increase and the 5.7-percent rise from a year ago, was largely due to the double-digit growth in the expansion of agency accounts. Amid upbeat consumer sentiment and easing inflationary pressures, the trust industry remains positive that strong growth will persist across trust products.[3]

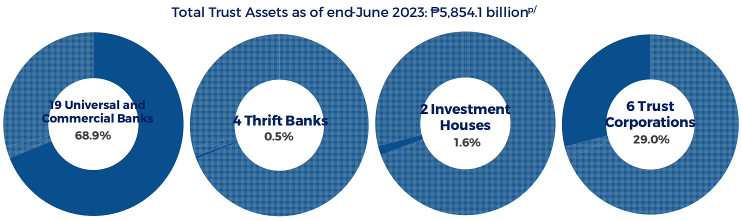
Figure 1
Trust Asset Components
as of end-periods indicated; in billion pesos; growth rate in percent



*RHS - right-hand side
Source: DSA
p/ preliminary

As shown in *Figure 1,* majority of the assets remained highly liquid[4] and were predominantly invested in securities[5] (65.9 percent share, ₱3.9 trillion) and deposited in banks[6] (22.8 percent share, ₱1.3 trillion). Loans continued to be minimal, with an approximate 2.2-percent share (₱129.7 billion).[7]

Figure 2
Asset Share of Trust Entities to Total Trust Assets



Source: DSA
p/ preliminary

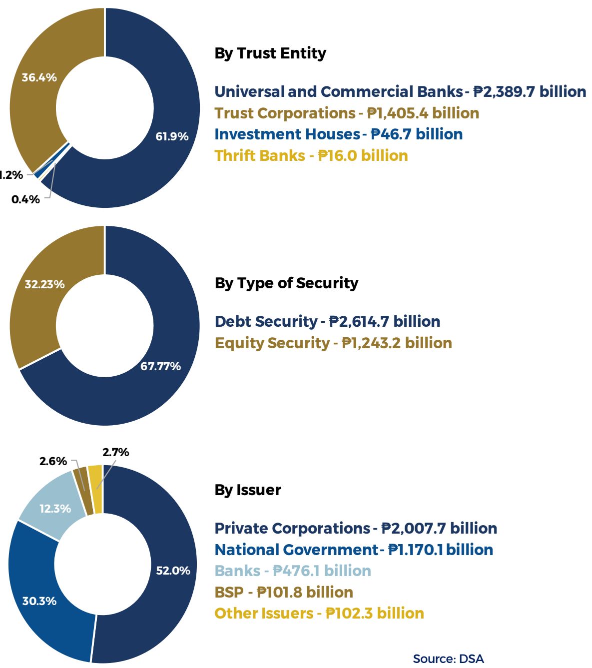
To date, 31 trust entities (TEs) are actively offering trust and other fiduciary products and services to the public.[8] These include 23 trust departments (TDs)[9] of banks and eight (8) non-bank financial institutions (NBFIs). The TDs of banks had a 69.4 percent share (₱4.1 trillion) of total trust assets (*Figure 2*).[10]

1 All the discussed growth rates and reporting periods pertain to y-o-y and end-June 2023, respectively, unless otherwise stated.
2 Assets recorded a pre-pandemic compounded annual growth rate (CAGR) of 10.4 percent. The CAGR is computed using data from end-December 2015 to end-December 2019.
3 Source: Trust Officers Association of the Philippines (TOAP)
4 This consisted of highly marketable securities and due from banks, which collectively accounted for about 65.9 percent (₱3.9 trillion) of total assets and trust accountabilities.
5 Net of amortization and allowance for credit losses, as applicable; Includes equity investments
6 Net of allowance for credit losses
7 Gross loans grew by 9.9 percent to ₱137.4 billion as of end-June 2023.
8 This excludes six TEs that are inactive (i.e., four universal and commercial banks [UKBs], one thrift bank [TB], and one investment house [IH]).
9 This is composed of 19 TDs of UKBs and four TDs of TBs.
10 Across TEs, TDs of UKBs held a 68.9-percent share, while NBFIs and TDs of TBs had 30.6 percent and 0.5 percent shares, respectively, of total trust assets. NBFIs consisted of six trust corporations (TCs, 29.0 percent share) and two IHs (1.6 percent share).

INVESTMENTS EXPANDED FURTHER AND REMAINED DOMESTIC-ORIENTED

Total investments, which stood at ₱3.9 trillion, posted a higher growth rate of 9.0 percent compared to 8.5 percent in end-June 2022.

Figure 3
Percent Share of Total Trust Investments
as of end-June 2023 p/; share in percent



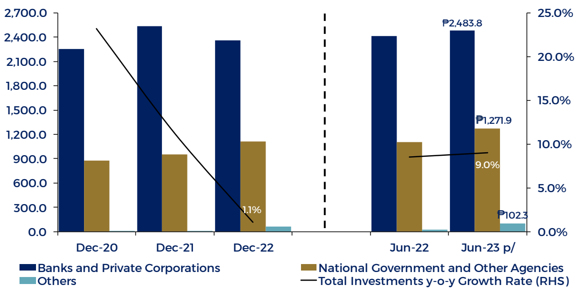
Source: DSA
p/ preliminary

Among TEs, the TDs of banks, particularly UKBs, held the bulk of total investments, with an approximate 61.9-percent share (₱2.4 trillion, *Figure 3*). Meanwhile, the proportion of TE investments in debt securities to total investments remained significant at 67.8 percent (₱2.6 trillion), which is a marginal increase from last year's 67.7-percent share (₱2.4 trillion). Debt and equity securities expanded by 9.2 percent and 8.6 percent, respectively, due to the positive outlook of the industry and the anticipation by market participants of an accommodative policy stance in the coming months.[11]

By type of issuer, trust clients preferred corporate securities compared to government securities, owing to higher yields. Banks and private corporations collectively occupied about a 64.4 percent chunk of total investments, growing by 2.9 percent to reach ₱2.5 trillion. Investments in debt securities issued by the Philippine government followed, with a share of 33.0 percent at ₱1.3 trillion.[12] The share of investments in government securities, however, has been increasing for the past years[13] on account of the cautious investment decisions of clients, given market volatility (*Figure 4*).[14]

In addition, approximately 70.4 percent (₱2.7 trillion) of total investments were in securities measured at fair value through profit or loss (FVTPL), since most TEs maintain UITFs and retirement funds that require valuation of their assets at fair value as their main products.[15] The remaining 23.6 percent share (₱911.7 billion) was in securities measured at fair value through other comprehensive income (FVOCI).

Figure 4
Trust Investments in Debt and Equity Securities, by Counterparty
as of end-periods indicated; in billion pesos; growth rate in percent



Source: DSA
p/ preliminary

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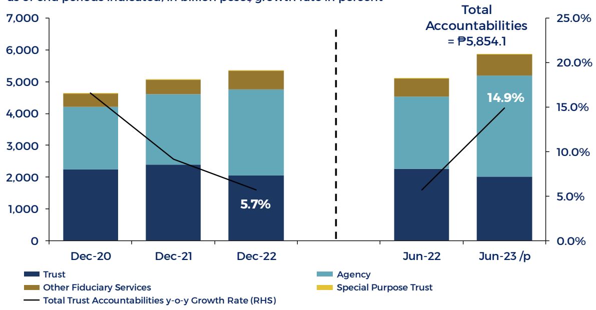
[11] Source: TOAP
[12] This includes securities issued by the national government and the Bangko Sentral ng Pilipinas (BSP).
[13] The share of government securities increased from 27.1 percent in end-June 2021, 31.2 percent in end-June 2022, and 33.0 percent in end-June 2023.
[14] Source: TOAP
[15] Source: TOAP

DOUBLE-DIGIT GROWTH IN AGENCY ACCOUNTS ACCELERATED EXPANSION IN TRUST ACCOUNTABILITIES

Total accountabilities grew anew, increasing by 14.9 percent to reach ₱5.9 trillion (*Figure 5*). This growth, which was more than double the 5.7 percent recorded at the end of June 2022, was largely driven by the substantial expansion in agency accounts. As of June 2023, agency accounts rose by 39.7 percent, marking 10 consecutive quarters of double-digit growth since March 2021. TEs were able to attract clients to invest in agency accounts by giving them access to corporate securities (i.e., debts and equities securities of private corporations, including banks) and time deposits, which allowed clients to record income or yield in their placements. This strategy also enabled TEs to manage the impact of clients' preference for high-yield deposits over trust products.[16]

Figure 5
Trust Composition of Accountabilities
as of end-periods indicated; in billion pesos growth rate in percent



Source: DSA

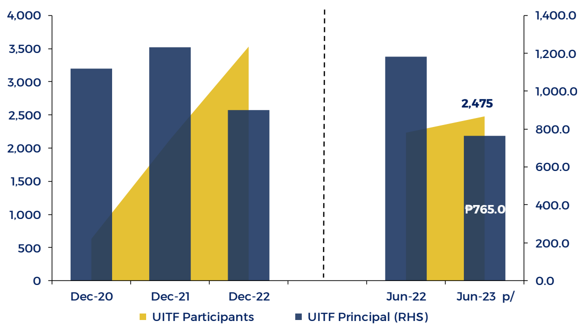
p/ preliminary

Figure 5 illustrates the lion share of agency accounts at approximately 54.3 percent (₱3.2 trillion) of total accountabilities. Meanwhile, trust accounts, which accounted for 34.3 percent (₱2.0 trillion), dropped by 11.0 percent. This decline was due to the 32.5-percent contraction in UITFs as clients shifted funds to high-yielding deposits in view of heightened market volatility.[17]

UITF PARTICIPANTS CONTINUED TO INCREASE, BUT TOTAL CONTRIBUTIONS FELL AS FUNDS FLOWED TO DEPOSITS

UITFs maintained a sizeable share of around 14.3 percent (₱834.7 billion) of total accountabilities. *Figure 6* shows the increasing number of UITF participants over the years, growing by 10.7 percent at the end of June 2023 and reaching 2,475,458. This trend can be attributed to the combined efforts of TEs and the BSP to promote and encourage more Filipinos to open a UITF account through the offering of small-value retail UITF products.[18,19]

Figure 6
Trust Level of Unit Investment Trust Fund Principal and Participants
as of end-periods indicated; principal in billion pesos;participants in thousands



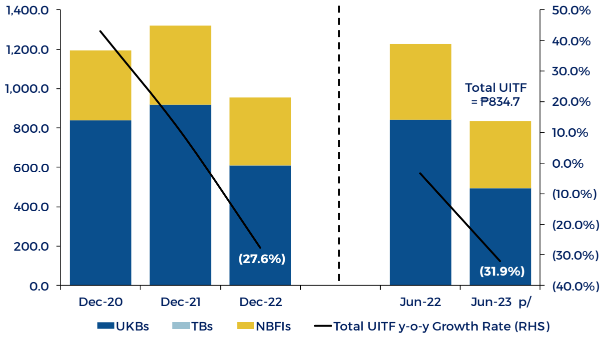
Source: DSA

p/ preliminary

16 Source: TOAP
17 UITFs held majority of the shares of total trust accounts at 40.8 percent. Other shares were accounted for by employee benefits (25.2 percent, ₱506.7 billion) and personal trust accounts (21.2 percent, ₱425.2 billion).
18 TEs implemented proactive sale strategies and provided diverse product offerings.
19 The BSP eased UITF regulations and streamlined UITF licensing processes, as provided under Circular Nos. 1152 and 1157 dated 5 September 2022 and 14 October 2022, respectively. The availability of various types of UITFs in the market, which include sustainability-linked products, is also seen to improve the UITF participation rate.

Despite the growth in the number of participants, total UITF placements declined by 31.9 percent to ₱834.7 billion. This drop was faster than the 3.3-percent decrease recorded a year ago (*Figure 7*). The decline was largely due to the higher redemption of principal from money market funds, which caused the drop in total contributions to ₱765.0 billion from ₱1.2 trillion a year ago.[20] Money market funds were one of the key growth drivers of the trust industry from 2020 until early 2022. However, with the continuous interest rate hikes of the US Federal Reserve and the BSP, coupled with a sustained rise in prices, money market funds experienced the most amount of fund flight among UITF products. Clients reduced their risk exposures, favoring time deposit and government securities that offer better and more reliable returns than trust products.[21] Nonetheless, the sharp contraction in total contributions was moderated by the 66.0-percent expansion in the accumulated income from UITF placements.[22]

Figure 7
Trust Level of Unit Investment Trust Fund, by Financial Institution
as of end-periods indicated; in billion pesos; growth rate in percent



Source: DSA
p/ preliminary

Among UITF products, money market funds continued to be the investment of choice of most trust clients. Money market funds comprised more than half of total UITFs, with a 58.4 percent-share (₱446.5 billion; 1,169,329 participants), albeit remarkably lower than the 72.6 percent share posted a year ago. Meanwhile, equity funds, bond funds, other funds, and balanced funds held the remaining portion at 28.4 percent (₱217.3 billion; 199,568 participants), 5.2 percent (₱39.7 billion; 397,860 participants), 4.7 percent (₱35.7 billion; 679,247 participants), and 3.4 percent (₱25.8 billion; 29,454 participants), respectively.[23]

UITF assets were largely made up of financial assets booked at FVTPL[24] (65.9 percent share, ₱550.2 billion) and deposits in banks (33.5 percent share, ₱280.0 billion). In June 2023, 25 financial institutions (FIs) had a UITF license.[25]

PERA CONTRIBUTIONS PICKED UP AMID GROWTH IN PERA CONTRIBUTORS

PERA sustained its growth momentum, recording double-digit expansions in the number of contributors and total contributions. The strong growth can be attributed to improving economic conditions, which allowed PERA contributors to increase their allocation for their retirement savings. In addition, the reduction in individual income taxes, which took effect

[20] UITF principal placed under money market funds contracted by 48.0 percent to ₱446.5 billion in end-June 2023. This is a further drop from the 4.2-percent contraction in end-June 2022.
[21] Source: TOAP
[22] The UITF portfolio, being marked-to-market, is impacted by changes in interest rates and foreign exchange rates, thereby affecting the amount of net asset value per unit across different types of UITFs. As of end-June 2023, the 82.9-percent rise in accumulated income from equity funds from a loss position of ₱20.3 billion to ₱3.5 billion fueled the uptick in the total accumulated income of the industry.
[23] Equity funds, bond funds, and balanced funds represented 21.9 percent, 3.6 percent, and 1.8 percent, respectively, in end-June 2022. Among the fund types, only balanced funds registered an expansion of 17.8 percent from last year. Money market funds, equity funds, and bond funds all contracted, declining by 48.0 percent, 16.4 percent, and 7.7 percent, respectively.
[24] Majority of financial assets booked at FVTPL were equity securities issued by resident private corporations (24.9 percent, ₱136.9 billion) as well as debt securities issued by the national government (22.7 percent, ₱125.0 billion) and the BSP (18.4 percent, ₱101.1 billion).
[25] These include 16 TDs of UKBs, three TBs, and six NBFIs. TDs of UKBs held the biggest portion of UITFs (59.2 percent, ₱494.5 billion), followed by NBFIs (40.7 percent, ₱339.5 billion). TDs of TBs had a minimal share of 0.1 percent (₱0.8 billion).

in January 2023 as part of the Tax Reform for Acceleration and Inclusion, helped spur consumer spending, investments, and savings.[26]

In end-June 2023, the number of PERA contributors reached 5,402. Total contributions also surged to ₱368.0 million. However, the 15.9-percent growth in the number of PERA contributors was lower compared to the 28.1-percent increase recorded a year ago. In contrast, PERA contributions displayed a higher growth of 30.0 percent than the 26.3 percent posted in end-June 2022. The heightened interest in PERA among Filipinos can be ascribed to the BSP's proactive efforts in raising public awareness and making PERA more accessible through online platforms.

As shown in *Table 1*, employed individuals comprised 70.7 percent (3,817) of PERA contributors and held the largest share of contributions at 68.8 percent (₱253.3 million). Despite having a smaller contributor base of 754, overseas Filipino workers (OFWs) provided around a 17.6 percent share (₱64.9 million) of total PERA contributions, surpassing self-employed contributors.

