Report on the Philippine Financial System

For the Second Semester 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 (R.A.) No. 7653 (The New Central Bank Act), as amended by R.A. No. 11211, R.A. No. 7906 (Thrift Bank Act of 1995), R.A. No. 7353 (Rural Bank Act of 1992), as amended by R.A. No. 10574, R.A No. 7721 (Foreign Banks Law), as amended by R.A. No. 10641, R.A. No. 8367 (Revised Non-Stock Savings and Loans Association of 1997), R.A. No. 9178 (Barangay Micro Business Enterprises Act of 2002), R.A. No. 10000 (Agri-Agra Reform Act of 2009), R.A. No. 11901 (The Agriculture, Fisheries and Rural Development Financing Enhancement Act of 2022), and R.A. No. 7835 (Comprehensive and Integrated Shelter Financing Act of 1994).

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

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A. Financial terms

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 that 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.

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

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

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

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.

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 common 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, accumulated net earnings and other comprehensive income, subject to regulatory adjustments.

Consumer loans – loans 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, furniture and fixtures; loans for payment of educational and hospital bills; salary loans; and loans for personal consumption, including credit card loans.

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.

Debt securities measured at amortized cost – a debt instrument held within a business model whose objective is to hold financial assets 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.

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.

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. 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 R.A. 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 R.A. No. 11211.

Derivative – a financial instrument or other contract with all of the following characteristics:

- 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");
- 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
- it is settled at a future date.

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

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

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 and hedging (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.

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

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.

Feeder fund – a unit investment trust fund (UITF) structure that mandates the fund to invest at least 90 percent of its assets in a single collective investment scheme.

Financial assets (other than loans and receivables) – the sum of all investments in debt and equity instruments as well as derivatives which are 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).

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

Financial assets measured at FVTPL – financial assets 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 mandatorily measured at FVTPL as defined in PFRS 9.

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

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

Financial soundness indicators (FSIs) – a set of key data on the current financial health and soundness of a country's financial institutions and of its corporate and household sectors. These 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.

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 R.A. No. 6426 (Foreign Currency Deposit Act of the Philippines), as amended.

Gains/(losses) on financial assets and liabilities HFT or Trading income/(loss) – the sum of realized gains/(losses) from the 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.

Gross assets – total assets plus allowance on non-performing assets or NPA i.e., allowance for credit losses on loans, including general loan loss provision; 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.

Income tax expense – the periodic provision for income tax.

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.

Letters of credit (LC) - a contractual commitment by a bank on behalf of its client to a seller/seller's bank, guaranteeing the payment of a specific sum of money for goods and/or services transactions upon presentation of the required documentation.

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

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

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

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

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.

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.

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

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 non-controlling interest in profit/(loss) of subsidiaries, less the provision for income taxes.

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.

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.

Non-performing assets (NPAs) – the sum of non-performing loans (NPL) and real and other properties acquired or 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).

Non-performing loans (NPLs) – loans, investments, receivables, or any financial asset 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 the specific allowance for credit losses on NPLs.

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).

Personal equity and retirement account (PERA) – a voluntary retirement saving program that supplements 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.

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.

Quasi-banks (QBs) – entities engaged in the borrowing of funds through the issuance, endorsement or assignment with recourse or acceptance of deposit substitutes as defined in Section 95 of R.A. No. 7653 (the New Central Bank Act), as amended, for purposes of relending or purchasing of receivables and other obligations. The elements of quasi–banking, include:

a. borrowing funds for the borrower's own account;
b. 20 or more lenders at any one time, whereby lenders refer to individuals and corporate entities that are not banks, quasi-banks or other financial intermediaries;
c. methods of borrowing are issuance, endorsement, or acceptance of debt instruments of any kind, other than deposits, such as acceptances, promissory notes, participations, certificates of assignments or similar instruments with recourse, trust certificates, repurchase agreements, and such other instruments as the Monetary Board may determine; and
d. the purpose of which is relending or purchasing receivables and other obligations.

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, the carrying amount of which will be recovered principally through a sale transaction.

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.

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.

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

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.

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.

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

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.

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

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

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.

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

Trust account – the account wherein the 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.

Unit investment trust fund (UITF) – an open-ended, pooled trust fund denominated in pesos or any acceptable currency 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

Cryptocurrency – a type of virtual currency that uses a method of storing and transmitting data in unreadable form so that only the intended receivers can read and process it. This allows cryptocurrency transactions to be carried out in a decentralized manner by a group of users.

Decarbonization – is the reduction of the amount of greenhouse gas emissions that a society produces, as well as increasing the amount that is being absorbed.

Financial conglomerates - 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 have licensed under their respective laws to operate.

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 the Basel Capital Adequacy Framework. It is also designed to meet the BSP's statistical requirements.

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.

Islamic banking unit (IBU) - a division, department, office, or branch of a conventional branch that conducts business in accordance with the *Shari'ah*.

Money service business (MSB) - any entity that engages in remittance, money-changing or foreign exchange dealings. This includes remittance agents and subagents, remittance platform providers, e-money issuers, and money changers or foreign exchange dealers.

Pawnshop business - the lending of money on personal property that is physically delivered to the control and possession of the pawnshop operator as loan collateral. The term is synonymous, and may be used interchangeably, with pawnbroker or pawn brokerage.

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

Residential real estate price index (RREPI) – an 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.

Rural Bank Strengthening Program (RBSP) - a structured program anchored on the principle that a safe and sound bank is well-capitalized. The RBSP is comprised of four key elements: (i) strengthened capital base; (ii) a holistic menu of five (5) time-bound tracks, all aimed at ensuring that rural banks that continue to operate have adequate capital to support their operations and effectively comply with regulatory expectations, (iii) incentives and capacity building interventions to promote successful undertakings; and (iv) review and enhancements of existing regulations to ensure consistency in policy approach and direction.