Table 1
Outstanding Personal Equity and Retirement Account Contributors and Contributions
as of end-periods indicated; in million pesos; growth rates in percent

	end-June 2023		end-June 2022		y-o-y Growth Rate	
Type of Contributors	**No. of Contributors**	**Total Contribution**	**No. of Contributors**	**Total Contribution**	**No. of Contributors**	**Total Contribution**
Employee	3,817	253.3	3280	190.7	16.4%	32.8%
OFW	754	64.9	666	53.1	13.2%	22.1%
Self-employed	831	49.8	714	39.3	16.4%	26.7%
Total	**5,402**	**368.0**	**4,660**	**283.2**	**15.9%**	**30.0%**

Source: BSP PERA-Technical Working Group (TWG)

The importance of continuous financial education, especially on savings and investments, plays a pivotal role in further promoting PERA and maintaining its growth trajectory. In parallel, the BSP implemented a series of reforms, which included an increase in the annual PERA contribution limit across all types of contributors and the removal of the basic security deposit for the faithful performance of duties of a PERA administrator. These measures aim to encourage more Filipinos and FIs to participate in the PERA ecosystem. Other plans in the pipeline are (1) the expansion of the PERA ecosystem by allowing electronic money issuers to participate as administrators and (2) the development of comprehensive information materials to address common inquiries on the availment and utilization of tax credit certificates, thus promoting efficiency.

The BSP is committed to collaborating with PERA stakeholders and partner agencies to extend the reach of potential contributors across different segments of the population.[27] Through these collective efforts and by raising awareness on the long-term benefits of retirement savings and associated incentives among Filipinos, the BSP is confident that PERA will sustain its growth momentum.[28]

[26] Source: PERA-TWG
[27] This may include young professionals, practitioners, small businesses, and low-income communities.
[28] The associated incentives include exemption from final withholding tax, capital gains tax, and regular income tax as well as the eligibility of PERA investments to a 5.0-percent tax credit on contributions for the year, which may be used to pay or cover part of the contributor's annual income tax.

NET PROFIT DECLINED AMID HIGHER OPERATING COST

For the period ended-June 2023, net profit amounted to ₱3.6 billion and recorded a 4.5-percent drop. The decline was mainly due to higher trust expenses, particularly employee wages and benefits and other expenses, both of which recorded double-digit growth rates that outpaced the 9.8-percent increase in trust income. The rise in expenses was largely on account of operational requirements and technological advancements to help TEs remain competitive.[29] However, these expenses were offset by the 6.9-percent increase in fees and commission income to ₱7.3 billion. Fees and commission income accounted for 93.5 percent of the total trust income, which was mostly sourced from agency accounts (44.0 percent share, ₱3.2 billion) and trust accounts (50.8 percent share, ₱3.7 billion).

The higher operating expenses vis-a-vis total income weakened the efficiency ratio of the industry to 53.7 percent from 46.7 percent recorded for the same period a year ago.[30]

[29] Source: TOAP

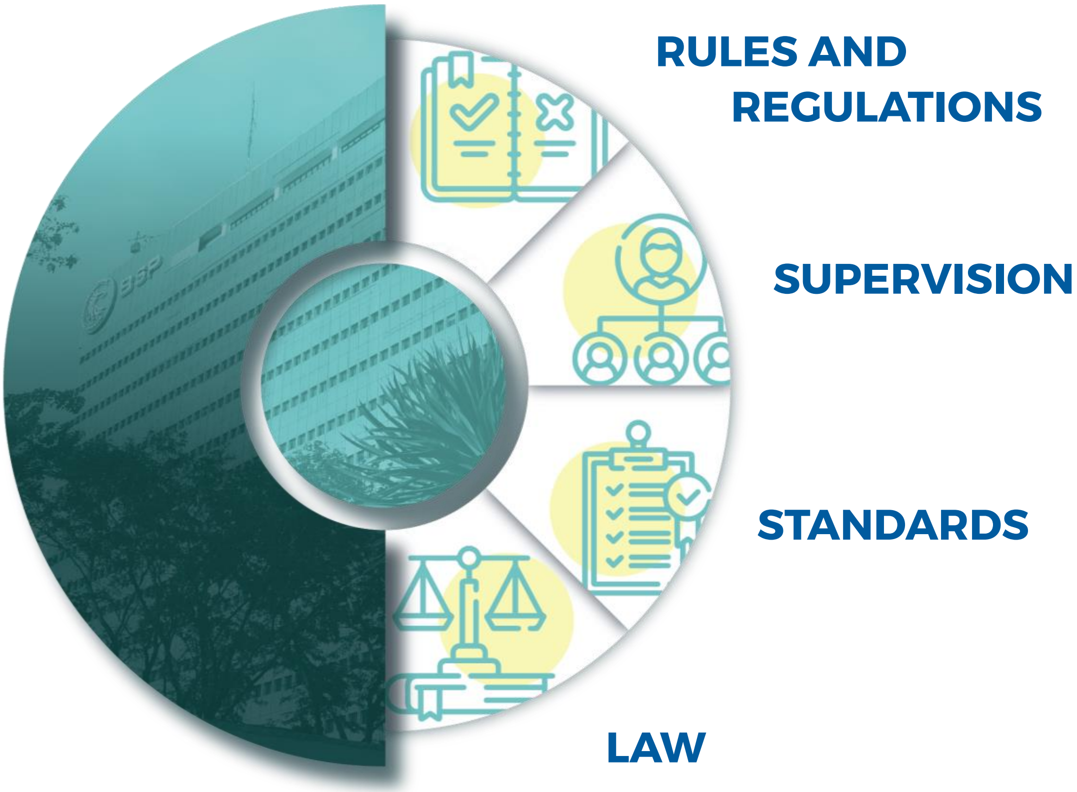
[30] Efficiency ratio measures the ability of the bank to generate income using its assets. It is measured as total expenses as a percentage of total revenue.

POLICY REFORM AGENDA

OVERVIEW

Like refining gold with fire, the Bangko Sentral ng Pilipinas (BSP) pursues forward-looking regulations, policies, and supervisory guidelines while building meaningful collaborations with stakeholders. These efforts are aligned with the goals of:

(1) ensuring that BSP-supervised financial institutions (BSFIs) develop operational resilience, enabling them to continuously deliver financial products and services even through disruptions;
(2) advancing digitalization and prudent innovation in the financial system and utilizing technologies to further enhance the BSP's surveillance systems and supervisory processes; and
(3) promoting an inclusive and sustainable financial ecosystem through financial inclusion and the sustainability agenda.



Refining for gold standards: The BSP's policy reforms and ongoing advocacies

The BSP remains steadfast in its pursuit of crucial policy reforms that promote the sustained safety and soundness of the financial system, ultimately resulting in balanced, equitable, and sustainable economic growth. Complementary to this, the BSP—a central bank that places public good at its core—champions innovative programs and advocacies aimed at bringing the institution closer to the Filipino people.

To **ensure institutional stability**, the BSP enhances the operational resilience of BSFIs. This is achieved by maintaining high standards of conduct and implementing strong risk management in BSFIs.

In hindsight, Philippine banks were well prepared when the COVID-19 pandemic hit the financial system. Sound risk governance and compliance with prudential limits and requirements, including the Basel III reforms on capital and liquidity standards, helped banks remain strong and able to deliver financial services and products amid the crisis.

Recognizing the increasingly complex and interconnected nature of risks, the BSP continues to improve its supervisory and regulatory frameworks. Managing these risks necessitates a calibrated and proactive approach to shaping a future-ready financial system. As such, the BSP consistently refines its frameworks, policies, and existing regulations to ensure that emerging risks and vulnerabilities in the banking environment are identified, monitored, and appropriately addressed.

For the first half of 2023, key regulations on certain bank operations were amended. The credit exposure limit to a single borrower was revised to provide banks with flexibility in utilizing credit risk mitigation techniques. The definition of regulatory capital was also changed to provide banks more options to raise their capital. Collectively, these policies enable banks to prudently expand their lending and investment activities, in line with the growth of the economy.[1]

To relieve the pressure caused by externalities from global developments on the foreign exchange (FX) spot market, the BSP further liberalized its currency hedging facility for easier access and expanded coverage. Eligible transactions under the enhanced Currency Rate Risk Protection Program (CRPP) now include BSP-approved private and public sector foreign currency borrowings, foreign merchandise trade transactions, non-trade account and resident-to-resident FX transactions, and outward investments.[2,3]

Cooperation among financial sector regulators was reinforced to strengthen the supervision of financial conglomerates in the country.[4] *Box Article 1* discusses the establishment of a supervisory college, which serves as an important avenue for Philippine financial sector authorities to identify emerging risks and develop coordinated supervisory plans.

The BSP's risk-based anti-money laundering/terrorist financing/proliferation financing (AML/TF/PF) framework also supported the sustained soundness and resilience of the financial system. BSFIs generally adopted prudent customer due diligence and transaction monitoring to effectively manage risks arising from ML/TF/PF. Meanwhile, the BSP strongly backed legislative measures that facilitate national and international efforts to strengthen

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1 Circular No. 1164 dated 05 January 2023 (Amendments to the Regulations on Credit Exposure Limits to a Single Borrower and Definition of Capital)

2 Circular No. 1172 dated 18 April 2023 (Amendments to the Currency Rate Risk Protection Program Facility and its Implementing Guidelines)

3 The CRPP is a continuing facility that offers a non-deliverable dollar/peso forward contract between the BSP and a universal and commercial bank in response to the request of bank clients who wish to hedge their eligible foreign currency obligations/transactions.

4 The Financial Sector Forum (FSF) concluded its second interagency cross-sectoral supervisory college in March 2023. Meanwhile, the third interagency cross-sectoral supervisory college for financial conglomerates commenced last June 2023 and is expected to be completed by the first half of 2024. The FSF is a voluntary interagency body made up of the BSP, the Securities and Exchange Commission, the Insurance Commission, and the Philippine Deposit Insurance Corporation.

the AML/TF/PF landscape and improve the detection and combat of cases. Among these is the enactment of the amendments to the Bank Secrecy Law, which aim to address the need for a more transparent financial environment while ensuring ample safeguards to protect bank depositors from unwarranted intrusion. The early passage of the Bank Deposits Secrecy bill will help the Philippines exit from the Financial Action Task Force Grey List.

Internally, the BSP leveraged supervisory technology (SupTech) solutions by digitizing its reporting, analytics, and regulatory processes, resulting in more efficient and proactive monitoring of risks in supervised institutions. For instance, the BSP has adopted initiatives to efficiently gather and process information from BSFIs, which include migration to the Application Programming Interface (API)-based prudential report submission[5] and implementation of Comprehensive Credit and Equity Exposures Report (COCREE).[6] *Box Article 2* discusses the COCREE as the BSP's initiative to gain more information about the credit risk exposures and improve assessment of the BSFI's credit and risk profile.

Recently, the BSP published its first set of statistics, as of June 2023, using the Extensible Markup Language (XML) format submitted through the newly launched API-XML Reporting Platform.[7] This new approach to prudential reporting is part of the BSP's thrust to modernize reporting governance among BSFIs. *Box Article 3* presents the API-XML journey of the BSP, including its creation, deployment, stakeholder engagement, and successful launch. In addition, the BSP established the visualization tool for analytics or the business intelligence dashboards. All these initiatives are geared toward the efficient and effective gathering and processing of BSFI information to support the conduct of effective supervision.

BSP's data-driven supervision is complemented by surveillance mechanisms that use forward-looking indicators and stress testing exercises. *Box Article 4* discusses refinements adopted in the reverse stress test conducted by the central bank.

As a pillar in **promoting and enabling prudent innovation**, the BSP is taking a proactive stance in leading digital transformation while ensuring that the system remains secure and resilient. Building on the Digital Payments Transformation Roadmap, the BSP revised its Open Finance Roadmap to outline the priority actions in establishing an open finance ecosystem. The recent launch of the Open Finance PH Pilot marked the next phase of this initiative in the country.

The BSP then formalized its test-and-learn approach through the Regulatory Sandbox Framework. The framework allows BSFIs, their third-party service providers, and new industry players to offer financial products and services using innovative technology to a limited number of customers in a controlled environment. As of July 2023, the BSP received six regulatory sandbox applications that aim to use blockchain technology, decentralized ledger technology, or APIs in business activities related to e-money, virtual asset services, and pawnshop activities. *Box Article 5* provides further details on the framework and its benefits as a supervisory tool.

Meantime, the use of e-wallets,[8] a byproduct of the BSP's test-and-learn approach, sharply climbed in the past years. This was due to the need for contactless transactions at the height

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[5] Circular No. 1177 dated 12 July 2023 and BSP Memorandum No. M-2023-004 dated 20 February 2023 (Submission of Prudential Reports Using Extensible Mark-up Language [XML] format through Application Programming Interface [API]).

[6] Memorandum No. M-2022-033 dated 05 August 2022 (Updated Comprehensive Credit and Equity Exposures Report Package)

[7] Circular No. 1177 dated 12 July 2023 and Memorandum No. M-2023-004 dated 20 February 2023 (Submission of Prudential Reports Using Extensible Markup Language Format through Application Programming Interface)

[8] As of June 2023, transactions made through InstaPay and the Philippine Electronic Fund Transfer System and Operations Network (PESONet) grew, boosting payments data. The combined value of InstaPay and PESONet transactions rose by 26.0 percent, aggregating ₱1.0 trillion from ₱832.3 billion in the same period a year ago. In terms of volume, total transactions recorded a higher growth rate of 50.7 percent to reach 76.2 million from 50.6 million last year.

of the pandemic. To further promote the use of technology, the BSP eased the regulations on retail deposits by introducing the expectations on electronic know-your-customer.[9]

Recognizing the fast-evolving and sophisticated cybersecurity threats that come with financial technologies (FinTechs),[10] the BSP developed a Cybersecurity Roadmap. The roadmap focuses on capacity building, collaborative engagements, and continuing policy framework and supervisory enhancements. E-money regulations were also updated to strengthen the capital and liquidity position of electronic money issuers (EMIs), thus, reinforcing their ability to service clients.[11]

The BSP operationalized the Advanced SupTech Engine for Risk-Based Compliance (ASTERisC*), a unified regulatory and supervisory technology solution. ASTERisC* enables seamless regulatory supervision, reporting, and compliance assessment of BSFIs' cybersecurity risk management processes. Armed with ASTERisC*, the BSP can implement swift, coordinated, and intelligence-led enforcement and supervisory actions as well as pursue meaningful reforms toward cyber-resilience.

As an **enabler of the sustainability agenda**, the BSP is a forerunner in the country's transition to a low-carbon, climate-resilient, and sustainable economy. The BSP creates an enabling framework that encourages BSFIs to mobilize funds for green or sustainable projects and activities. Considering the rapidly evolving and multi-dimensional nature of sustainable finance, the BSP took a phased approach in the issuance of regulations to strengthen banks' response to managing environmental and social risks and financing green or sustainable projects. Meanwhile, the 11-point Sustainable Central Banking (SCB) Program includes the development of a task force for inclusive green finance as one of the BSP's key initiatives., Building on its work as a member of the Alliance for Financial Inclusion's working group on Inclusive Green Finance, the BSP will continue to study how it can best help promote inclusive green finance in the Philippines.

On another note, the BSP modified the minimum capitalization requirement for conventional banks with Islamic banking units (IBUs)[12]. The guidelines allow conventional commercial banks (KBs) or subsidiary banks of a universal bank or KB, which meet the minimum capital requirement for their respective banking category, to operate an IBU within a transitory period not exceeding five years. This move aims to incentivize conventional banks to test, explore and develop the market for Islamic banking products and services while ensuring that prudential safeguards are in place to support the mass entry of Islamic banking players. *Box Article 6* highlights the need for parallel initiatives to develop a vibrant domestic Islamic capital market that will supplement the growth of Islamic banking and finance in the country.

On retail investments, the BSP liberalized the guidelines on the Personal Equity and Retirement Account (PERA).[13] This move is intended to promote the participation of BSFIs in the PERA ecosystem and encourage more Filipinos to invest. The success of these initiatives shall strengthen financial resilience and boost long-term capital in the country.

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[9] Circular No. 1170 dated 30 March 2023 (Amendments to Section 921/921Q of the Manual of Regulations for Banks/Manual of Regulations for Non-Bank Financial Institutions on Customer Due Diligence, including Guidelines on Electronic Know-Your-Customer)

[10] The BSP's regulatory ambit on FinTechs extends to institutions whose activities fall within the definition of the following categories: (1) EMIs, (2) virtual asset service providers, (3) operators of payments systems, and (4) remittance platform providers.

[11] Circular No. 1166 dated 07 February 2023 (Amendments to the Regulations on Electronic Money and the Operations of Electronic Money Issuers in the Philippines)

[12] Circular No. 1173 dated 19 April 2023 (Modified Minimum Capitalization of Conventional Banks with Islamic Banking Unit)

[13] Circular No. 1168 dated 21 February 2023 (Amendments to the Regulations on Personal Equity and Retirement Account)

Backed with the hammer and anvil: The BSP's supervisory priorities

The BSP is resolute in ensuring that the Philippine banking system operates safely and soundly amid rising challenges posed by economic disruptions in the global economy. Thus, its overarching policy reform agenda is directed at (1) ensuring institutional stability, (2) promoting and enabling prudent innovation, and (3) advancing sustainability in the financial system. All these are geared toward a digital, sustainable, and inclusive banking future.

Strengthening Financial Conglomerate Supervision in the Philippines through the Establishment of Supervisory College

Box Article 1

The Financial Sector Forum (FSF), comprised of the Bangko Sentral ng Pilipinas (BSP), the Securities and Exchange Commission (SEC), the Insurance Commission (IC), and the Philippine Deposit Insurance Corporation (PDIC), was formed with the primary goal of creating a structured framework to coordinate the supervision and regulation of the financial system. It also serves as a platform for the agencies to share updates on industry developments and discuss potential issues that could impact the financial system.

Recognizing the need for better coordination to enhance the supervision of financial institutions and conglomerates, the FSF agreed to adopt a framework for establishing a Supervisory College. This College is an important regulatory platform to facilitate collaboration and coordination between and among the FSF member agencies, specifically for supervising financial conglomerates in the Philippines. The FSF signed a Memorandum of Understanding (MOU) in January 2022, solidifying the establishment of the Supervisory College, supplemented by implementing guidelines signed in December 2022.

A financial conglomerate refers to a group of entities under common control or influence that engage in significant financial activities in at least two regulated banking, securities, or insurance sectors that the FSF member agencies licensed under their respective laws to operate.[1] Financial conglomerates remain dominant forces in our financial system, accumulating significant assets, offering diverse products and services, and becoming prominent participants in the financial services market. While their broad service delivery approach has advantages, operating conglomerates also entail risks to the financial system, necessitating effective, efficient, and coordinated oversight across the FSF member agencies.

The Supervisory College is a significant undertaking that enables FSF member agencies to holistically assess the impact of emerging risks, both financial and non-financial, in financial conglomerates and adopt harmonized supervisory responses pursuant to their mandate of promoting financial stability.[2]

A Supervisory College is envisioned to be established for each identified financial conglomerate. Each Supervisory College, composed of members designated by each agency who directly supervises the entities under each financial conglomerate, is tasked to carry out the objectives of the MOU, including the risk assessment of each financial conglomerate. Meanwhile, College Supervisors are responsible for assessing the overall governance of the financial conglomerate, including the ultimate parent company, as well as the impact of contagion, leverage, concentration, liquidity, and

[1] As defined under the Implementing Guidelines of the MOU on the Establishment of Supervisory College for Financial Conglomerate Supervision

[2] Section 3 of Republic Act (RA) No. 7653, as amended by RA No. 11211, states that "The BSP shall promote financial stability and closely work with the National Government, including, but not limited to, the Department of Finance, the SEC, the IC, and the PDIC.

other significant risks on the safety and soundness of the financial conglomerate. They are expected to design a supervisory plan to address emerging systemic or significant risks and conduct continuing surveillance of the financial conglomerate.

There are 12 financial conglomerates engaged in banking activities. A Supervisory College shall be conducted for one financial conglomerate per semester. To date, three Supervisory Colleges have already been completed. A pilot run was conducted from April to August 2022, while the results of the second College were reported in the February 2023 FSF meeting. The outcome of the third Supervisory College that commenced in June 2023 is expected to be reported to FSF by the first quarter of 2024. Over the next five years, the College aims to cover the remaining nine financial conglomerates.

A training program was developed and implemented to equip College members with the knowledge, competency, and skills needed for effective and efficient supervision of financial conglomerates. This program facilitates discussions on relevant topics and encourages the sharing of technical expertise among regulatory agencies. A total of eight training sessions have already been successfully conducted in relation to this program.

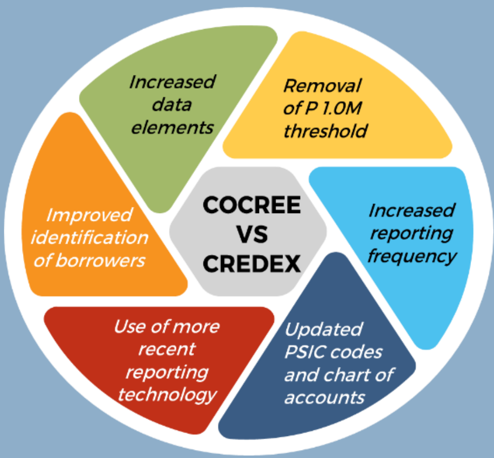
Strengthening Supervision: The COCREE Initiative

Box Article 2

Recognizing the significance of granular data in the surveillance of emerging risks in supervised entities and the financial system, the Bangko Sentral ng Pilipinas (BSP) enhanced its collection of credit and equity exposures from BSP-supervised financial institutions (BSFIs). Before the enhancement, access to these exposures was through the submission of a prudential report called the **CREDEX**,[1] which was adopted in 2003.

Considering that the CREDEX remained structurally the same for almost two decades, it can no longer adequately support the BSP's data requirements for responsive supervision, insightful research, and empirically based policy development. Notable gaps include limited data elements, particularly the lack of granularity for model building and assessing credit profiles, as well as deficiencies in adequate identifiers to properly match exposures of a unique borrower under a single entity view. Since the CREDEX is confined to exposures with outstanding balances of ₱1.0 million and above, it cannot capture granular micro, small, and medium-sized enterprise and consumer lending information. Moreover, the industry classification codes and financial account titles used in the CREDEX need to be updated to align with the 2009 Philippine Standard Industrial Classification (PSIC) and the Philippine Financial Reporting Standards, respectively.

These critical gaps were addressed with the implementation of the enhanced report, known as the Comprehensive Credit and Equity Exposures Report (**COCREE**).[2]

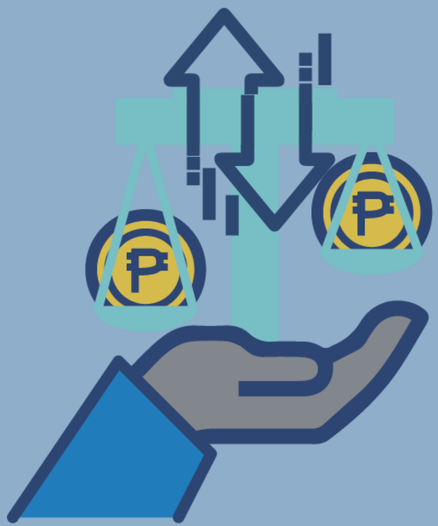


From only 35 data points in the CREDEX, the COCREE facilitated an expanded scope of 85 data points. It also provided more granular information to support on-site examination and off-site surveillance activities, including enriched forward-looking stress testing and scenario analysis, both on a micro and macro level. Consequently, insights gathered are expected to strengthen the formulation of data-driven policies.

All credit and equity exposures, except written-off accounts with nominal value, are required to be reported in the COCREE. This allows the BSP to conduct an in-depth analysis of borrower performance and behavior, including the portfolio of retail consumers and micro and small borrowers that were excluded from the CREDEX. The increase in data elements, specifically the identifiers, also improved the capability of the BSP to distinguish one borrower from another.

Other than shifting to a more recent and frequent cycle of monthly submissions, compared with the quarterly cycle for the CREDEX, and adopting the updated PSIC codes and chart of accounts, the electronic submission of the COCREE prescribes the use of the Extensible Markup Language or XML platform. This platform is a more recent technology

[1] CREDEX is also known as the "Report on Credit and Equity Exposures to Individuals/Companies/Groups aggregating ₱1.0 million and above."
[2] Pursuant to Circular No. 1131 dated 13 December 2021



capable of efficiently processing voluminous and large data compilations relative to the outdated .dbf structure prescribed for the CREDEX.

The reporting coverage of the COCREE caters to universal and commercial banks (UKBs), their subsidiary thrift banks (TBs), non-banks with quasi-banking functions (NBQBs), trust corporations (TCs), and digital banks. This scope is similar to the CREDEX, where the requirement to submit generally applies to the larger institutions that are technologically capable of electronically compiling their credit data for submission.

Since the COCREE requires the submission of an expanded set of granular data using new technology, covered BSFIs were given the opportunity to familiarize themselves with the new reporting requirement. A pilot testing of submissions to the BSP was implemented before the maiden submission became live beginning with the end-June 2022 reporting period.

With the implementation of the COCREE, the BSP now has a stable monthly compilation of granular credit and equity exposures of its large supervised entities. To date, the BSP compiles a monthly average of 31.7 million records, composed of granular borrower demographics (11.3 million records) and credit and equity exposure details (20.4 million records) of reporting BSFIs, which account for over 95 percent of the outstanding loan portfolio of the banking system.

Core data from the COCREE supports the Credit Exposures Dashboard (CREED) of the BSP's Financial Supervision Sector. CREED is an online dynamic credit risk surveillance dashboard that was internally designed and developed by the central bank's Credit Reporting System Unit in collaboration with the Technology and Digital Innovation Office using dynamic visualization tools, like Power BI. Through CREED, authorized supervisors can delve into details and analyze the loan performance of borrowers across supervised institutions and varying demographics over time, in conformity with data privacy and security rules and protocols. Aligned with the BSP's digital transformation strategy, CREED also complements the use of technology-driven supervisory tools, or SupTech, in the conduct of day-to-day surveillance activities.

Efforts to expand the COCREE are ongoing. In terms of scope, the data points will increase from 85 to 164 to incorporate other relevant supplemental details. Meanwhile, covered institutions will widen to include all banks, NBQBs, and TCs. Data capture will also expand, with added coverage of smaller institutions, such as rural banks and stand-alone TBs, NBQBS, and TCs.

The draft BSP Circular on the expanded COCREE of 2023, known as COCREE 2.0, and its new reporting package have been both exposed to the industry for comments and is targeted to be endorsed for approval of the Monetary Board in early Q4 2023.[3]

[3] The exposure period of the draft Circular along with the reporting package ran until 19 September 2023.

Responding to the Challenge of Modernization: The BSP API-XML Journey

Box Article 3

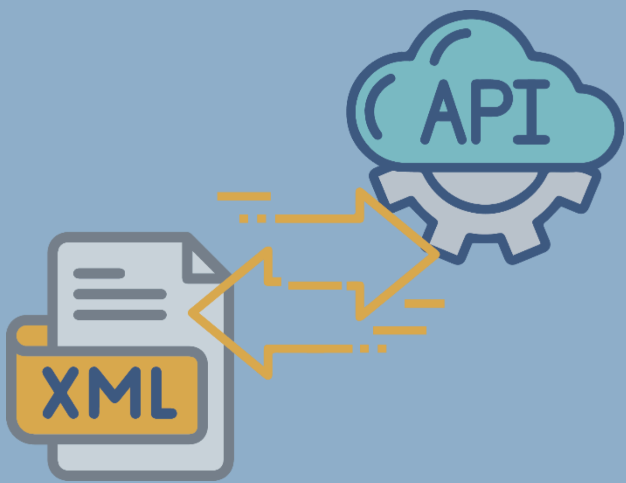
As the financial ecosystem becomes increasingly digital, regulators recognize the pivotal role of technological innovations in effectively delivering their mandates. Supervisory Technology (SupTech) initiatives have taken shape globally in the last few years, and further acceleration in their development is anticipated. The same scenario can be said in the Philippines, and a clear testament to this is the successful launch of the Bangko Sentral ng Pilipinas' (BSP) Prudential Reporting Innovation and Monitoring Engine or PRIME.

The PRIME

PRIME is the BSP's initiative through the Financial Supervision Sector to redefine and transform data aggregation and validation by combining the capabilities of the Application Programming Interface (API) and the Extensible Markup Language (XML) approach. The API is a set of defined rules that enable different applications to communicate with each other. It serves as an intermediary layer for data transfers across systems, allowing institutions to offer their data application and functionality to internal and external users. This machine-to-machine transmission is a versatile method for creating information formats and allows the electronic transfer and exchange of structured data via private networks and public connections.[1] XML is an extensively used text-based format for sharing data between programs, systems, computers, individuals, and an organization's internal and external networks. API and XML are foundational technologies in the BSP's reporting governance process.[2]

The PRIME Journey

The concept behind PRIME started in 2018 when the BSP received a grant to test and develop SupTech prototypes from RegTech for Regulators Accelerator (R2A), a program funded under the Bankable Frontier Associates. R2A is an initiative focusing on pioneering innovative SupTech applications to address regulation, supervision, and policy analysis challenges. R2A and BSP partnered with Compliant Risk Technology, a solutions company from Croatia, to develop the said prototype.



The prototype initially involved two pilot banks as proof of concept with a successful turnover in June 2018, followed by the development of analytical outputs for financial surveillance. Due to growing interest from various banking community members to be part of the pilot program, the project was expanded to include 20 additional banks from February to July 2019. Out of the pool of pilot bank participants, 10 successfully submitted

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1 What is an application programming interface (API)? (n.d.). IBM - United States. https://www.ibm.com/topics/api
2 What is XML (Extensible Markup Language)? (2021, October 19). WhatIs.com. https://www.techtarget.com/whatis/definition/XML-Extensible-Markup-Language

their prudential reports through API using XML format. Following the pilot run's success and clear potential, the Monetary Board approved the API-XML reporting project's full implementation.

Development of the PRIME was completed in December 2022. After that, a six-month-long parallel run with banks was conducted to prepare them for the live implementation, beginning with the June 2023 report. The live implementation was also marked by the transition of the Financial Reporting Package from version 14.5 to version 15, which further aligned the said reporting package and related reports with the International Financial Reporting Standards and other BSP supervisory requirements.

The PRIME Benefits

The PRIME benefits the BSP, the BSP-supervised financial institutions (BSFI), and other stakeholders. With PRIME, reporting compliance has become easier. Through the machine-to-machine exchange coupled with a highly flexible format, 17 major Excel-based reports with over 300 schedules in varying complexity were restructured into a single XML file. Data duplications and calculated fields were eliminated from the data points collected, resulting in a more straightforward and simplified reporting process. The XML also provides an efficient method of updating file formats, especially when new data needs to be collected or when certain reports are to be discontinued.

Another impressive improvement is in the processing of prudential reports. Validation of XML files would now take less than a minute. Consequently, industry statistics can be generated expeditiously, enabling access to up-to-date information for financial surveillance and data-driven decision-making.

The new reporting approach also empowers business users to create and implement their reporting systems to meet varied business requirements without the assistance of professional programmers. The flexibility, accuracy, and efficiency of this system's features support future reporting enhancements and transformations.

Lastly, the machine-to-machine setup ensures that business systems communicate autonomously without manual intervention, thereby reducing or eliminating data breaches and leakage caused by human errors. Security layers were added, such as the use of digital certificates, to ensure protection and confidentiality of data.

The PRIME Future

More enhancements to the PRIME are being developed to make it more relevant. Aside from migrating other prudential reports to the PRIME and further rationalization of data or reports collected, visualization tools are being considered as additional capabilities of PRIME to facilitate interrelating data to find better and timely insights. Additionally, a shift of data flow models from a "data push" to a "data pull" approach is envisioned. This will ultimately pave the way for a more granular and detailed transaction reporting method. These improvements and other upcoming Regulatory Technology and Supervisory Technology initiatives are envisaged to help create an ecosystem where: (1) regulators such as the BSP can readily access data for more proactive supervision, (2) supervised institutions can simplify and streamline their reporting compliance, and (3) stakeholders can have access to more timely and valuable information.

Indeed, with PRIME, the BSP opens opportunities that promise an exciting future of financial supervision. It is only one of the many efforts to ensure a future ready BSP.

Identifying Hidden Banking System Vulnerabilities: A Simple Reverse Stress Testing Approach

Box Article 4

The failure of the United States (US)-based Silicon Valley Bank and other US banking institutions (i.e., Signature Bank and First Republic Bank) in early March 2023, as well as the emergency rescue of Credit Suisse by Union Bank of Switzerland because of solvency and liquidity problems and miscalculation of risk, emphasize the integral role of stress testing in banks' risk management and banking supervision. Federal Reserve Vice Chair Michael Barr[1] has suggested moving beyond evaluating the potential effects of adverse risk scenarios that affect a bank's financial position and using Reverse Stress Testing to identify the factors that could lead to an institution's failure and its systemic impact on the banking system.[2]

Stress testing assesses banks' potential losses and capital reduction under a set of scenarios based on macroeconomic projections. In contrast, reverse stress testing involves a focused assessment that measures how much a bank's existing condition must change for a predetermined adverse outcome.[3] Additionally, reverse stress tests are relevant during ongoing crises like the COVID-19 pandemic, where uncertainties in data reliability are pronounced.[4,5]

The Reverse Stress Test conducted by the BSP's Financial Supervision Sector focuses on credit risk. It quantifies the increase in non-performing loans (NPLs) needed to bring a bank's capital adequacy ratio (CAR) down to the regulatory minimum. Based on a balance sheet approach by the ASEAN+3 Macroeconomic Research Office (AMRO)[6], this test expresses the NPL increase as a percentage of performing loans. It impacts the CAR through provisioning, affecting both capital and risk-weighted assets. The combined NPL ratio, including existing and add-on NPLs, is the breakeven NPL ratio. Extending AMRO's reverse stress test framework further, Feyen and Mare's (2021) banking sector *resilience indicator*—Distance from Breakeven—is computed to determine the buffer in terms of bank loan quality before its CAR reaches the regulatory.