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.

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, designed to facilitate the flow of funds toward environmentally friendly economic activities as well as climate change mitigation and adaptation projects.

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.

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

Basel III leverage ratio (BLR) – the ratio 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.

Capital adequacy ratio (CAR) – the ratio 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 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).

CET1 ratio – the ratio of regulatory CET1 capital to risk-weighted assets.

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

Deposits-to-loans ratio – the ratio of total deposits to total loan portfolio, exclusive of interbank loans.

Earning asset yield – the ratio of interest income to average earning assets.

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

Funding cost – the ratio of interest expenses to average interest-bearing liabilities.

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

Liquid asset ratio – the ratio of liquid assets to total assets.

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

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

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

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

Minimum liquidity ratio (MLR) – the ratio 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.

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

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

Net stable funding ratio (NSFR) – the ratio of a covered bank's/QB's available stable funding to its required stable funding.

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

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

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

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

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

Return on equity (RoE) – the ratio 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 (R.A.) No. 7653 or The New Central Bank Act, as amended by R.A. No. 11211, and other pertinent laws.

R.A. No. 11211 expanded the BSP's supervisory powers over money service businesses, credit granting businesses and payment system operators. Meanwhile, R.A. No. 11127 (The National Payment Systems Act) mandated the BSP to oversee the payment systems in the country. Moreover, R.A. 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 December 2023, these consisted of 482 banks with 12,877 branches and other offices, 2,045 non-bank financial institutions (NBFIs) with 21,900 branches, and one offshore banking unit.

Effective 03 July 1998, the BSP's powers of supervision and regulation over certain NBFIs 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 R.A. 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 R.A. No. 8791 (The General Banking Law of 2000).

Highlights of the Report

Overview

The Philippine financial system remained resilient, with strong performances from both banking and non-bank financial institutions.

Banks continued to play an important role in the country's economic growth and development, delivering financial services and products to key economic sectors, including households. As of December 2023, the banking industry, which accounted for 83.3 percent of the Philippine financial system's total assets, recorded sustained growth in assets, loans, deposits, and earnings, as well as maintained ample capital and liquidity buffers.

Bank assets grew by 9.2 percent year-on-year (y-o-y) to ₱25.2 trillion on the back of stable domestic deposits. This enabled banks to expand their lending and investing activities, which grew by 9.8 percent to ₱13.9 trillion and 9.3 percent to ₱6.8 trillion, respectively. Loans and investments collectively comprised about 80.0 percent of the banking industry's total assets.

Broad-based lending of the banking industry continued, supporting the financing requirements of households (12.5 percent share, or about ₱1.7 trillion), and important industries in the country, such as real estate (18.5-percent share, or ₱2.6 trillion), wholesale and retail trade (10.7-percent share, or ₱1.5 trillion), electricity, gas, steam, and air-conditioning supply (9.3-percent share, or ₱1.3 trillion), and manufacturing (9.3-percent share, or ₱1.3 trillion) industries. Loans to all of these industries, including households, grew in 2023, with households posting the highest growth at 24.6 percent. Bank credit-to-GDP ratio[1] stood at 57.1 percent in 2023, highlighting banks' predominant role in providing credits.

Banks likewise supported the national government's agenda of inclusive growth for all Filipinos, delivering essential funds to the marginalized and priority sectors of the economy.

As of December 2023, total loans of the banking system to micro-, small, and medium enterprises reached ₱502.2 billion, of which ₱200.8 billion were allocated for micro and small enterprises and the remaining ₱301.4 billion for medium enterprises.

The banking system, together with concerned government financial institutions (GFIs), also continued to serve the financing needs of barangay micro business enterprises (BMBEs) in line with Republic Act (R.A.) No. 9178, or the BMBEs Act of 2002. The GFIs reported that 24 banks granted a total of ₱53.4 million in retail loans to 3,402 BMBE borrowers in 2023, higher than the ₱43.3 million (2,870 BMBE borrowers) recorded in 2022.

The level of compliance of banks with the mandatory agriculture, fisheries, and rural development (AFRD) financing as prescribed under R.A. No. 11901 or the AFRD Law, substantially improved as of 30 June 2023, with 37.7 percent (about ₱3.2 trillion) of the total loanable funds of banks allocated for AFRD financing higher than the 10.3 percent (₱848.0 million) allocated for agri-agra credit as of 30 June 2022.

More broad-based credit activities are to be expected following BSP's issuance of sustainable finance incentives and related initiatives in 2023 (*Box Article 2)*.

[1] This refers to the proportion of total loan portfolio, gross over nominal and annualized gross domestic product (GDP)

Highlights

Amid improving credit activity, the quality of loans remained satisfactory as banks continued to implement sound credit risk management practices and provide precautionary measures to mitigate credit risk. In December 2023, the non-performing loan (NPL) ratio remained low at 3.2 percent, relatively unchanged compared to a year before. This was accompanied by a high NPL coverage ratio of 101.7 percent.

Deposits, largely denominated in peso and sourced from resident individuals and resident private corporations, remained a reliable source of funds for bank operations at 75.3 percent of the banking system's total assets. These further expanded by 7.1 percent to ₱19.0 trillion in December 2023. Other sources of funding, such as bonds and bills payable, remained minimal, while capital provided banks with a stable buffer, growing by 13.4 percent to ₱3.1 trillion over the same reference period.