1 Yahoo Finance (2023, June 21). Yahoo Finance interview with Michael Barr, Federal Reserve Vice Chair of Supervision. Retrieved August 18, 2023, from https://finance.yahoo.com/news/federal-reserve-exploring-reverse-stress-testing-after-svb-collapse-feds-barr-says-185219692.html?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2xlLmNvbS8&guce_referrer_sig=AQAAANkENCWcQItdW5MfruNw-sTWjEf4na_F85-AgpNswn5UATeUTmC0yWcSndmsKzEU90Uaxx6qfLHCt0b9REeJ2jOuDNaAgpk1Y3sLLOruuASn_kiczTUu9bGd4GQ6AafCO53wY0a7nrF0bVI8R-Jp41jacKQgqSvnsDlGF97IfORy.

2 Basel Committee on Banking Supervision. (2015). Making supervisory stress tests more macroprudential: Considering liquidity and solvency interactions and systemic risk (BIS Working Paper 29). Retrieved August 18, 2023, from https://www.bis.org/bcbs/publ/wp29.pdf.

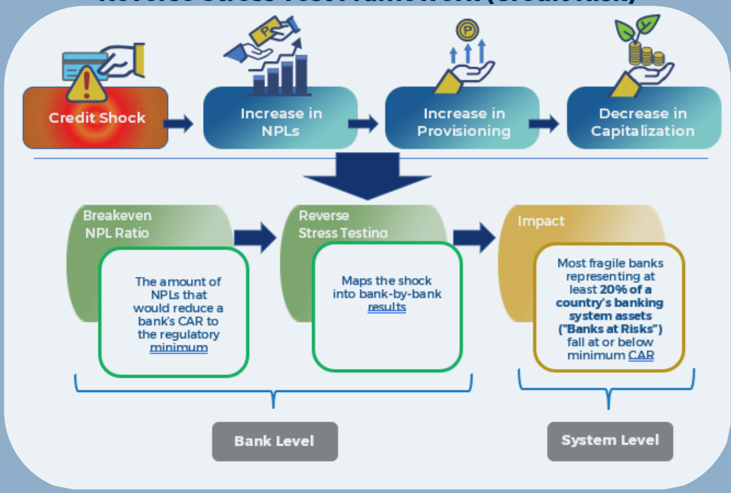
3 Basel Committee on Banking Supervision. (2009). Principles for sound stress testing practices and supervision. Retrieved August 18, 2023, from https://www.bis.org/publ/bcbs155.pdf

4 Feyen, E., & Mare, D. S. (2021). Measuring Systemic Banking Resilience: A Simple Reverse Stress Testing Approach (Policy Research Working Paper 9864). Washington, DC: World Bank. Retrieved August 18, 2023, from https://openknowledge.worldbank.org/server/api/core/bitstreams/eb32a9e8-7271-5c8f-a9d6-95cf9ce44456/content

5 Aymanns, C., Farmer, J. D., Kleinnijenhuis, A. M., & Wetzer, T. (2018). Handbook of Computational Economics. In C. Hommes & B. LeBaron (Eds.), Chapter 6—models of financial stability and their application in stress tests (Vol. 4, pp. 329–391). Elsevier.

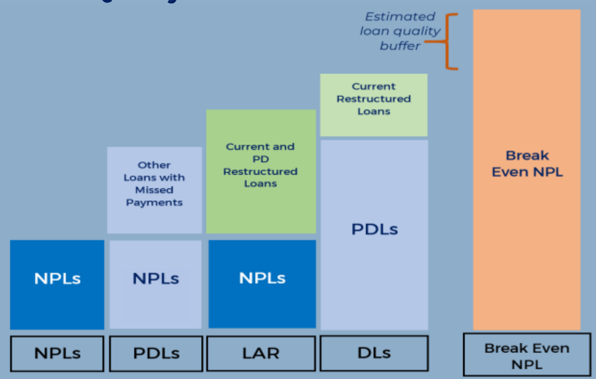
6 ASEAN+3 Macroeconomic Research Office (2021). Reverse Stress Test – Credit Risk: Overview and Template (Technical Note 21-01).

Figure 1
Reverse Stress Test Framework (Credit Risk)



threshold. Banks can be ranked based on this metric, with the most vulnerable having the smallest Distance from Breakeven. A subgroup called "*Banks at Risk*" is then formed by selecting the most vulnerable banks until their cumulative assets account for at least 20 percent of the total asset base of universal and commercial banks.[7] The cumulative NPL ratio of **identified "*Banks at Risk*"** indicates potential vulnerability to a banking crisis stemming from a credit shock. Laeven and Valencia (2013)[8] identified that a banking crisis is considered systemic when banks representing at least 20 percent of banking system assets collapse. *Figure 1* outlines the analysis flow for conducting a Reverse Stress Test.

Figure 2
Asset Quality Metrics vis-à-vis Break Even NPL



Comparing breakeven NPLs to other loan quality metrics such as Loans-at-Risk (LAR) and Distressed Loans (DLs) enhances our assessment of the banking sector's resilience to a credit shock. LAR and DLs capture loans with prior signs of weakness like missed payments and restructuring.[9] As a bank's DLs approach its breakeven NPL, it has a lower loan quality buffer, which may signal potential credit weakness in the bank (*Figure 2*).

[7] Feyen, E., & Mare, D. S. (2021). Measuring Systemic Banking Resilience: A Simple Reverse Stress Testing Approach (Policy Research Working Paper 9864). Washington, DC: World Bank. Retrieved August 18, 2023, from https://openknowledge.worldbank.org/server/api/core/bitstreams/eb32a9e8-7271-5c8f-a9d6-95cf9ce44456/content

[8] Laeven, L., & Valencia, F. (2013). Systemic Banking Crises Database: An Update (IMF Working Paper No. WP/12/163). Retrieved August 18, 2023, from https://www.imf.org/external/pubs/ft/wp/2012/wp12163.pdf.

[9] Loan-at-risk ratio refers to ratio of NPLs and performing restructured loans to gross total loan portfolio (TLP) while distressed loan ratio refers to ratio of past due loans and current restructured loans to gross TLP.

Overall, the Reverse Stress Test framework offers a simple, balance sheet-based tool to assess the ability of banks to withstand credit shocks. By comparing the NPL ratios and the breakeven NPL ratios of banks, we can identify the most vulnerable to a credit shock. Moreover, the banking system's vulnerability to a crisis can be estimated by defining a subset called "*Banks at Risk*." Lastly, forward-looking asset quality indicators such as the LAR and DLs complement the Reverse Stress Test framework by incorporating information on loans with missed payments and restructured loans while allowing a straightforward assessment of banks' vulnerability to credit shocks.[10] The adoption of the Reverse Stress Test framework is consistent with the BSP's thrust to continually strengthen and improve its surveillance toolkit to timely identify emerging risks in the banking system and implement corrective measures if warranted.

[10] Baudino, P., Goetschmann, R., Henry, J., Taniguchi, K., & Zhu, W. (2018). *Stress-testing banks —a comparative analysis* (FSI Insights on policy implementation No. 12). Retrieved August 18, 2023, from https://www.bis.org/fsi/publ/insights12.pdf.

Regulatory Sandbox Framework: Driving Responsible Innovation in Financial Services

Box Article 5

Aligned with the thrust of the Bangko Sentral ng Pilipinas (BSP) to foster an enabling regulatory environment for responsible innovation toward an inclusive digital financial ecosystem, the Regulatory Sandbox Framework was established through Circular No. 1153 in September 2022.[1] This framework institutionalizes the test-and-learn approach, which was adopted by the BSP in the early 2000s. The approach serves as the central bank's mechanism to explore the potential of game-changing technologies that support growth and development and bridge financial inclusion gaps in the Philippines.

The implementation of an industry sandbox for digital finance innovations is one of the strategic initiatives identified in the National Strategy for Financial Inclusion 2022–2028. This measure gives importance to the potential of digital technologies in facilitating the delivery of fit-for-purpose financial services to unserved and underserved communities.

WHAT IS A REGULATORY SANDBOX?

To begin with, how does the BSP distinguish its regulatory sandbox from the more commonly known "developer" sandbox? The regulatory sandbox and developer sandbox have the same purpose, which is to test the feasibility and public acceptance of products and services. While the latter focuses on innovating products and services and improving internal processes, the BSP's regulatory sandbox is intended for gaining insights that will lead to changes in policy approaches or the issuance of new regulations.

In terms of the controlled environment, tests in the developer sandbox are implemented through limited functionalities and customers as well as within the User Acceptance Test or pre-production environment. Meanwhile, tests in the regulatory sandbox are done with regulatory flexibility but maintain strict requirements for cybersecurity, consumer protection, and anti-money laundering controls. The use of the production environment is also allowed but only for limited implementation within a defined target market and a specific timeline.

With regard to oversight, experiments are internally driven and monitored in the developer sandbox. As such, the proponent does not need to update regulators on the progress and results of testing. For regulatory sandboxes, however, experiments are facilitated and monitored by the BSP, with regular check-in meetings between the central bank and the applicant or proponent. Activities in the regulatory sandbox may also be initiated by the BSP.

[1] Circular No. 1153 dated 05 September 2023 (Regulatory Sandbox Framework)

REGULATORY SANDBOX AS A SUPERVISORY TOOL

Through the **Regulatory Sandbox Framework**, the BSP fosters an enabling environment for responsible innovation. Among the unique opportunities for financial technology newcomers or incumbent financial institutions seeking to expand their reach in the Philippines via the regulatory sandbox include:

- reduced entry barriers for proponents with strong value propositions (e.g., regulatory flexibilities in licensing during the sandbox period, allowing to operate in a live but controlled environment);
- provision of an avenue for applicants or proponents to work closely with regulators and address the associated risks of their proposed products and services. Even during development, applicants or proponents may seek guidance and clarity on the regulatory course concerning the products and services they wish to offer; and
- benchmark services and risk management frameworks and practices with the requirements of the BSP.

To reinforce the implementation of the framework, specific governance guidelines and internal processes and procedures in handling regulatory sandbox applications and experiments were issued in July 2023. These intend to ensure that the execution of regulatory sandbox activities is performed effectively, covering the oversight structure, approving authorities, specific processes, and varying templates to be utilized for every application or experimentation.

As of date, the BSP has received six applications from both BSP-supervised financial institutions and non-supervised entities to undergo a sandbox implementation of their products and services. The proposed solutions are geared toward the use of diverse technologies—such as Robotics Process Automation, Decentralized Ledger Technologies, and Application Programming Interfaces, among others—in the areas of electronic money and virtual asset services. The BSP constantly engages with the applicants as further evaluations are conducted.

In hindsight, the Regulatory Sandbox Framework solidifies the collaborative undertaking between regulators and applicants. Having the framework in place enables prudent evaluation of innovative financial technologies before their full-scale implementation. This approach, coupled with continuing surveillance of the digital financial landscape, allows the BSP to identify areas for regulatory improvement, thus, supporting the development of evidence-based policies surrounding new financial products and services.

The Philippine Sukuk Footprint

Box Article 6

The passage of Republic Act No. 11439, or the Islamic Banking Law, in 2019 paved the way for the Bangko Sentral ng Pilipinas (BSP) to achieve significant strides in promoting Islamic banking and finance in the country. The BSP's journey has expanded from a collection of initiatives to the institution of relevant prudential regulatory reforms, the fostering of active stakeholder collaboration, the pursuit of continuous capacity building, and the conduct of innovative awareness campaigns. All these stemmed from a whole-of-government approach in developing the Philippine Islamic finance ecosystem—with the BSP at the helm.

Ultimately, the aim is a competitive, prudent, and broadly inclusive financial system. Instrumental to this goal is the expansion of complementary initiatives in the Islamic capital market and *takaful* (i.e., Islamic insurance) sectors, which can be achieved through mutual engagement. *Sukuk* growth is also an integral factor, given its features that address the increasing funding options for Islamic banks. With global trends in *sukuk* on the rise, following the health crisis, the country sees an opportunity to tap the new market.

For starters, *sukuk* is regarded as a primary growth driver in Islamic finance. Often called Islamic bonds, *sukuk* is defined under BSP regulations as certificates of equal value, representing undivided shares in the ownership of tangible assets, usufructs, and services or assets of particular projects or special investment activities undertaken in accordance with *Shari'ah* principles. According to the 2023 Islamic Financial Services Industry Stability Report of the Islamic Financial Services Board, *sukuk* (US$829.7 billion) continues to dominate the Islamic capital market segment, accounting for 25.6 percent of the US$3.2 trillion global Islamic financial services industry in 2022.[1] Though registering a lower year-on-year growth of 7.0 percent than the 12.5 percent recorded in 2021, *sukuk* markets fared well, outperforming global bond issuances that had an overall 12-percent decline in 2022. Notably, 50 percent of overall *sukuk* issuances are sovereigns, which may utilize them as a funding source or to refinance maturing debt or shore up foreign reserves. Meanwhile, the combined share of the government and the financial sector accounts for 86 percent of global *sukuk* issuances.

With the availability of a large variety of *sukuk* structures in the global capital market, it is widely recognized that *sukuk* complements the requirements and expansion of the Islamic banking industry.

Sukuk are generally named after the *Shari'ah* principle by which they are structured. They have notable features that distinguish them from conventional bonds.

[1] *Sukuk* comprises 85.9 percent of the global Islamic capital market.

Foremost, *sukuk* issuances must adhere to *Shari'ah* principles. They are structured to avoid prohibited elements such as interest (*riba*), uncertainty (*gharar*), and investments in businesses that deal with prohibited goods or services (*haram*). Moreover, at least, three parties are involved in a *sukuk* issuance: (1) the originator (obligor) of the *sukuk* and the owner of underlying assets; (2) the special purpose vehicle, which is the issuer of the *sukuk* certificates; and (3) the investors. This contrasts with conventional debt instruments, which only involve, at least, an issuer and investors.

In terms of ownership and risk sharing, holders of conventional bonds are merely holders of debt. Meanwhile, holders of *sukuk* may have either legal or beneficial ownership and rights over the underlying asset, depending on whether a *sukuk* is asset-based or asset-backed. Holders of asset-backed *sukuk* have legal ownership and recourse to the underlying assets or projects and share in the risks and rewards associated with these assets. On the other hand, only the beneficial ownership of the underlying asset is transferred to holders of *asset-based sukuk.* The originator keeps legal ownership of the underlying asset, and *sukuk* holders only have recourse to the originator (obligor).

As to the purpose of issuance, conventional bonds may be issued for a variety of general purposes. *Sukuk,* however, must be issued for purposes of financing a *Shari'ah*-compliant activity, project, business, or service, which may include government financing or other development purposes. On a positive note, *sukuk* offers an alternative source of financing and investment diversification in the country. It caters to the needs of various groups of investors—individuals and institutions alike, whether Muslim or non-Muslim—and issuers.

Opportunities from *sukuk* issuances for Islamic banks in the country are anticipated. Section 6-c of the Islamic Banking Law provides that Islamic banks are allowed, upon obtaining prior Monetary Board approval, to issue *sukuk* and other *Shari'ah*-compliant funding instruments for their operations or capital requirements. Other prudential policies covering *sukuk* issuances are still in the pipeline. The BSP and the Securities and Exchange Commission continuously coordinate in providing a relevant and responsive regulatory framework on *sukuk*.

With notable developments in the domestic Islamic banking ecosystem, the national government has taken initial steps to join the global Islamic capital market. This reflects the level of collaboration among member agencies under the then Interagency Working Group on Islamic Banking and Finance, which was reconstituted as the Islamic Finance Coordination Forum (IFCF) through BSP Office Order No. 1655 on 31 August 2022.[2] This also facilitated the issuances of favorable opinions by the Department of Justice, affirming that the Philippines can validly execute certain structures of *sukuk* under existing laws. Collectively, these initiatives support the shared goal of the BSP and the Bureau of the Treasury (BTr) to position the country in the global *sukuk* space.

[2] The IFCF is tasked to facilitate discussion, collaboration, and cooperation as well as coordinate regulatory and prudential policies among members on all matters related to the promotion and development of Islamic banking and finance.

In September 2023, the BSP joined the preliminary *sukuk* roadshows conducted by the BTr in the Middle East. This signifies the central bank's support to the plan of issuing the Philippines' maiden sovereign *sukuk* by year-end or in the first quarter of 2024,[3] which was bared in one of the Philippine Economic Briefings held in Dubai, United Arab Emirates on 12 September 2023. This initiative, among others, shall diversify the sources of financing for the government's budgetary and fiscal requirements and large infrastructure projects. The details of the *sukuk* structure—which may be a hybrid of contracts of *wakala* (agency), *ijara* (lease), or *murabahah* (cost-plus-markup sale), with possible tenor size ranging between 5 and 10 years—will be finalized through the engagement of the BTr with underwriters and *Shari'ah* consultants.

The forthcoming debut of the Philippines into the global *sukuk* market will mark an important footprint in the development of the country's Islamic capital market and finance ecosystem. This will send a strong signal that the Philippine economy is ready to accommodate Islamic finance investors and players. This will also generate the push for the domestic market to explore private *sukuk* issuances to boost the country's capital market. Moreover, the availability of sovereign *sukuk* will provide Islamic banking players with further means to manage their liquidity and investment requirements. With the government's confident stance to tap the benefits of *sukuk*, the BSP-led IFCF shall continue to steer collaborative undertakings to advance progressive initiatives on Islamic banking and finance and achieve its vision of establishing a sustainable, stable, and vibrant Islamic finance ecosystem in the country.

[3] Source: Jocson, L. C. (2023). PHL plans sukuk issue by yearend. BusinessWorld Online. https://www.bworldonline.com/top-stories/2023/09/13/545163/phl-plans-sukuk-issue-by-yearend

List of Appendices

Appendix 1

Philippine Banking System: Financial Highlights and Growth Rates

as of end-periods indicated; in billion pesos; growth rate in percent

Financial Highlights

	end-December			end-June	
	2020	2021	2022	2022	2023 [p/]
In Billion ₱					
Balance Sheet					
Total Assets [1]	19,457.1	20,828.1	23,047.7	21,347.0	23,295.4
Cash and due from banks	3,584.1	3,571.5	3,271.7	2,852.4	2,870.9
Investments, gross	4,307.8	5,221.0	6,207.5	6,047.8	6,602.7
Securities measured at fair value through profit or loss (FVTPL)	328.8	255.3	207.8	344.1	372.8
Securities measured at fair value through other comprehensive income (FVOCI)	2,061.7	2,337.5	2,194.8	2,330.1	2,265.9
Securities measured at amortized cost (AC)	1,917.2	2,628.2	3,804.9	3,373.6	3,964.0
Accumulated market gains/(losses)	40.4	(4.5)	(122.8)	(97.1)	(89.5)
Allowance for credit losses	19.5	20.7	17.7	20.7	17.8
Investments, net	4,328.7	5,195.9	6,066.9	5,930.0	6,495.5
Loans, gross	10,872.6	11,391.1	12,625.1	11,715.9	12,743.4
Allowance for credit losses	367.2	396.8	426.7	409.0	445.1
Loans, net	10,505.4	10,994.3	12,198.4	11,306.9	12,298.3
Equity investments in subsidiaries, associates and joint ventures, net	261.7	276.9	262.5	241.4	275.4
Real and other properties acquired (ROPA), net	92.7	95.9	104.3	99.7	102.3
Other assets, net	684.4	693.6	1,143.9	916.6	1,252.9
Total Liabilities	17,025.9	18,254.2	20,341.3	18,770.4	20,434.1
Financial liabilities held for trading	47.3	43.7	72.9	97.6	65.0
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-
Deposits liabilities	14,895.0	16,241.1	17,770.4	16,492.6	17,824.4
Peso liabilities	12,702.2	13,857.9	15,065.4	13,895.3	15,079.8
Foreign currency	2,192.8	2,383.2	2,704.9	2,597.3	2,744.6
Due to banks/others	171.2	181.9	114.4	96.1	46.2
Bills payable	558.2	496.9	666.0	481.4	669.4
Bonds payable	723.6	613.8	578.2	643.6	487.5
Unsecured subordinated debt	27.5	22.6	19.3	22.6	19.3
Redeemable preferred shares	0.2	0.2	0.3	0.3	0.3
Derivatives with negative fair value held for hedging	0.8	0.3	4.4	0.0	4.7
Other liabilities	602.2	653.5	1,115.6	936.2	1,317.3
Total Capital Accounts [2]	2,431.1	2,574.0	2,706.4	2,576.6	2,861.2
Income Statement					
Total operating income	893.3	869.4	1,014.5	471.3	552.4
Net interest income	674.2	661.8	754.7	354.3	437.8
Non-interest income	219.1	207.6	259.9	117.0	114.6
Non-interest expenses	491.5	512.4	562.4	266.9	309.7
Losses/recoveries on financial assets	(214.2)	(97.7)	(88.6)	(37.6)	(35.1)
Net profit before share in the profit/(loss) of unconsolidated subsidiaries, associates and joint ventures	187.6	259.3	363.5	166.8	207.6
Share in the profit/(loss) of unconsolidated subsidiaries, associates and joint ventures	11.9	20.7	23.8	11.3	14.1
Total profit/loss before tax and before minority interest	199.5	280.1	387.4	178.1	221.7
Total profit/loss after tax and before minority interest	155.2	224.8	310.1	143.1	182.8
Minority interest in profit/(loss) of subsidiaries	-	-	-	-	-
Net Profit/(Loss)	155.2	224.8	310.1	143.1	182.8
Year-on-Year Growth					
Total Assets [1]	6.1%	7.0%	10.7%	7.8%	9.1%
Cash and due from banks	27.8%	(0.4%)	(8.4%)	(18.9%)	0.6%
Investments, gross	15.4%	21.2%	18.9%	23.1%	9.2%
Loans, gross	(0.9%)	4.8%	10.8%	8.7%	8.8%
ROPA, net	(4.3%)	3.4%	8.8%	7.1%	2.6%
Other assets, net	7.2%	1.3%	64.9%	44.1%	36.7%
Total Liabilities	6.3%	7.2%	11.4%	8.5%	8.9%
Financial liabilities held for trading	35.0%	(7.5%)	66.7%	132.1%	(33.4%)
Financial liabilities DFVPL	-	-	-	-	-
Deposits liabilities	9.0%	9.0%	9.4%	7.5%	8.1%
Due to banks/others	(5.9%)	6.3%	(37.1%)	(43.8%)	(51.9%)
Bills payable	(35.6%)	(11.0%)	34.0%	12.2%	39.0%
Bonds payable	26.5%	(15.2%)	(5.8%)	(8.0%)	(24.3%)
Other liabilities	(5.9%)	8.5%	70.7%	58.7%	40.7%
Total Capital Accounts [2]	4.9%	5.9%	5.1%	2.7%	11.0%
Income Statement					
Total operating income	12.2%	(2.7%)	16.7%	4.3%	17.2%
Net interest income	11.4%	(1.8%)	14.0%	8.8%	23.6%
Non-interest income	14.7%	(5.3%)	25.2%	(7.3%)	(2.1%)
Non-interest expenses	1.7%	4.2%	9.8%	5.2%	16.0%
Losses/recoveries on financial assets	318.5%	(54.4%)	(9.3%)	(34.1%)	(6.7%)
Provision for credit losses on loans and other financial assets	300.1%	(49.7%)	(1.0%)	(26.7%)	(12.3%)
Bad debts written off	63.5%	18.0%	(68.3%)	(63.3%)	(83.9%)
Recovery on charged-off assets	(32.1%)	323.8%	17.6%	(2.8%)	(47.1%)
Net Profit/(Loss)	(32.7%)	44.8%	38.0%	16.7%	27.7%

[1] Adjusted to net off the account "Due from Head Office" with "Due to Head Office" of branches of foreign banks

[2] Inclusive of the portion of the "Net Due to Head Office" which qualified as capital

[p/] preliminary

Note: Figures may not add up due to rounding-off

Appendix 2

Philippine Banking System: Selected Performance Indicators

as of end-periods indicated; ratios in percent

	end-December			end-June	
	2020	2021	2022	2022	2023 p/
Profitability					
Earning asset yield [1]	4.8%	4.1%	4.4%	4.1%	5.3%
Funding cost [2]	1.1%	0.7%	0.9%	0.6%	1.5%
Interest spread [3]	3.7%	3.4%	3.5%	3.5%	3.8%
Net interest margin [4]	3.8%	3.5%	3.6%	3.5%	4.0%
Non-interest income to total operating income [5]	24.5%	23.9%	25.6%	22.3%	23.5%
Cost-to-income [6]	54.9%	58.7%	55.2%	58.9%	55.2%
Return on assets (RoA) [7]	0.8%	1.1%	1.4%	1.2%	1.6%
Return on equity (RoE) [7]	6.5%	9.0%	11.7%	9.6%	12.8%
Liquidity	0.0%	0.0%	0.0%	0.0%	0.0%
Cash and due from banks to deposits	24.1%	22.0%	18.4%	17.3%	16.1%
Liquid assets to deposits [8]	53.1%	54.0%	52.6%	53.3%	52.5%
Loans, gross to deposits	73.0%	70.1%	71.0%	71.0%	71.5%
Asset Quality	0.0%	0.0%	0.0%	0.0%	0.0%
Restructured loans to total loan portfolio (TLP)	1.9%	3.1%	2.6%	2.9%	2.5%
Allowance for credit losses (ACL) to TLP	3.4%	3.5%	3.4%	3.5%	3.5%
Gross non-performing loans (NPL) to TLP [NPL ratio]	3.6%	4.0%	3.2%	3.6%	3.4%
Net NPL to TLP	2.0%	2.1%	1.5%	1.8%	1.6%
NPL ratio (net of interbank loans receivable)	3.7%	4.1%	3.2%	3.7%	3.5%
NPL coverage ratio (ACL to gross NPL)	93.0%	87.7%	107.0%	97.1%	101.7%
Non-performing assets (NPA) to gross assets [NPA ratio]	2.6%	2.7%	2.2%	2.5%	2.4%
NPA coverage ratio (allowance on NPA to NPA)	78.5%	75.3%	87.9%	81.6%	85.3%
ROPA to gross assets ratio	0.6%	0.6%	0.5%	0.6%	0.5%
Capital Adequacy	0.0%	0.0%	0.0%	0.0%	
Total capital accounts to total assets [9]	12.5%	12.4%	11.7%	12.1%	12.3%
Capital adequacy ratio (CAR, solo) [10,11]	16.7%	16.7%	15.7%	16.2%	16.0%
Common equity tier 1 (CET1) ratio	15.5%	15.5%	14.6%	15.0%	14.9%
Capital conservation buffer	9.5%	9.5%	8.6%	9.0%	8.9%
Tier 1 ratio	15.7%	15.7%	14.8%	15.2%	15.1%
CAR (consolidated) [10,11]	17.2%	17.2%	16.3%	16.7%	16.6%
CET1 ratio	16.0%	16.0%	15.2%	15.6%	15.5%
Capital conservation buffer	10.0%	10.0%	9.2%	9.6%	9.5%
Tier 1 ratio	16.1%	16.2%	15.4%	15.8%	15.7%

[1] Earning asset yield refers to the ratio of interest income to average earning assets.
[2] Funding cost refers to the ratio of interest expenses to average interest-bearing liabilities.
[3] Interest spread refers to the difference between earning asset yield and funding cost.
[4] Net interest margin refers to the ratio of net interest income to average earning assets.
[5] Non-interest income includes dividends income.
[6] Cost-to-income ratio refers to the ratio of non-interest expenses to total operating income.
[7] RoA and RoE refer to the ratios of net profit to average assets and capital, respectively.
[8] Liquid assets refer to cash and due from banks plus financial assets, net of amortization (net of financial assets in equity securities).
[9] Total capital accounts includes redeemable preferred shares.
[10] Refers to the ratio of qualifying capital to total risk-weighted assets.
[11] CAR data are for universal and commercial banks and subsidiary banks and quasi-banks; excludes stand-alone thrift, rural and cooperative banks
p/ preliminary

Appendix 3

Philippine Banking Offices: Number of Offices and Regional Profile

as of end-periods indicated

	end-June 2023 p/						
	TOTAL	Universal Banks	Commercial Banks	Thrift Banks	Rural Banks	Cooperative Banks	Digital Banks
Total	**13,335**	**6,856**	**349**	**2,609**	**3,340**	**175**	**6**
Head Offices	**490**	**22**	**23**	**43**	**374**	**22**	**6**
Branches/Other Offices	**12,845**	**6,834**	**326**	**2,566**	**2,966**	**153**	-
Regular Branch	9,924	6,560	306	1,610	1,325	123	-
Branch-Lite Unit	2,730	238	20	941	1,501	30	-
Microfinance-Oriented Branch	155	-	-	15	140	-	-
Representative Office	18	18	-	-	-	-	-
Remittance Desk Office	14	14	-	-	-	-	-
Marketing Office	2	2	-	-	-	-	-
Limited Purpose Branch	1	1	-	-	-	-	-
Sub-Branch	1	1	-	-	-	-	-

		end-June 2022	end-June 2023 p/		
		TOTAL	TOTAL	Head Offices	Branches/ Other Offices
Total		**13,190**	**13,335**	**490**	**12,845**
Nationwide		**13,136**	**13,283**	**490**	**12,793**
National Capital Region (NCR)		**3,809**	**3,808**	**81**	**3,727**
Luzon		**5,521**	**5,600**	**263**	**5,337**
Region I	- Ilocos	678	682	30	652
Region II	- Cagayan Valley	485	493	27	466
Region III	- Central Luzon	1,358	1,380	67	1,313
Region IV-A	- CALABARZON	1,909	1,919	84	1,835
Region IV-B	- MIMAROPA	313	322	20	302
Region V	- Bicol	575	595	20	575
Cordillera Administrative Region		203	209	15	194
Visayas		**1,985**	**2,019**	**84**	**1,935**
Region VI	- Western Visayas	770	788	40	748
Region VII	- Central Visayas	906	922	31	891
Region VIII	- Eastern Visayas	299	309	13	296
Mindanao		**1,821**	**1,856**	**62**	**1,794**
Region IX	- Zamboanga Peninsula	279	280	14	266
Region X	- Northern Mindanao	447	459	22	437
Region XI	- Davao Region	511	516	12	504
Region XII	- SOCCSKSARGEN [1/]	294	305	9	296
ARMM		-	-	-	-
CARAGA		250	254	5	249
BARMM		40	42	-	42
Overseas		**54**	**52**	-	**52**
Asia-Pacific		21	20	-	20
Europe		5	5	-	5
North America		5	5	-	5
Middle East		23	22	-	22

[1] Composed of the provinces of North Cotabato, South Cotabato, Sultan Kudarat and Sarangani, and the cities of General Santos, Koronadal,Tacurong and Kidapawan.