Similarly, the banking system and all banking industries remained well capitalized and highly liquid, with capital adequacy ratios (CARs) and key liquidity ratios well above BSP regulatory minima and international standards. Moreover, results of the latest stress tests attested to the continued resilience of bank capital to credit and market risks, including a potential downturn in the property market.

The BSP's continuing reforms contributed to the strong capital position of Philippine banks. *Box Article 1* presents key initiatives and updates to the Rural Bank Strengthening Program (RBSP).

Overall, bank operations remained profitable, providing better returns to stakeholders. For the period ending in December 2023, net profit rose by 15.0 percent to ₱356.5 billion, while other earnings metrics, such as return on assets and return on equity, further improved to 1.5 and 12.3 percent, respectively, from 1.4 and 11.7 percent the previous year.

The extensive banking landscape provided strong support to bank operations and the Philippine economy. The total number of bank offices reached 13,359, comprising 482 head offices and 12,877 branches and branch-lite units, by December 2023. Digital platforms likewise contributed to the improvement of bank touchpoints with more innovative and efficient channels to deliver financial services and products, as well as expanding their market reach to underserved and unserved segments.

By banking industry, universal and commercial banks (UKBs) continued to dominate the banking system, holding 93.9, 92.7, and 94.0 percent, of the banking system's total assets, total loans, and total deposits, respectively, as of December 2023. UKBs also remained the industry leader in terms of the total number of bank offices, with 45 head offices and 7,153 other offices.

Meanwhile, foreign bank branches and subsidiaries operating in the Philippines remained an integral part of the country's financial system, connecting retail and corporate customers, facilitating trade and investments, and providing employment opportunities for more Filipinos in line with R.A. No. 7721, as amended by R.A. No. 10641 (Foreign Banks Law). As of December 2023, these banks reported healthy operations and sustained growth in assets, rising by 8.5 percent to ₱1.5 trillion and accounting for 6.1 percent of the banking system's total assets. Overall, the operations of foreign banks remained profitable despite subdued lending activity, driven by higher interest earnings from core activities coupled with effective management of funding and borrowing costs and operating expenses. This, in turn, provided foreign banks with ample buffers to maintain their capital and key liquidity ratios above domestic and global standards.

Other areas such as the foreign currency deposit unit (FCDU) and trust operations sustained healthy performance and represented 14.9 and 24.7 percent, respectively, of the banking system's total assets. Total FCDU assets, consisting mostly of investments (40.8 percent, or US$27.7 billion) and loans (29.5 percent, or US$20 billion), grew by 9.6 percent to US$67.8 billion (₱3.8 trillion) in December 2023. Banks remained cautious in their FCDU investments and lending, with a noted contraction in both activities in 2023. This trend could be associated with the impact of the high-interest-rate environment on the funding requirements of bank clients and on the bank's business strategy, as well as volatility in the foreign exchange market, among others. Loan quality remained satisfactory, with low NPL ratio of 0.9 percent and a record high NPL coverage ratio of 246.2 percent. Deposits, which were mostly from residents, also posted a record high growth of 13.7 percent to reach US$6.6 billion, while other sources of funding such as bills payable remained minimal. Amid subdued FCDU credit activities, net profit declined by 13.3 percent to US$931.5 million for the period ending December 2023.

The trust operations of banks posted double-digit growth in assets and investments, growing by 16.3 percent to ₱6.2 trillion and 17.3 percent to ₱4.1 trillion, respectively. These assets remained domestic-oriented and highly liquid, mostly in the form of government securities and deposits in banks. In terms of accountabilities, agency and trust accounts held 55.8 percent (₱3.5 trillion) and 32.8 percent (₱2.0 trillion), respectively. By product, unit investment trust funds (UITFs) remained a preferred investment choice of most trust clients, accounting for 13.8 percent (₱856.5 billion) of the industry's total accountabilities. Meanwhile, the Personal Equity and Retirement Account (PERA) continued to expand on the back of an increase in contributions across all types of contributors, growing by 20.3 percent to ₱396.3 million (5,555 contributors). The industry's net profit rose by 3.0 percent to ₱7.4 billion, driven by higher trust income, offsetting the high trust expenses incurred for the period.

Moreover, the non-bank industry, consisting of BSP-supervised non-bank financial institutions (NBFIs), namely, NBFIs with quasi-banking functions (NBQBs), non-stock savings and loan associations (NSSLAs), pawnshops, and money service businesses (MSBs), similarly reported a positive performance and continued to be the banking industry's conduit in delivering crucial financial products and services through their extensive network nationwide. Total assets of BSP-supervised NBFIs, as represented by NBQBs, NSSLAs, and other NBFIs, grew by 6.7 percent to ₱921.0 billion in 2023. NSSLAs and NBQBs comprised most of the industry's total assets at 34.4 percent (₱316.8 billion) and 17.5 percent (₱161.3 billion), respectively.

NSSLA's registered continued growth in assets and loans, rising by 5.7 percent to ₱316.8 billion and 6.1 percent to ₱268.3 billion, respectively, in 2023. This has enabled the industry to provide uninterrupted services and meet the financial needs of its members while ensuring profitable operations and better returns. The confidence and sustained trust of its members likewise helped the industry maintain stable funding through members' deposits (₱86.2 billion) and capital (₱206.9 billion) contributions.

On one hand, NBQBs operations recovered in 2023, with growth in assets and loans of 6.7 percent to ₱161.3 billion and 10.2 percent to ₱144.5 billion, respectively. Alongside the improvement in lending activity, loan quality remained satisfactory, posting a low NPL ratio of 4.5 percent. This contributed to the sustained profitability of NBQBs operations, recording a profit of ₱1.8 billion for the period. On the other hand, the vast network of pawnshops and MSBs has also been instrumental in providing vital channels and platforms to underserved and unserved Filipinos where traditional banking services are limited. As of December 2023, the number of pawnshops increased to 16,070, while the number of MSBs stood at 7,358. This widespread coverage underscores the significant role both pawnshops and MSBs play in advancing national financial inclusion objectives.