[p/] preliminary

Appendix 4

Philippine Banking System: Number of Automated Teller Machines (ATMs)

as of end-periods indicated

	On-site end-June		Off-site end-June		Total end-June	
	2022	2023 p/	2022	2023 p/	2022	2023 p/
Total	**12,564**	**12,772**	**10,461**	**10,538**	**23,025**	**23,310**
Universal banks	9,873	10,189	9,280	9,493	19,153	19,682
Commercial banks	598	363	582	410	1,180	773
Thrift banks	1,366	1,429	489	511	1,855	1,940
Rural banks	697	753	110	124	807	877
Cooperative banks	30	38	-	-	30	38

p/ preliminary

Appendix 5

Number of BSFIs with Authority to Provide Electronic Payment and Financial Services (EPFS)

as of end-June 2023 p/

	No. of BSFIs with Authority to Provide EPFS	ATM Card	Credit Card	Electronic Money Issuers (Prepaid Card/Cash Card/ Remittance	E-Money (E-Wallet)	Other Payment Cards	Internet Banking - Retail	Internet Banking - Corporate	Mobile Banking
Universal and commercial banks	41	24	16	17	4	5	25	36	22
Thrift banks	31	29	1	7	-	-	15	8	18
Rural and cooperative banks	57	25	-	4	3	-	6	1	13
Digital banks	6	3	-	-	-	-	1	1	4
Banks	135	81	17	28	7	5	47	46	57
Electronic Money Issuers	43	-	-	43	29	-	3	1	28
Others	15	1	1	1	-	-	5	-	9
Total	193	82	18	72	36	5	55	47	94

	Telephone Banking	ATM Facility	Cash Accept Machine	Cash Recycling Machine	Point of Sale Facility	Payment Portal	With VASP Services	InstaPay
Universal and commercial banks	10	25	10	1	17	8	-	22
Thrift banks	4	29	2	1	7	-	-	19
Rural and cooperative banks	-	27	-	-	6	-	-	16
Digital banks	-	3	1	-	1	-	-	6
Banks	14	84	13	2	31	8	-	63
Electronic Money Issuers	-	-	1	-	2	1	5	17
Others	-	-	-	-	-	-	1	-
Total	14	84	14	2	33	9	6	80

	PESONet	QR Ph	Instapay Multi-Proxy Service	Agency Banking	eKYC-Online Onboarding	Type C EPFS	Online/ Digital Loan Application	Others
Universal and commercial banks	40	13	12	13	15	-	10	4
Thrift banks	17	9	1	5	4	4	5	-
Rural and cooperative banks	34	6	3	8	4	22	4	-
Digital banks	5	-	4	2	5		2	1
Banks	96	28	20	28	28	26	21	5
Electronic Money Issuers	9	12	9	3	27	-	-	1
Others	-	-	-	-	2	-	1	-
Total	105	40	29	31	57	26	22	6

p/ preliminary

Appendix 6

Philippine Banking System: Profitability Indicators

for the periods-ended indicated; in billion pesos; growth rate in percent

	end-December			end-June	
	2020	**2021**	**2022**	**2022**	**2023** p/
In Billion ₱					
Total operating income	893.3	869.4	1,014.5	471.3	552.4
Net interest income	674.2	661.8	754.7	354.3	437.8
Interest income	851.2	777.2	911.7	409.4	607.7
Provision for lossses on accrued interest income from financial assets	0.9	0.3	0.5	0.1	0.2
Interest expenses	176.1	115.1	156.5	55.0	169.7
Non-interest income	219.1	207.6	259.9	117.0	114.6
Dividend income	3.2	2.0	2.4	1.2	1.1
Fee-based income	89.5	107.3	123.4	58.6	69.6
Trading income	20.2	9.7	16.5	10.3	10.0
FX profit/(loss)	6.6	5.3	12.4	4.4	9.3
Profit/(loss) from sale/redemption/derecognition of non-trading financial assets and liabilities	83.4	#	(0.8)	0.7	2.5
Profit/(loss) from sale/derecognition of non-financial assets	5.5	41.2	30.7	19.3	12.0
Profit/(loss) on financial assets and liabilities designated at fair value through profit or loss	0.5	0.3	(0.2)	(0.1)	(0.0)
Profit/(Loss) on fair value adjustment in hedge accounting	(2.8)	(0.0)	0.0	(0.0)	0.0
Other income	13.1	16.1	75.6	22.5	10.0
Non-interest expenses	491.5	512.4	562.4	266.9	309.7
Losses/recoveries on financial assets	(214.2)	(97.7)	(88.6)	(37.6)	(35.1)
Provision for credit losses on loans & other financial assets	(211.6)	(106.4)	(105.3)	(45.7)	(40.0)
Bad debts written off	(6.4)	(7.5)	(2.4)	(1.8)	(0.3)
Recovery on charged-off assets	3.8	16.2	19.1	9.9	5.2
Net profit before share in the profit/(loss) of unconsolidated subsidiaries, associates and joint ventures	187.6	259.3	363.5	166.8	207.6
Share in the profit/(loss) of unconsolidated subsidiaries, associates and joint ventures	11.9	20.7	23.8	11.3	14.1
Total profit/loss before tax and before minority interest	199.5	280.1	387.4	178.1	221.7
Income tax expense	44.3	55.3	77.3	34.9	38.9
Total profit/loss after tax and before minority interest	155.2	224.8	310.1	143.1	182.8
Minority interest in profit/(loss) of subsidiaries					-
Net Profit/(Loss)	155.2	224.8	310.1	143.1	182.8
Year-on-Year Growth					
Total operating income	12.2%	(2.7%)	16.7%	4.3%	17.2%
Net interest income	11.4%	(1.8%)	14.0%	8.8%	23.6%
Interest income	(3.9%)	(8.7%)	17.3%	6.4%	48.4%
Provision for lossses on accrued interest income from financial assets	198.8%	(62.2%)	54.3%	(61.1%)	128.5%
Interest expenses	(37.2%)	(34.7%)	36.0%	(6.9%)	208.6%
Non-interest income	14.7%	(5.3%)	25.2%	(7.3%)	(2.1%)
Dividend income	(3.7%)	(39.2%)	23.2%	(5.3%)	(8.5%)
Fee-based income	(11.3%)	19.8%	15.0%	14.9%	18.8%
Trading income	(18.8%)	(52.1%)	70.5%	(84.4%)	(3.1%)
FX profit/(loss)	(22.6%)	(19.1%)	131.9%	31.6%	109.8%
Profit/(loss) from sale/redemption/derecognition of non-trading financial assets and liabilities	176.3%	(69.0%)	(103.1%)	(97.0%)	256.8%
Profit/(loss) from sale/derecognition of non-financial assets	(42.3%)	652.9%	(25.6%)	(48.1%)	(37.8%)
Profit/(loss) on financial assets and liabilities designated at fair value through profit or loss	(1,323.7%)	(47.4%)	(168.2%)	(232.1%)	(97.5%)
Profit/(Loss) on fair value adjustment in hedge accounting	(102,923.0%)	(99.5%)	(152.4%)	(98.2%)	(5,376.0%)
Other income	(5.5%)	23.1%	370.1%	199.8%	(55.5%)
Non-interest expenses	1.7%	4.2%	9.8%	5.2%	16.0%
Losses/recoveries on financial assets	318.5%	(54.4%)	(9.3%)	(34.1%)	(6.7%)
Provision for credit losses on loans & other financial assets	300.1%	(49.7%)	(1.0%)	(20.0%)	(12.3%)
Bad debts written off	63.5%	18.0%	(68.3%)	(63.3%)	(83.9%)
Recovery on charged-off assets	(32.1%)	323.8%	17.6%	(2.8%)	(47.1%)
Net profit before share in the profit/(loss) of unconsolidated subsidiaries, associates and joint ventures	(28.4%)	38.2%	40.2%	18.4%	24.5%
Share in the profit/(loss) of unconsolidated subsidiaries, associates and joint ventures	(53.0%)	73.7%	15.0%	11.2%	25.0%
Total profit/loss before tax and before minority interest	(30.5%)	40.4%	38.3%	17.9%	24.5%
Income tax expense	(21.7%)	24.8%	39.7%	23.3%	11.5%
Total profit/loss after tax and before minority interest	(32.7%)	44.8%	38.0%	16.7%	27.7%
Minority interest in profit/(loss) of subsidiaries					
Net Profit/(Loss)	(32.7%)	44.8%	38.0%	16.7%	27.7 %

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Note: ". . ." denotes below ₱0.05 billion

"(0.0)" denotes less than negative ₱0.05 billion

Appendix 7

Philippine Banking System: Asset Quality Indicators

as of end-periods indicated; in billion pesos; growth rate in percent

	end-December			end-June	
	2020	2021	2022	2022	2023 p/
In Billion ₱					
Total assets	19,457.1	20,828.1	23,047.7	21,347.0	23,295.4
Gross assets [1]	19,857.8	21,258.9	23,510.4	21,791.3	23,777.6
Total loan portfolio (TLP) [2]	10,872.6	11,391.1	12,625.1	11,715.9	12,743.4
Gross non-performing loans (NPL)	394.9	452.5	398.8	421.3	437.6
Allowance for credit losses (ACL)	367.2	396.8	426.7	409.0	445.1
Rreal and other properties acuired (ROPA) [2, 3]	115.8	119.3	127.8	123.3	128.0
Restructured loans [2/]	208.9	356.7	329.7	338.9	313.3
Non-performing assets (NPAs) [4]	510.7	571.8	526.6	544.6	565.6
Year-on-Year Growth					
Total assets	6.1%	7.0%	10.7%	7.8%	9.1%
Gross assets [1]	6.9%	7.1%	10.6%	7.6%	9.1%
Total loan portfolio (TLP) [2]	(0.9%)	4.8%	10.8%	8.7%	8.8%
Gross non-performing loans (NPL)	76.2%	14.6%	(11.9%)	(12.8%)	3.9%
Allowance for credit losses (ACL)	76.9%	8.1%	7.5%	2.8%	8.8%
ROPA [2, 3]	1.0%	3.0%	7.1%	4.7%	3.8%
Restructured loans [2]	383.5%	70.8%	(7.6%)	3.1%	(7.5%)
Non-performing assets (NPAs) [4]	50.7%	12.0%	(7.9%)	(9.4%)	3.9%

[1] Gross assets refer to total assets plus allowance on NPA.

[2] Gross of provisions

[3] ROPA includes non-current assets held for sale and non-performing sales contract receivables.

[4] NPAs refer to gross NPLs plus ROPA.

p/ preliminary

Appendix 8

Foreign Currency Deposit Unit (FCDU) Operations: Financial Highlights and Growth Rates

as of end-periods indicated; in million US dollars; growth rate in percent

Financial Highlights

	end-December			end-June	
	2020	2021	2022	2022	2023[p/]
Balance Sheet					
Total Assets [1]	**58,515.1**	**57,796.1**	**61,920.0**	**58,256.0**	**61,890.4**
Cash and due from banks	6,860.8	6,547.2	5,577.6	5,650.6	4,420.3
Financial assets, gross	28,616.9	28,302.2	28,557.3	28,186.3	28,160.4
Allowance for credit losses	44.1	43.7	47.7	38.7	48.9
Accumulated market gains/losses	294.2	62.7	(903.6)	(710.9)	(628.9)
Financial assets, net	28,867.0	28,321.2	27,606.0	27,436.7	27,482.7
Interbank loans receivable (IBL), net	4,989.1	6,132.3	4,464.9	4,054.8	3,577.4
Loans, gross (exclusive of IBL)	17,638.6	16,456.5	17,243.1	16,463.5	17,698.2
Allowance for probable losses [2]	449.4	657.3	357.7	479.7	384.9
Loans, net (exclusive of IBL)	17,189.2	15,799.2	16,885.5	15,983.7	17,313.4
Equity investments, net	-	-	-	-	-
ROPA, net	31.5	26.2	21.9	24.1	9.6
Other assets, net	577.5	970.0	7,364.2	5,106.1	9,087.0
Total Liabilities	**56,862.9**	**56,792.4**	**61,533.2**	**58,014.9**	**61,563.7**
Financial liabilities held for trading	144.2	87.9	111.1	85.0	133.5
Financial liabilities DFVPL	-	-	-	-	-
Deposit liabilities	45,061.6	46,093.8	47,852.7	46,612.8	48,987.3
Due to other banks	713.4	698.9	741.5	831.2	596.0
Bills payable	4,001.8	3,210.8	5,654.3	3,789.7	6,591.7
Bonds payable, net	5,592.7	4,888.5	4,972.2	4,991.2	3,413.2
Unsecured subordinated debt, net	-	-	-	-	-
Other liabilities	377.0	517.1	385.2	444.8	498.1
Due to HO/Br./Agencies/FCDU/RBU, net [3]	972.2	1,295.4	1,816.3	1,260.1	1,343.9
Total Capital Accounts	**1,652.2**	**1,003.7**	**386.8**	**241.1**	**326.7**
Income Statement					
Total operating income	1,530.3	1,277.4	1,141.5	542.6	636.0
Net interest income [5]	890.8	825.5	981.9	431.6	569.0
Non-interest income	639.5	451.9	159.6	111.1	67.1
Non-interest expenses	188.8	185.4	165.4	91.5	89.9
Losses/recoveries on financial assets	(122.9)	(240.2)	139.7	65.7	(19.3)
Net Profit or Loss	**1,177.6**	**807.9**	**1,074.9**	**498.1**	**502.6**

Year-on-Year Growth

	2020	2021	2022	2022	2023[p/]
Total Assets	**2.9%**	**(1.2%)**	**7.1%**	**3.7%**	**6.2%**
Cash and due from banks	28.4%	(4.6%)	(14.8%)	(3.7%)	(21.8%)
Financial assets, gross	1.6%	(1.1%)	0.9%	(0.3%)	(0.1%)
Loans, gross (exclusive of IBL)	(8.4%)	(6.7%)	4.8%	0.1%	7.5%
Total Liabilities	**2.0%**	**(0.1%)**	**8.3%**	**5.4%**	**6.1%**
Financial liabilities held for trading	70.8%	(39.0%)	26.4%	(18.1%)	57.1%
Deposit liabilities	9.7%	2.3%	3.8%	2.1%	5.1%
Due to other banks	121.2%	(2.0%)	6.1%	(0.7%)	(28.3%)
Bills payable	(43.6%)	(19.8%)	76.1%	70.2%	73.9%
Other liabilities	(41.6%)	37.2%	(25.5%)	(1.7%)	12.0%
Total Capital Accounts	**46.3%**	**(39.3%)**	**(61.5%)**	**(78.9%)**	**35.5%**
Total operating income	6.1%	(16.5%)	(10.6%)	(28.8%)	17.2%
Net interest income [5]	(9.1%)	(7.3%)	18.9%	6.3%	31.8%
Non-interest income	38.1%	(29.3%)	(64.7%)	(68.8%)	(39.6%)
Non-interest expenses	(6.8%)	(1.8%)	(10.8%)	5.1%	(1.7%)
Net Profit/(Loss)	**5.9%**	**(31.4%)**	**33.0%**	**(13.0%)**	**0.9%**

[1] Adjusted to net off the account "Due from Head Office" with "Due to Head Office" of branches of foreign banks

[2] Inclusive of general loan loss provision

[3] Net of due from head office/branches/agencies (Philippine branches of foreign banks) and due from FCDU/RBU

[4] Net of interest expenses and provision for losses on accrued interest income from financial assets

[p/] preliminary

Appendix 9

Foreign Currency Deposit Unit (FCDU) Operations: Selected Performance Indicators

as of end-periods indicated; ratios in percent

	end-December			end-June	
	2020	2021	2022	2022	2023p/
Liquidity					
Liquid assets to deposits [1] (excl. of ROPs)	60.1%	55.2%	47.2%	49.9%	43.7%
Liquid assets to deposits [1] (incl. of ROPs)	79.3%	75.6%	69.3%	71.0%	65.1%
Loans, gross to deposits	50.2%	49.0%	45.4%	44.0%	43.4%
Asset Quality					
Non-performing loans (NPL) ratio [2]	2.2%	3.6%	1.1%	0.8%	1.2%
NPL coverage ratio [2]	116.6%	109.9%	196.4%	371.9%	181.1%
Non-performing assets (NPA) to gross assets [2]	0.7%	1.1%	0.3%	0.3%	0.4%
NPA coverage ratio [2]	105.2%	103.7%	165.9%	296.3%	157.2%
Profitability					
Cost-to-income ratio	12.3%	14.5%	14.5%	18.0%	13.3%
Return on assets	2.0%	1.4%	1.8%	1.3%	1.8%
Net interest margin	1.6%	1.4%	1.7%	1.5%	2.1%

[1] Liquid assets refers to cash and due from banks plus financial assets, net of amortization (net of financial assets in equity securities and allowance for credit losses)

[2] Exclusive of interbank loans receivable

p/ preliminary

Appendix 10
Trust Operations (Philippine Banks and NBFIs): Financial Highlights and Growth Rates
as of end-periods indicated; in billion pesos; growth rate in percent

Financial Highlights	end-December		end-June	
	2021	2022	2022	2023 p/
In Billion ₱				
Total Assets	**5,058.2**	**5,345.9**	**5,094.6**	**5,854.1**
Cash and due from banks	0.3	0.4	0.3	0.5
Deposits in banks, net	1,086.2	1,181.0	955.6	1,332.0
Financial assets, gross (net of amortization)	3,461.2	3,559.7	3,549.7	3,863.5
Accumulated market gains/(losses)	31.7	(28.1)	(13.9)	(5.1)
Allowance for credit losses	0.2	0.5	0.1	0.2
Financial assets, net	3,492.6	3,531.2	3,535.7	3,858.1
Loans (gross)	118.6	134.2	125.0	137.4
Allowance for probable losses	7.5	6.4	3.0	7.7
Loans, net	111.1	127.8	122.0	129.7
Equity investments (gross)	5.5	5.4	5.3	0.0
Allowance for probable losses	2.5	2.5	2.5	-
Accumulated market gain/(loss)	-	-	-	-
Equity investments, net	3.0	2.9	2.8	0.0
ROPA, net	0.1	0.2	0.1	0.3
Other assets	365.0	502.4	478.1	533.6
Total Accountabilities	**5,058.2**	**5,345.9**	**5,094.6**	**5,854.1**
Wealth/asset/fund management accounts (Trust)	2,395.2	2,043.4	2,257.6	2,009.8
Unit investment trust fund (UITF)	1,305.3	940.7	1,213.9	819.2
Employee benefit	460.1	465.9	448.1	506.7
Pre-need	127.9	125.3	122.2	129.9
Other institutional trust accounts	45.1	49.0	44.0	51.7
Personal trust	420.7	399.9	375.8	425.2
Personal retirement fund	0.1	0.1	0.1	0.1
Other individual trust accounts	36.0	62.5	53.5	77.0
Wealth/asset/fund management accounts (Agency)	2,207.0	2,708.6	2,275.0	3,177.8
Employee benefit	56.3	59.0	56.3	58.4
Pre-need	0.7	0.7	0.6	0.6
Other institutional trust accounts	1,189.5	1,405.5	1,248.3	1,616.5
Personal retirement fund	0.0	0.0	0.0	0.0
Other individual agency accounts	960.5	1,243.3	969.8	1,502.3
Other fiduciary services	455.3	593.2	561.4	665.2
UITF	13.6	14.5	12.7	15.5
Court trusts	2.4	1.2	2.4	0.1
Corporate fiduciary trust	47.7	44.1	42.9	58.4
Escrow	47.8	45.2	39.5	49.9
Custodianship	303.0	438.5	423.4	492.2
Safekeeping	0.0	0.0	0.0	0.2
Others	40.8	49.6	40.4	48.9
Advisory/consultancy	0.0	0.0	0.0	0.0
Special purpose trust	0.6	0.8	0.6	1.3
Year-on-Year Growth				
Total Assets	**9.2%**	**5.7%**	**5.7%**	**14.9%**
Cash and due from banks	(2.9%)	13.9%	1.7%	38.4%
Deposits in banks, net	2.6%	8.7%	(12.8%)	39.4%
Financial assets, gross (net of amortization)	12.0%	2.8%	10.2%	8.8%
Loans (gross)	18.6%	13.1%	11.1%	9.9%
Equity investments (gross)	(31.8%)	(2.4%)	(4.9%)	(100.0%)
ROPA, net	(17.0%)	245.5%	31.2%	184.8%
Other assets	9.1%	37.6%	34.6%	11.6%
Total Accountabilities	**9.2 %**	**5.7 %**	**5.7 %**	**14.9%**
Wealth/asset/fund management accounts (Trust)	6.8%	(14.7%)	(3.1%)	(11.0%)
UITF	10.6%	(27.9%)	(3.3%)	(32.5%)
Employee benefit	4.4%	1.2%	1.0%	13.1%
Pre-need	2.4%	(2.1%)	(3.3%)	6.3%
Other institutional trust accounts	13.8%	8.8%	12.2%	17.3%
Personal trust	(2.7%)	(4.9%)	(12.7%)	13.2%
Personal retirement fund	0.1%	(30.9%)	(32.2%)	(5.9%)
Other individual trust accounts	41.8%	73.6%	53.7%	44.0%
Wealth/asset/fund management accounts (Agency)	12.6%	22.7%	11.8%	39.7%
Employee benefit	(2.9%)	4.9%	0.4%	3.7%
Pre-need	(2.1%)	(3.7%)	(16.1%)	(4.0%)
Other institutional agency accounts	17.4%	18.2%	18.9%	29.5%
Personal retirement fund	(0.1%)	(8.1%)	3.9%	(11.4%)
Other individual agency accounts	8.2%	29.4%	4.5%	54.9%
Other fiduciary services	6.0%	30.3%	23.5%	18.5%
Advisory/consultancy	2.6%	0.0%	2.6%	(5.1%)
Special purpose trust	(38.5%)	26.3%	(32.7%)	114.9%

p/ preliminary
Note: Figures may not add up due to rounding-off.
0.0 denotes below ₱0.05 billion

Appendix 11

Trust Operations (Philippine Banks and NBFIs): Selected Performance Indicators

as of end-periods indicated; ratios in percent

	end-December			end-June	
	2020	2021	2022	2022	2023 p/
Liquidity					
Cash and due from banks to total accountabilities	0.0%	0.0%	0.0%	0.0%	0.0%
Liquid assets to total accountabilities	66.7%	68.4%	66.6%	69.7%	66.0%
Loans (gross) to total accountabilities	2.2%	2.3%	2.5%	2.5%	2.3%
Asset Quality					
Non-performing loans (NPL) ratio	1.0%	0.5%	1.7%	1.0%	1.9%
NPL coverage ratio	320.2%	1244.2%	285.4%	250.7%	294.4%
Non-performing assets (NPA) to gross assets	0.0%	0.0%	0.0%	0.0%	0.0%
NPA coverage ratio	283.9%	1068.5%	255.7%	229.7%	265.5%
Efficiency ratio	47.2%	46.1%	49.7%	46.7%	53.7%

p/ preliminary

Note: "0.0%" denotes below 0.05%

Appendix 12

Financial Institutions Under BSP Supervision/Regulation: Physical Composition

as of end-periods indicated

Type of Financial Institution (FI)	end-June 2022 TOTAL	end-June 2022 Head Offices	end-June 2022 Other Offices	end-June 2023 p/ TOTAL	end-June 2023 p/ Head Offices	end-June 2023 p/ Other Offices
BSP Supervised/Regulated FIs [1]	**36,415**	**2,570**	**33,845**	**37,840**	**2,555**	**35,285**
I. Banks [2]	**13,190**	**498**	**12,692**	**13,335**	**490**	**12,845**
A. Universal and Commercial Banks	**7,181**	**45**	**7,136**	**7,205**	**45**	**7,160**
Universal Banks	**6,598**	**20**	**6,578**	**6,856**	**22**	**6,834**
Private domestic banks	5,755	11	5,744	6,003	13	5,990
Government banks	833	3	830	842	3	839
Foreign bank branches	10	6	4	11	6	5
Commercial Banks	**583**	**25**	**558**	**349**	**23**	**326**
Private domestic banks	463	5	458	232	3	229
Foreign bank subsidiaries	98	2	96	98	2	96
Foreign bank branches	22	18	4	19	18	1
B. Thrift Banks	**2,575**	**43**	**2,532**	**2,609**	**43**	**2,566**
Financial Institution-Linked Banks	**1,138**	**11**	**1,127**	**1,168**	**11**	**1,157**
Domestic bank-controlled	1,100	8	1,092	1,137	8	1,129
Foreign bank-controlled	38	3	35	31	3	28
Domestic NBFI-controlled	-	-	-	-	-	-
Foreign NBFI-controlled	-	-	-	-	-	-
Non-Linked	**1,437**	**32**	**1,405**	**1,441**	**32**	**1,409**
C. Rural and Cooperative Banks	**3,430**	**406**	**3,024**	**3,515**	**396**	**3,119**
Rural banks	2,347	377	1,970	2,440	369	2,071
Microfinance-oriented rural banks	911	5	906	900	5	895
Cooperative banks	172	24	148	175	22	153
D. Digital Banks	**4**	**4**	-	**6**	**6**	-
II. Non-bank Financial Institutions (NBFIs)	**23,224**	**2,071**	**21,153**	**24,504**	**2,064**	**22,440**
A. With Quasi-Banking Function	**19**	**5**	**14**	**19**	**5**	**14**
Investment houses	1	1		1	1	-
Financing companies	17	3	14	17	3	14
Other non-bank with quasi-bank function	1	1	-	1	1	-
B. Without Quasi-Banking Function	**23,205**	**2,066**	**21,139**	**24,485**	**2,059**	**22,426**
AAB - Forex corporation	2	2	-	1	1	-
Credit card companies	4	4	-	4	4	-
Credit granting entities	9	9	-	-	-	-
Electronic money issuers - others	59	42	17	116	43	73
Financing companies	159	22	137	149	21	128
Government non-bank financial institutions	2	2	-	2	2	-
Investment companies	1	1	-	1	1	-
Investment houses	13	12	1	12	11	1
Lending investors	1	1	-	1	1	-
Non-stock savings and loan associations	199	60	139	193	57	136
Pawnshops [3]	15,632	1,162	14,470	16,038	1,165	14,873
Money service businesses	7,105	730	6,375	7,950	735	7,215
Remittance agent (subsidiary of a bank)	-	-	-	-	-	-
Securities dealers/brokers	13	13	-	12	12	-
Trust corporations	6	6	-	6	6	-
III. Offshore Banking Unit (OBU)	**1**	**1**		**1**	**1**	-

[1] Excludes foreign banks' representative offices (ROs) in the Philippines; Includes money service businesses (MSBs)

[2] Includes ROs abroad of domestic banks

[3] Excludes pawnshops multi-functioning as MSBs

p/ preliminary

Appendix 13
Philippine Banking System: Comparative Balance Sheet (by Industry)
as of end-periods indicated; in billion pesos

Selected Accounts	TOTAL [1]		Universal and Commercial Banks [1, 2]		Thrift Banks		Rural and Cooperative Banks		Digital Banks	
	end-June									
	2022	2023 p/	2022	2023 p/	2022	2023 p/	2022	2023 p/	2022	2023 p/
Assets	**21,347.0**	**23,295.4**	**20,072.4**	**21,882.8**	**929.2**	**949.7**	**345.4**	**385.7**		**77.1**
Cash and due from banks	2,852.4	2,870.9	2,621.1	2,636.2	152.0	128.0	79.4	71.9		34.7
Loan portfolio, net [3]	11,306.9	12,298.3	10,594.3	11,444.3	539.5	618.3	173.2	214.6		21.1
Financial assets, net	5,930.0	6,495.5	5,699.0	6,281.8	169.4	134.4	61.6	64.9		14.5
Equity investments, net	241.4	275.4	238.4	272.1	2.4	2.6	0.6	0.7		-
ROPA, net	99.7	102.3	74.4	75.5	15.8	16.4	9.4	10.4		-
Other assets	916.6	1,252.9	845.3	1,173.0	50.1	50.0	21.3	23.1		6.9
Liabilities and Capital	**21,347.0**	**23,295.4**	**20,072.4**	**21,882.8**	**929.2**	**949.7**	**345.4**	**385.7**		**77.1**
Liabilities	**18,770.4**	**20,434.1**	**17,692.4**	**19,257.8**	**793.9**	**797.4**	**284.1**	**313.4**		**65.5**
Financial liabilities held for trading	97.6	65.0	97.6	65.0	0.0	-	-	-		-
Financial liabilities DFVPL	-	-	-	-	-	-	-	-		-
Deposit liabilities	16,492.6	17,824.4	15,523.6	16,765.3	710.0	717.2	259.0	279.9		62.0
Bills payable	481.4	669.4	428.4	608.9	46.0	44.0	7.0	16.5		-
Bonds payable	653.1	487.5	639.0	487.5	4.7	-	0.0	0.0		-
Unsecured subordinated debt	22.6	19.3	20.0	17.9	1.3	1.3	1.3	0.1		-
Redeemable preferred shares	0.3	0.3	0.0	0.0	0.0	0.0	0.3	0.3		-
Other liabilities	1,032.3	1,368.3	983.8	1,313.3	31.9	34.9	16.5	16.6		3.5
Capital Accounts	**2,576.6**	**2,861.2**	**2,380.0**	**2,625.0**	**135.3**	**152.3**	**61.3**	**72.2**		**11.6**

[1] Total assets adjusted to net off the account "Due From Head Office" with "Due to Head Office" of branches of foreign banks
[2] Inclusive of branches of foreign banks with universal banking license, other foreign bank branches and subsidiaries, and 3 government banks, namely, Development Bank of the Philippines, Land Bank of the Philippines, and Al Amanah Islamic Bank
[3] Inclusive of interbank loans receivable
p/ preliminary
Note: "0.0" denotes a value below ₱0.05 billion
Figures may not add up due to rounding-off

Appendix 14

Philippine Banking System: Comparative Income Statement (by Industry)

for the periods-ended indicated; in billion pesos; ratios in percent

Selected Accounts	TOTAL		Universal and Commercial Banks [1]		Thrift Banks		Rural and Cooperative Banks		Digital Banks	
	end-June									
	2022	2023 [p/]	2022	2023 [p/]	2022	2023 [p/]	2022	2023 [p/]	2022	2023 [p/]
Operating Income	**471.3**	**552.4**	**416.9**	**489.1**	**34.5**	**37.6**	**19.9**	**22.5**		**3.3**
Net Interest Income	**354.3**	**437.8**	**310.0**	**386.1**	**29.1**	**32.2**	**15.2**	**17.6**		**2.0**
Interest income	409.4	607.7	358.5	538.3	33.6	44.9	17.3	21.1		3.4
Provision for losses on accrued interest	0.1	0.2	(0.0)	0.1	0.1	0.1	0.1	0.0		0.0
Less: Interest expenses	55.0	169.7	48.5	152.2	4.4	12.7	2.0	3.5		1.3
Non-interest Income	**117.0**	**114.6**	**106.9**	**103.0**	**5.4**	**5.4**	**4.7**	**4.9**		**1.2**
Dividend income	1.2	1.1	1.2	1.1	0.0	0.0	0.0	0.0		-
Fee-based income	58.6	69.6	51.9	61.9	3.1	3.0	3.6	3.5		1.2
Trading income/(loss)	10.3	10.0	10.5	9.8	(0.2)	0.2	0.0	-		-
Foreign exchange income/(loss)	4.4	9.3	4.4	9.3	0.0	0.0	0.0	0.0		0.0
Other income/(loss)	42.4	24.5	38.9	20.8	2.4	2.3	1.1	1.4		0.0
Non-Interest Expenses	**266.9**	**309.7**	**231.5**	**267.9**	**21.5**	**23.0**	**14.0**	**15.6**		**3.2**
Losses/Recoveries on Financial Assets	**(37.6)**	**(35.1)**	**(33.8)**	**(29.6)**	**(2.5)**	**(2.8)**	**(1.2)**	**(1.4)**		**(1.3)**
Net Profit Before Share in the Profit/(Loss) of Unconsolidated	**166.8**	**207.6**	**151.6**	**191.6**	**10.4**	**11.8**	**4.7**	**5.5**		**(1.2)**
Share in the Profit/(Loss) of Unconsolidated Subsidiaries,	**11.3**	**14.1**	**11.1**	**13.9**	**0.1**	**0.2**	**0.0**	**0.1**		-
Total Profit/(Loss) Before Tax and Before Minority Interest	**178.1**	**221.7**	**162.8**	**205.4**	**10.5**	**11.9**	**4.8**	**5.5**		**(1.2)**
Income tax expense	34.9	38.9	30.9	35.5	2.8	2.1	1.2	1.2		0.2
Total Profit/(Loss) After Tax and Before Minority Interest	**143.1**	**182.8**	**131.8**	**169.9**	**7.7**	**9.8**	**3.6**	**4.4**		**(1.3)**
Minority interest in profit/(loss) of subsidiaries		-		-		-		-		-
Net Profit/(Loss)	**143.1**	**182.8**	**131.8**	**169.9**	**7.7**	**9.8**	**3.6**	**4.4**		**(1.3)**
Selected Ratio										
Profitability										
Return on Assets	**1.2%**	**1.6%**	**1.2%**	**1.6%**	**1.3%**	**2.0%**	**1.7%**	**1.9%**		**(1.7%)**
Return on Equity	**9.6%**	**12.8%**	**9.7%**	**13.0%**	**9.2%**	**12.8%**	**9.4%**	**10.6%**		**(11.5%)**

[1] Inclusive of branches of foreign banks with universal banking license, other foreign bank branches and subsidiaries, and 3 government banks, namely, Development Bank of the Philippines, Land Bank of the Philippines, and Al Amanah Islamic Bank

[p/] preliminary

Note: "0.0" denotes a value below ₱0.05 billion

Figures may not add up due to rounding-off

Appendix 15

Philippine Banking System: Selected Performance Indicators

as of end-periods indicated; ratios in percent

Selected Ratios	TOTAL		Universal and Commercial Banks		Thrift Banks		Rural and Cooperative Banks		Digital Banks	
	end-June									
	2022	2023 p/	2022	2023 p/	2022	2023 p/	2022	2023 p/	2022	2023 p/
Profitability										
Earning asset yield [1]	4.1%	5.3%	3.8%	5.0%	7.4%	9.4%	11.1%	11.5%		4.7%
Funding cost [2]	0.6%	1.5%	0.6%	1.4%	1.3%	2.7%	1.6%	2.2%		2.1%
Interest spread [3]	3.5%	3.8%	3.2%	3.6%	6.1%	6.7%	9.5%	9.3%		2.6%
Net interest margin [4]	3.5%	4.0%	3.3%	3.7%	6.2%	7.0%	9.8%	9.7%		2.8%
Non-interest income to total operating income [5]	22.3%	23.5%	23.0%	24.1%	15.5%	15.1%	22.2%	21.9%		38.3%
Cost-to-income [6]	58.9%	55.2%	58.0%	53.9%	61.9%	60.5%	73.4%	71.7%		97.2%
Return on assets (RoA) [7]	1.2%	1.6%	1.2%	1.6%	1.3%	2.0%	1.7%	1.9%		(1.7%)
Return on equity (RoE) [7]	9.6%	12.8%	9.7%	13.0%	9.2%	12.8%	9.4%	10.6%		(11.5%)
Liquidity										
Cash and due from banks to deposits	17.3%	16.1%	16.9%	15.7%	21.4%	17.9%	30.6%	25.7%		56.0%
Liquid assets to deposits [8]	53.3%	52.5%	53.6%	53.2%	45.3%	36.6%	54.4%	48.9%		79.3%
Loans, gross to deposits	71.0%	71.5%	70.6%	70.6%	79.9%	90.3%	72.6%	82.0%		36.1%
Asset Quality										
Restructured loans to total loan portfolio (TLP)	2.9%	2.5%	2.9%	2.5%	2.1%	1.9%	3.2%	2.4%		0.0%
Allowance for credit losses (ACL) to TLP	3.5%	3.5%	3.3%	3.4%	4.9%	4.5%	7.8%	6.5%		5.7%
Gross non-performing loans (NPL) to TLP	3.6%	3.4%	3.3%	3.1%	7.8%	7.2%	10.9%	8.3%		6.1%
NPL coverage (ACL to Gross NPL)	97.1%	101.7%	102.7%	107.7%	63.2%	63.4%	72.2%	78.2%		93.1%
Non-performing assets (NPA) to gross assets	2.5%	2.4%	2.2%	2.1%	6.4%	6.6%	8.2%	7.2%		1.7%
NPA coverage (allowance on NPA to NPA)	81.6%	85.3%	87.4%	91.7%	51.7%	51.5%	54.3%	56.0%		93.1%
Distressed assets ratio	6.7%	6.0%	6.3%	5.6%	11.4%	10.8%	16.5%	13.2%		6.1%
Capital Adequacy										
Total capital accounts to total assets [9]	12.1%	12.3%	11.9%	12.0%	14.6%	16.0%	17.8%	18.8%		15.1%
Capital adequacy ratio (solo) [10, 11]	16.2%	16.0%	16.0%	15.7%	19.0%	18.9%	18.8%	19.0%		46.5%