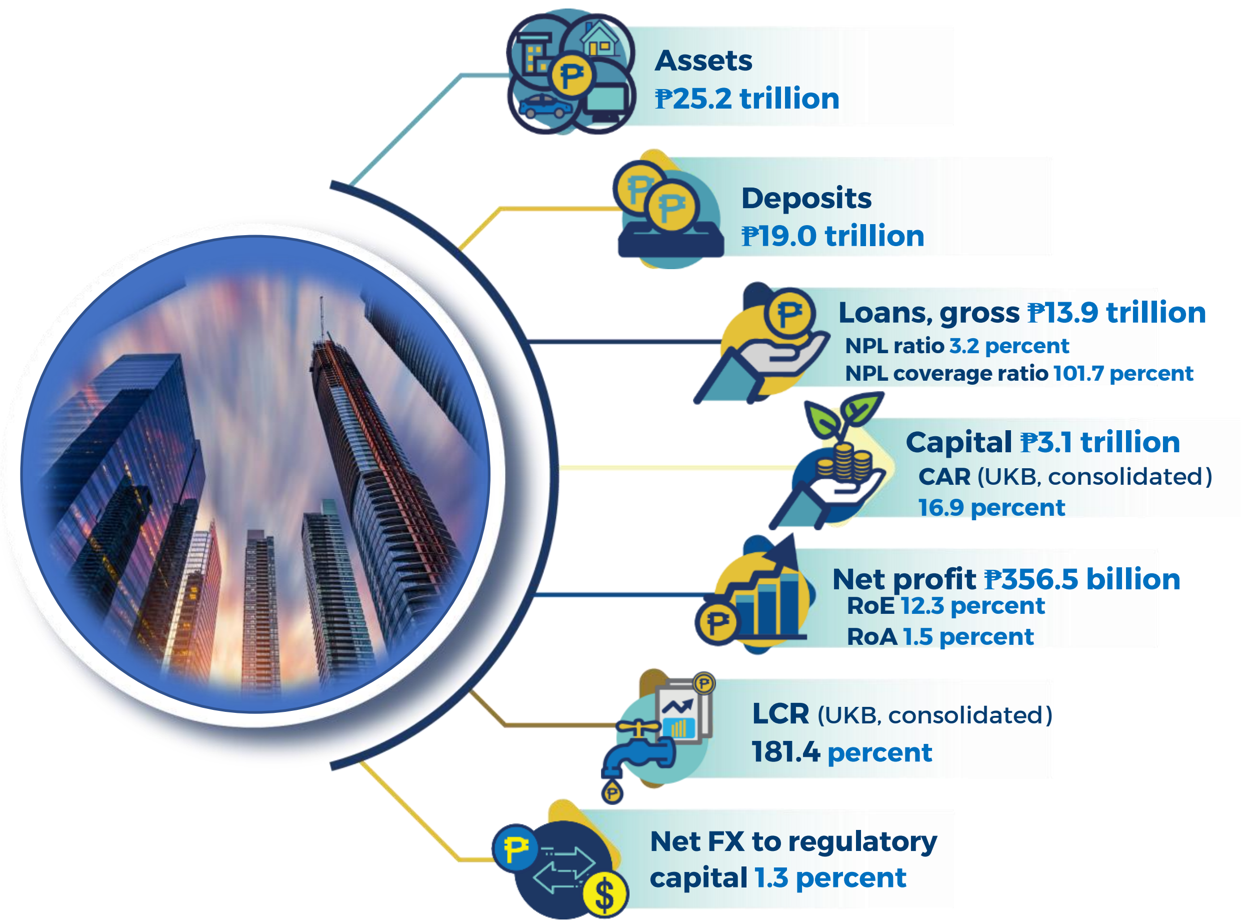
Meanwhile, with the proliferation of MSBs operating without BSP registration and with the inherent vulnerability of MSBs to money laundering and terrorist financing activities, the BSP has strengthened its surveillance arm and coordination efforts to cover illegally operating MSBs in the Philippines (*Box Article 4*).

In conclusion, the Philippine financial system capped 2023 with a solid performance, supporting the continued recovery of the economy. The BSP, for its part, remains committed to pursuing progressive reforms that will fully modernize and digitalize the domestic banking system towards a more resilient, dynamic, and inclusive financial system supportive of sustainable economic growth.

The Philippine Banking System

Overview

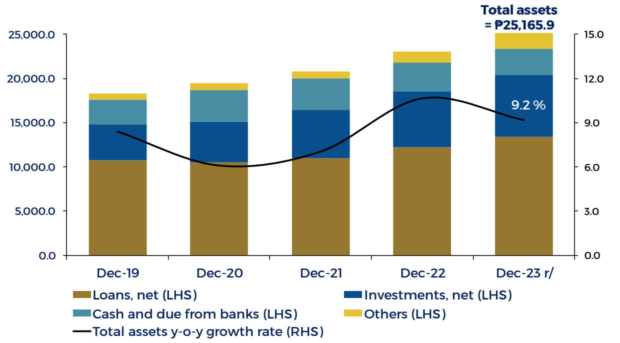
The Philippine banking system capped off 2023 with a robust performance, sustaining growth in assets, loans, deposits, and earnings. This enabled banks to continue serving their clients and provide strong support for the financing requirements of key economic sectors of the country. Overall, the banking system remains safe and sound, with key capital and liquidity ratios well above BSP and international standards, providing adequate cushion against unexpected shocks posed by tight financing conditions and global economic uncertainty.