[1] Earning asset yield refers to the ratio of interest income to average earning assets.
[2] Funding cost refers to the ratio of interest expenses to average interest-bearing liabilities.
[3] Interest spread refers to the difference between earning asset yield and funding cost.
[4] Net interest margin refers to the ratio of net interest income to average earning assets.
[5] Non-interest income includes dividends income.
[6] Cost-to-income ratio refers to the ratio of non-interest expenses to total operating income.
[7] RoA and RoE refer to the ratios of net profit to average assets and capital, respectively.
[8] Liquid assets refer to cash and due from banks plus financial assets, net of amortization (net of financial assets in equity securities).
[9] Total capital accounts includes redeemable preferred shares.
[10] Refers to the ratio of qualifying capital to total risk-weighted assets.
[11] As of March 2023
[p/] preliminary

Appendix 16

Philippine Banking System: Contingent Accounts (by Industry)

as of end-periods indicated; in billion pesos

Selected Accounts	TOTAL		Universal and Commercial Banks		Thrift Banks	
	end-June					
	2022	2023 p/	2022	2023 p/	2022	2023 p/
Trade-Related Accounts	**216.5**	**167.4**	**215.3**	**166.2**	**1.2**	**1.2**
Domestic commercial letters of credit outstanding	8.1	8.9	8.0	8.9	0.1	-
Foreign commercial letters of credit outstanding	169.1	127.1	168.2	126.0	0.9	1.1
Letters of credit - confirmed	6.6	16.1	6.6	16.1	-	-
Shipside bonds/airway bills	32.7	15.2	32.4	15.1	0.3	0.1
Bank Guarantees	**507.4**	**566.4**	**506.9**	**565.6**	**0.5**	**0.8**
Stand-by letters of credit	409.5	463.6	409.0	462.8	0.4	0.8
Outstanding guarantees issued	97.9	102.9	97.9	102.9	0.0	0.0
Commitments	**2,023.4**	**1,954.5**	**2,021.8**	**1,951.2**	**1.5**	**2.1**
Underwritten accounts unsold	-	-	-	-	-	-
Committed credit lines for commercial papers issued	1.4	1.8	1.3	1.8	0.1	-
Credit card lines	1,349.9	1,342.8	1,349.9	1,342.8		-
Others	672.1	610.0	670.6	606.7	1.4	2.1
Derivatives Instruments *	**4,971.6**	**5,160.0**	**4,971.2**	**5,159.4**	**0.5**	**0.6**
Interest rate contracts	819.7	760.7	819.7	760.7	-	-
Foreign exchange contracts	4,148.5	4,393.4	4,148.1	4,392.7	0.5	0.6
Equity contracts	-	-	-	-	-	-
Credit derivatives	3.4	6.0	3.4	6.0	-	-
Trust department accounts	**3,699.8**	**4,063.9**	**3,672.9**	**4,036.3**	**26.9**	**27.6**

* Notional amounts of derivatives held-for-trading (stand-alone and embedded)

p/ preliminary

Note: Figures may not add up due to rounding-off

Appendix 17

Trust Operations (Philippine Banks and NBFIs): Assets and Accountabilities (by Industry)

as of end-periods indicated; in billion pesos

Selected Accounts	TOTAL		Universal and Commercial Banks		Thrift Banks		Non-Bank Financial Institutions (NBFIs)	
	end-June							
	2022	2023 p/	2022	2023 p/	2022	2023 p/	2022	2023 p/
Total Assets	**5,094.6**	**5,854.1**	**3,672.9**	**4,036.3**	**26.9**	**27.6**	**1,394.8**	**1,790.1**
Peso / Regular Assets	**4,029.9**	**4,677.1**	**2,770.2**	**3,044.4**	**25.2**	**25.5**	**1,234.5**	**1,607.2**
Cash and due from banks	0.3	0.5	0.3	0.5	0.0	0.0	0.0	0.0
Deposits in banks, net	804.2	1,166.2	629.0	947.1	2.4	5.5	172.8	213.6
Financial assets, net	3,031.7	3,303.0	2,017.0	1,970.0	16.3	15.0	998.4	1,318.0
Loans, net	120.6	128.4	71.9	73.6	3.5	1.8	45.2	53.0
Equity investments, net	2.8	0.0	2.8	-	0.0	-	0.0	0.0
ROPA, net	0.1	0.3	0.1	0.3		-	0.0	0.0
Other assets	70.2	78.8	49.1	53.1	3.1	3.1	18.0	22.6
FCDU/EFCDU Assets	**1,064.6**	**1,177.0**	**902.6**	**991.9**	**1.7**	**2.1**	**160.3**	**182.9**
Cash and due from banks	-	-		-		-		-
Deposits in banks, net	151.5	165.8	110.7	117.2	0.6	1.0	40.2	47.7
Financial assets, net	504.0	555.1	384.7	419.9	0.9	1.0	118.4	134.2
Loans, net	1.4	1.3	1.2	1.2	0.2	0.1		-
Equity investments, net	0.0	-	0.0	-		-		-
ROPA, net	-	-		-		-		-
Other assets	407.9	454.8	406.1	453.7	0.0	0.0	1.7	1.1
Total Accountabilities	**5,094.6**	**5,854.1**	**3,672.9**	**4,036.3**	**26.9**	**27.6**	**1,394.8**	**1,790.1**
Peso / Regular Accountabilities	**4,029.9**	**4,677.1**	**2,770.2**	**3,044.4**	**25.2**	**25.5**	**1,234.5**	**1,607.2**
Wealth/asset/fund management accounts	3,888.1	4,480.3	2,644.7	2,898.1	25.2	25.1	1,218.3	1,557.2
Unit investment trust frund (UITF)	1,027.1	670.5	745.2	430.7	0.9	0.8	281.0	239.0
Employee benefit	488.3	552.3	329.8	370.8	4.2	4.5	154.3	177.0
Pre-need	122.1	129.8	84.5	91.3	0.5	0.4	37.2	38.1
Other institutional accounts	1,176.6	1,521.0	589.4	705.5	9.3	9.7	577.9	805.7
Personal trust	318.6	359.8	279.7	321.9	0.2	0.3	38.6	37.7
Personal pension fund	-	-		-		-		-
Personal retirement fund	0.1	0.1	0.1	0.1		-		-
Other individual accounts	755.3	1,246.9	616.1	977.8	9.9	9.4	129.2	259.7
Other fiduciary services	141.2	195.4	124.9	145.0	0.1	0.4	16.2	50.0
Advisory/consultancy	0.0	0.0	0.0	-		-	0.0	0.0
Special purpose trust	0.6	1.3	0.6	1.3		-		-
FCDU/EFCDU Accountabilities	**1,064.6**	**1,177.0**	**902.6**	**991.9**	**1.7**	**2.1**	**160.3**	**182.9**
Wealth/asset/fund management accounts	644.5	707.2	487.5	527.1	1.1	1.6	155.9	178.6
UITF	186.8	148.7	95.6	63.7		-	91.2	84.9
Employee benefit	16.1	12.8	15.6	12.2	0.0	0.0	0.5	0.6
Pre-need	0.7	0.8	0.7	0.8		-		-
Other institutional accounts	115.7	147.2	65.9	77.2	0.4	0.3	49.4	69.7
Personal trust	57.2	65.4	49.3	57.3	0.4	0.4	7.5	7.6
Personal pension fund	-	-		-		-		-
Personal retirement fund	0.0	0.0	0.0	0.0		-		-
Other individual accounts	268.0	332.3	260.3	315.8	0.3	0.8	7.4	15.7
Other fiduciary services	420.1	469.8	415.2	464.8	0.6	0.6	4.4	4.4
Advisory/consultancy	-	-		-		-		-
Special purpose trust	-	-		-		-		-

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Note: Figures may not add up due to rounding-off.

"0.0" denotes below ₱0.0005 billion

Other fiduciary services include other fiduciary services-UITF

Appendix 18

Trust Operations (Philippine Banks and NBFIs): Assets and Accountabilities (by Type)

as of end-periods indicated; in billion pesos

Selected Accounts	TOTAL		Trust		Agency		Other Fiduciary		Advisory and Consultancy		Special Purpose	
	end-June											
	2022	2023 p/	2022	2023 p/	2022	2023 p/	2022	2023 p/	2022	2023 p/	2022	2023 p/
Total Assets	**5,094.6**	**5,854.1**	**2,257.6**	**2,009.8**	**2,275.0**	**3,177.8**	**561.4**	**665.2**	**0.0**	**0.0**	**0.6**	**1.3**
Peso / Regular Assets	**4,029.9**	**4,677.1**	**1,940.0**	**1,699.8**	**1,948.1**	**2,780.6**	**141.2**	**195.4**	**0.0**	**0.0**	**0.6**	**1.3**
Cash and due from banks	0.3	0.5	0.3	0.4	-	0.0	0.0	0.1	-	-	-	-
Deposits in banks, net	804.2	1,166.2	504.0	239.2	221.3	827.9	78.9	99.1	-	-	0.0	0.0
Financial assets, net	3,031.7	3,303.0	1,388.6	1,412.3	1,603.1	1,815.6	39.4	75.1	-	-	0.6	-
Loans, net	120.6	128.4	9.7	9.4	111.0	118.2	-	-	-	-	-	0.8
Equity investments, net	2.8	0.0	1.6	0.0	1.0	0.0	0.2	-	-	-	-	-
ROPA, net	0.1	0.3	0.0	0.0	-	-	0.1	0.2	-	-	-	-
Other assets	70.2	78.8	35.7	38.4	11.8	18.9	22.7	20.9	0.0	0.0	0.0	0.5
FCDU/EFCDU Assets	**1,064.6**	**1,177.0**	**317.6**	**310.0**	**326.9**	**397.2**	**420.1**	**469.8**	**-**	**-**	**-**	**-**
Cash and due from banks	-	-	-	-	-	-	-	-	-	-	-	-
Deposits in banks, net	151.5	165.8	123.9	105.7	15.5	44.0	12.0	16.1	-	-	-	-
Financial assets, net	504.0	555.1	191.1	201.7	306.6	348.0	6.3	5.5	-	-	-	-
Loans, net	1.4	1.3	-	-	1.4	1.3	-	-	-	-	-	-
Equity investments, net	0.0	-	-	-	0.0	-	-	-	-	-	-	-
ROPA, net	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	407.9	454.8	2.6	2.7	3.5	3.9	401.8	448.2	-	-	-	-
Total Accountabilities	**5,094.6**	**5,854.1**	**2,257.6**	**2,009.8**	**2,275.0**	**3,177.8**	**561.4**	**665.2**	**0.0**	**-**	**0.6**	**1.3**
Peso / Regular Accountabilities	**4,029.9**	**4,677.1**	**1,940.0**	**1,699.8**	**1,948.1**	**2,780.6**	**141.2**	**195.4**	**0.0**	**-**	**0.6**	**1.3**
Wealth/asset/fund management accounts	3,888.1	4,480.4	1,940.0	1,699.8	1,948.1	2,780.6	-	-	-	-	-	-
Unit investment trust frund (UITF)	1,027.1	670.5	1,027.1	670.5	-	-	-	-	-	-	-	-
Employee benefit	488.3	552.3	432.8	495.0	55.6	57.3	-	-	-	-	-	-
Pre-need	122.1	129.8	121.5	129.2	0.6	0.6	-	-	-	-	-	-
Other institutional accounts	1,176.6	1,521.0	27.2	32.3	1,149.5	1,488.7	-	-	-	-	-	-
Personal trust	318.6	359.8	318.6	359.8	-	-	-	-	-	-	-	-
Personal pension fund	-	-	-	-	-	-	-	-	-	-	-	-
Personal retirement fund	0.1	0.1	0.1	0.1	-	-	-	-	-	-	-	-
Other individual accounts	755.3	1,246.9	12.8	13.0	742.4	1,234.0	-	-	-	-	-	-
Other fiduciary services	141.2	195.4	-	-	-	-	141.2	195.4	-	-	-	-
Advisory/consultancy	0.0	-	-	-	-	-	-	-	0.0	-	-	-
Special purpose trust	0.6	1.3	-	-	-	-	-	-	-	-	0.6	1.3
FCDU/EFCDU Accountabilities	**1,064.6**	**1,177.0**	**317.6**	**310.0**	**326.9**	**397.2**	**420.1**	**469.8**	**-**	**-**	**-**	**-**
Wealth/asset/fund management accounts	644.5	707.2	317.6	310.0	326.9	397.2	-	-	-	-	-	-
UITF	186.8	148.7	186.8	148.7	-	-	-	-	-	-	-	-
Employee benefit	16.1	12.8	15.3	11.7	0.8	1.1	-	-	-	-	-	-
Pre-need	0.7	0.8	0.7	0.8	-	-	-	-	-	-	-	-
Other institutional accounts	115.7	147.2	16.9	19.4	98.8	127.7	-	-	-	-	-	-
Personal trust	57.2	65.4	57.2	65.4	-	-	-	-	-	-	-	-
Personal pension fund	-	-	-	-	-	-	-	-	-	-	-	-
Personal retirement fund	0.0	0.0	0.0	0.0	0.0	0.0	-	-	-	-	-	-
Other individual accounts	268.0	332.3	40.6	64.0	227.4	268.3	-	-	-	-	-	-
Other fiduciary services	420.1	469.8	-	-	-	-	420.1	469.8	-	-	-	-
Advisory/consultancy	-	-	-	-	-	-	-	-	-	-	-	-
Special purpose trust	-	-	-	-	-	-	-	-	-	-	-	-

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Note: Figures may not add up due to rounding-off.

"0.0" denotes below ₱0.0005 billion

Other fiduciary services include other fiduciary services-UITF

Appendix 19

Trust Operations (Philippine Banks and NBFIs): Income and Expenses

for the periods-ended indicated; in billion pesos

Selected Accounts	TOTAL		Universal and Commercial Banks		Thrift Banks		Non-bank Financial Institutions (NBFIs)	
	end-June							
	2022	2023 p/	2022	2023 p/	2022	2023 p/	2022	2023 p/
Trust Income	**7.1**	**7.8**	**4.8**	**4.8**	**0.1**	**0.1**	**2.3**	**3.0**
Fees and commissions	6.8	7.3	4.6	4.7	0.1	0.1	2.1	2.6
Other income	0.3	0.5	0.1	0.1	-	-	0.2	0.4
Trust Expenses	**3.3**	**4.2**	**1.6**	**1.7**	**0.0**	**0.0**	**1.7**	**2.5**
Compensation/fringe benefits	1.3	1.7	0.8	0.8	0.0	0.0	0.6	0.8
Taxes and licenses	0.6	0.6	0.3	0.3	0.0	0.0	0.3	0.3
Other administrative expenses	0.7	0.8	0.3	0.3	0.0	0.0	0.4	0.5
Depreciation/amortization	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.1
Allocated indirect expenses	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0
Other expenses	0.6	0.9	0.1	0.1	0.0	0.0	0.4	0.8
Net Income	**3.8**	**3.6**	**3.2**	**3.1**	**0.0**	**0.0**	**0.5**	**0.5**

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Note: Figures may not add up due to rounding-off.

"0.0" denotes below ₱0.0005 billion

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