Assets further grew, funded largely by domestic deposits

Total assets of the banking system maintained a steady growth, rising by 9.2 percent year-on-year[1] (y-o-y) to ₱25.2 trillion in December 2023 (*Figure 1*). This expansion, funded mainly by domestic deposits, was slower than the 10.7 percent growth recorded a year ago and the 11.0 percent pre-pandemic average.[2] The continued growth, however, is consistent with the upbeat outlook of the industry amid expectations of sustained recovery and better economic prospects.

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



Source: Department of Supervisory Analytics (DSA)
LHS - left-hand side
RHS - right-hand side
r/ revised

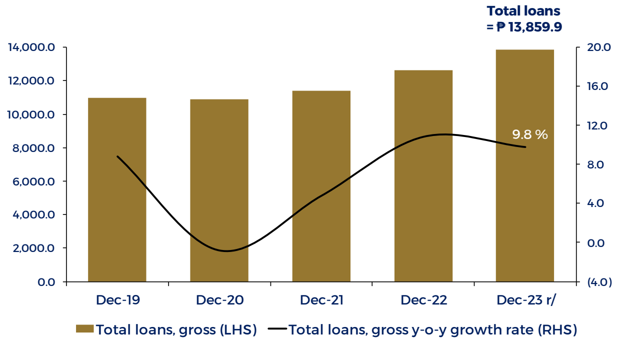
Strong deposit inflows (up by 7.1 percent or ₱1.3 billion) supported banks' lending and investing activities. Loans[3], net of credit allowance, accounted for more than half (or 53.3 percent) of the system's total assets, while the share of investments[4] and cash and due from banks stood at 26.7 and 11.6 percent, respectively.

Meanwhile, universal and commercial banks (UKBs) continued to dominate the banking system, with 93.9 percent (about ₱23.6 trillion) of the system's total assets. The share of smaller banks such as thrift banks (TBs), rural and cooperative banks (RCBs), and digital banks (DGBs) stood at 4.1 percent (₱1.0 trillion), 1.6 percent (₱414.3 billion), and 0.4 percent (₱88.7 billion), respectively.

Lending continued, supporting important sectors of the economy including households

The improving credit activity in the country is in line with the positive sentiment of businesses, consumers, and the banking industry. As of December 2023, gross total loan portfolio (TLP) posted strong growth despite tight financial conditions, increasing by 9.8 percent to ₱13.9 trillion (*Figure 2*), although slower compared to the 10.8-percent growth posted a year ago and the 13.8 percent pre-pandemic average.

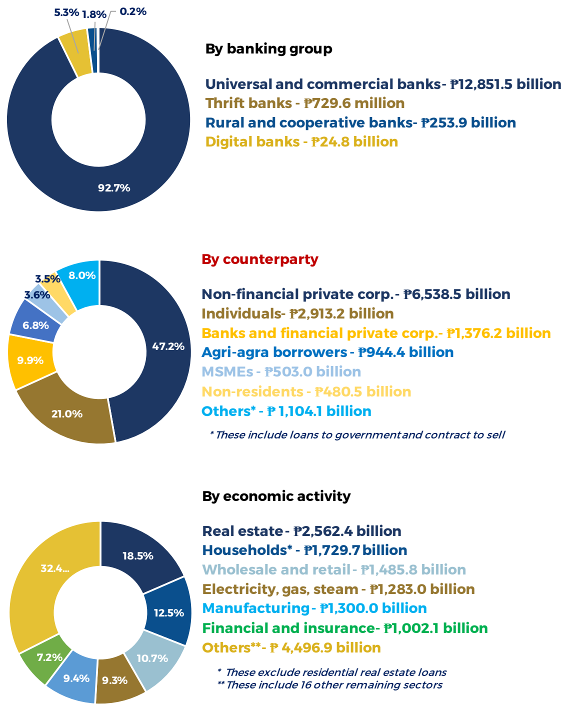
Figure 2
PBS Total Loans
as of end-periods indicated; in billion PH pesos; growth rate in percent



Source: DSA
r/ revised

1 All of the discussed growth rates and reporting periods pertain to y-o-y and end-December 2023, respectively, unless otherwise stated. Similarly, all discussions were based on available data and information at the time of report preparation.
2 The pre-pandemic compounded annual growth rate (CAGR) of the system's total assets was computed using December data from 2015 to 2019.
3 These include interbank loans receivable (IBLs) and reverse repurchase (reverse repo).
4 These consisted 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.

Figure 3
PBS Total Loans (by industry, counterparty, and economic activity)
as of end-December 2023r/; share in percent



Source: DSA r/ revised

Figure 3 shows that the UKB industry continued to provide most of the financing requirements of the public, holding 92.7 percent (around ₱12.9 trillion). By type of borrower, the banking system largely catered to domestic borrowers[5], particularly resident non-financial private corporations, with about ₱6.5 trillion, or about 47.2 percent of the system's TLP, while loans to resident individuals and resident private financial corporations[6] accounted for approximately 21.0 percent (₱2.9 trillion) and 9.9 percent (₱1.4 trillion), respectively.

By economic activity, the real estate sector remained the largest borrower, with an 18.5-percent share (₱2.6 trillion). This was followed by households (12.5 percent share, or about ₱1.7 trillion), and other sectors such as wholesale and retail trade (10.7 percent share, or about ₱1.5 trillion), electricity, gas, steam, and air-conditioning supply (9.3 percent share, or about ₱1.3 trillion), and manufacturing (9.4 percent share, or about ₱1.3 trillion). Loans to all five sectors, grew in 2023, with loans for household consumption recording the highest growth at 24.6 percent. This trend reflects the generally optimistic business environment, and improved consumer confidence.[7] This growth trend is expected to continue based on the latest consumer and business surveys, which indicate a rise in loan applications from households[8] and business expansion plans[9] in the next 12 months, respectively.

Meanwhile, total loans of the banking system to micro-, small, and medium enterprises (MSMEs) reached ₱502.2 billion in December 2023, with a total of ₱200.8 billion in loans allocated to the financing needs of micro and small enterprises and ₱301.4 billion loans allocated to medium enterprises. Eligible MSME borrowers likewise continued to receive relief from banks through loan restructuring.

Bank compliance with the mandatory agriculture, fisheries, and rural development (ARFD) financing substantially improved. Based on the latest available data as of 30 June 2023, 37.7 percent (about ₱3.2 trillion) of the total loanable funds of banks was allocated for AFRD financing, higher than the 10.3 percent (₱848.0 million) allocated for agri-agra credit the year

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5 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 representative of the markets in which the financial institutions operate. Source: IMF Financial Soundness Indicators Compilation Guide, c2006, 2019.

6 These include resident banks.

7 Based on the BSP's Q4 2023 Senior Loan Officers' Survey (SLOS), the increase in credit demand of businesses and households (i.e., housing loans, credit card loans, and personal/salary loans) was driven by improvements in customers' economic outlook, higher customer inventory and accounts receivable financing needs, banks' more attractive financing terms, and manageable interest rates.

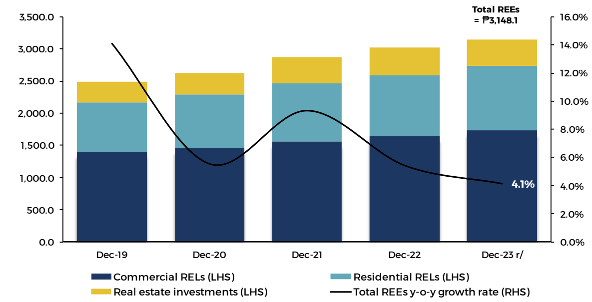
8 Based on the BSP's Q4 2023 Consumer Expectations Survey (CES), the portion of households with the intention to apply for a loan in the next 12 months grew to 13.7 percent as of Q4 2023 from the previous quarter's 12.1 percent and the previous year's 9.3 percent.

9 Based on the BSP's Q4 2023 Business Expectations Survey, firms with business expansion plans in the next 12 months rose from 24.1 percent in Q3 2023 and 22.9 percent in Q4 2022 to 25.7 percent in Q4 2023.

before. This shows that key enhancements under Republic Act (R.A.) No. 11901, or "The Agriculture, Fisheries, and Rural Development Financing Enhancement Act of 2022"[10] have enabled banks to contribute to the development of the AFRD sector.

Exposures to real estate remained modest, with steady growth over the past years

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



Source : DSA

r/ revised

UKBs' and TBs' total real estate exposures (REEs) amounted to ₱3.1 trillion[11] in December 2023 *(Figure 4)*, rising by 4.1 percent, slower than the 5.4-percent increase recorded a year before.[12] These exposures were largely in the form of real estate loans (RELs) at 87.0 percent (₱2.7 trillion), while real estate investments held the remaining 13.0 percent (₱410.7 billion).

As shown in *Figure 5*, commercial RELs comprised the majority of RELs at 63.2 percent (₱1.7 trillion), a growth of 5.3 percent, faster than the 5.1-percent growth recorded in the previous year. Most of these commercial RELs were largely unsecured (72.5 percent) and used to finance land development, acquisition, construction, and/or improvement of commercial real estate units.[13] In addition, the residual maturity of the majority (46.4 percent) of these commercial RELs was over one to five years. In terms of loan quality, the non-performing commercial RELs ratio remained relatively unchanged at 2.2 percent compared to a year ago, as the 4.9-percent increase in non-performing commercial RELs was offset by the 5.3-percent increase in total commercial RELs.

Meanwhile, the share of residential RELs was 36.8 percent, growing by 6.7 percent to ₱1.0 trillion in December 2023 (*Figure 6*), higher than the 5.4-percent increase in 2022. Most of these residential RELs were mid-end (45.0 percent, or ₱453.5 billion) and low-cost (40.4 percent, or ₱407.4 billion) housing, with more than half (or 52.2 percent) having a residual maturity of over 10 years. Moreover, the total non-performing residential REL ratio eased to 7.0 percent from 7.6 percent in December 2022, in view of the combined effect of a 1.8-percent decline in non-performing residential RELs and a 6.7-percent rise in residential RELs.

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10 Pursuant to Section 13 of the AFRD Law, which mandates its effectivity 15 days after its publication in the official gazette or in a newspaper of general circulation, R.A. No. 11901 lapsed into law on 28 July 2022 and became effective on 18 August 2022.

11 These include the trust department of banks, with a share of 10.0 percent (around ₱0.3 trillion) of total REEs as of December 2023.

12 The pre-pandemic CAGR was 13.2 percent.

13 This comprised 80.4 percent of the total commercial RELs.

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

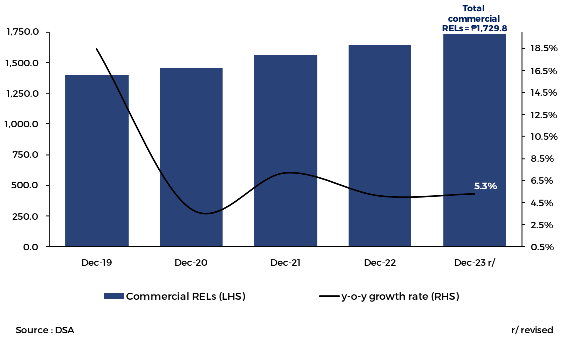
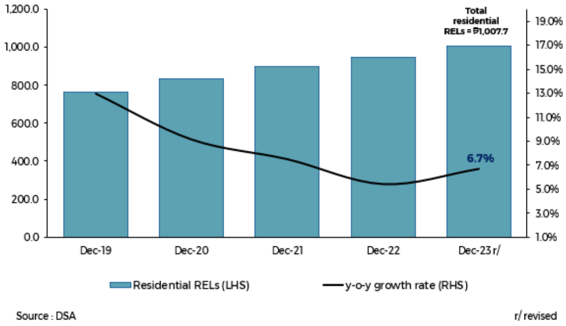


Figure 6
Residential RELs of UKBs and TBs (Consolidated)
as of end-periods indicated; in billion PH pesos; growth rate in percent

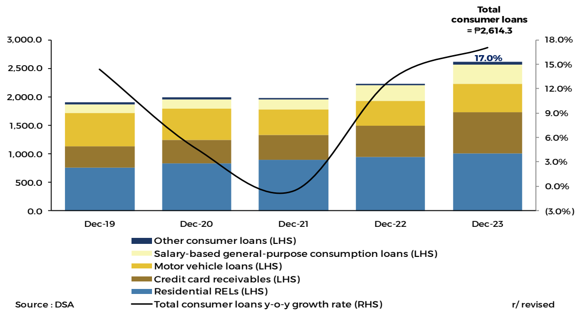


The continuous growth in both commercial and residential RELs reinforces the upbeat outlook of industry experts that the property market will remain buoyant.[14] Similarly, the most recent BSP survey results show that residential real estate prices in the country increased in 2023, albeit lower than the growth rate a year ago.[15]

Recognizing the importance of the real estate sector in the country's economic development, the BSP closely monitors banks' exposure to the said sector using prudential limits/measures and an enhanced surveillance toolkit. The latest results of the real estate stress test exercise show that the banking system continues to be well capitalized even after assumed stress scenarios[16], while the total RELs of the banking system remained below the REL limit[17].

Strong growth in consumer loans continued, driven largely by substantial increase in credit cards receivables

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



Consumer lending continued its upward trajectory, with a sustained double-digit growth. As of December 2023, consumer loans[18] of UKBs and TBs reached ₱2.6 trillion on a solo basis, increasing by 17.0 percent (*Figure 7*), faster than the 13.0 percent growth in 2022 and the pre-pandemic average.[19] This growth trend is expected to continue amid rising household demand and the generally unchanged credit standards of banks.[20]

These loans, which made up 18.9 percent of the banking system's total loans, consisted of residential RELs (38.4 percent, or ₱1.0 trillion), credit cards receivables or CCRs (27.6 percent, or ₱722.6 billion), motor vehicle loans or MVLs (19.4 percent, or ₱507.7 billion), salary-based general-purpose consumption loans or SBGPCLs (12.8 percent, or ₱333.6 billion), and other consumer loans or OCLs (1.8 percent, or ₱46.9 billion). All types of consumer loans posted

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14 Based on Collier's Q4 2023 Property Market Report–Office, the demand for commercial space, particularly in 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 Q4 2023 Property Market Report–Residential disclosed that rents and prices recovered due to a pickup in demand.

15 Based on the BSP's Q4 2023 Residential Real Estate Price Index or RREPI.

16 The real estate stress test, or REST, as of December 2023, showed the post-shock capital adequacy ratio of UKBs, including subsidiary TBs, remained above the 10.0 percent minimum.

17 The REL limit, which applies to all UKBs, covers commercial real estate loans extended to finance the acquisition and development of land and the construction of buildings and structures, including housing units for sale/lease, for income-generating purposes.

18 This includes residential RELs.

19 The pre-pandemic CAGR was 15.7 percent.

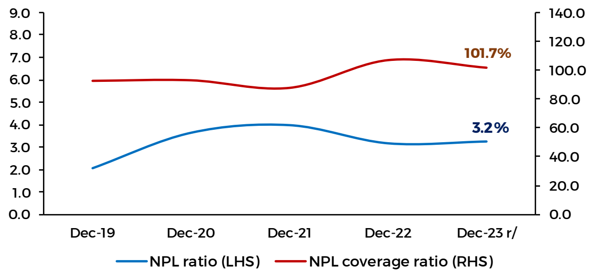
20 Based on the BSP's Q4 2023 SLOS.

growth, with CCRs and SBGPCLs recording substantial increases of 30.1 percent (₱167.2 billion) and 26.2 percent (₱69.2 billion), respectively. Meanwhile, MVLs (up by 15.1 percent) and residential RELs (up by 7.0 percent) registered the lowest growth among consumer loans, which could be attributed to consumers' downbeat buying intentions for motor vehicles, houses, and lots based on the latest survey.[21]

Satisfactory loan quality, with a low NPL ratio and ample provisions

The banking system's non-performing loans (NPL) ratio remained low at 3.2 percent, relatively unchanged from last year's ratio. As of December 2023, the NPLs of the banking system increased by 12.6-percent on the back of a high interest rate environment, which has impacted the paying capacity of bank borrowers. This uptick, however, was offset by the expansion in gross TLP. Moreover, banks continue to implement sound credit risk management practices as well as provide precautionary measures to mitigate credit risk. These include improved collection, debt relief and remedial efforts, the employment of additional credit risk mitigant, and intensive NPL management. Apart from this, banks maintained high provisions to absorb potential losses in their portfolios. As shown in *Figure* 8, the NPL coverage ratio[22] of the banking system stood at 101.7 percent in December 2023.

Figure 8
PBS NPL Ratio and NPL Coverage Ratio
as of end-periods indicated; ratio in percent

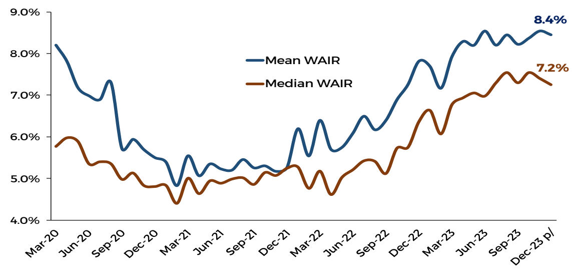


Source: DSA r/ revised

Lending rates continued to inch up, with loans to microenterprise and individuals posting the highest interest rates for the period

For the month of December 2023, interest rates on loans of UKBs remained high on the back of tight policy conditions,[23] with the overall mean and median weighted average interest rate (WAIR) further increasing to 8.4 percent and 7.2 percent, respectively, higher than the those recorded in March 2020 and December 2022 (*Figure 9*).

Figure 9
PBS WAIR on Loans of UKBs
for end-periods Indicated; ratio in percent



Source: DSA p/ preliminary

Figures 10 and 11, likewise, show that the mean and median WAR for all loan types generally increased compared to December 2022. Among loan types, agri-agra loans had the lowest mean and median WAIR, while loans to microenterprises and individuals posted the highest mean and median WAIR, which could be attributed to these borrowers' inherent risk profile.

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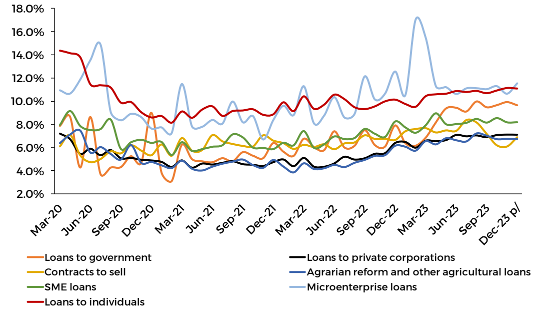
[21] Based on the BSP's Q4 2023 CES.

[22] This refers to the ratio of allowance for credit losses – total loans to gross NPLs.

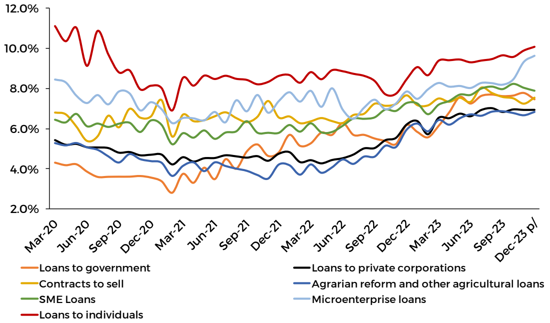
[23] Since May 2022, the BSP has increased the policy rate by an aggregate of 450 basis points (bps). In particular, the BSP policy rate was increased by 25 bps effective 20 May 2022 and 24 June 2022, 75 bps effective 14 July 2022, 50 bps effective 19 August 2022 and 23 September 2022, 75 bps effective 18 November 2022, 50 bps effective 16 December 2022 and 16 February 2023, and 25 bps effective 24 March 2023 and 27 October 2023. At its 8 April 2024 meeting, the Monetary Board maintained its policy settings. Currently, BSP's overnight reverse repurchase facility is at 6.5 percent while interest rates on the overnight deposit and lending facilities are at 6.0 percent and 7.0 percent, respectively.

Figure 10
PBS Mean WAIR on Loans of UKBs (by loan type)
for end-periods indicated; ratio in percent



Source: DSA p/ preliminary

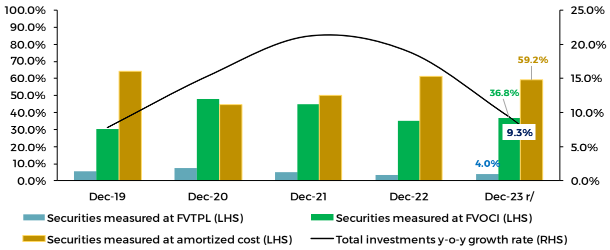
Figure 11
PBS Median WAIR on Loans of UKBs (by loan type)
for end-periods indicated; ratio in percent



Dource: DSA p/ preliminary

Investments continued to grow but at a slower pace

Figure 12
PBS Investments by Type
as of end-periods indicated; share and growth rate in percent



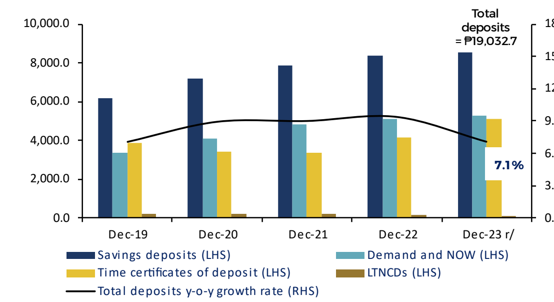
Source: DSA r/ revised

Total investments[24] grew by 9.3 percent to ₱6.8 trillion in December 2023, slower than the 18.9 percent recorded in December 2022 and the 10.6 percent pre-pandemic average. *Figure 12* shows the investment composition, with securities measured at amortized cost (AC) accounting for more than half, or 59.2 percent (around ₱4.0 trillion), while securities measured at fair value through other comprehensive income (FVOCI) and securities measured at fair value through profit or loss (FVTPL) stood at 36.8 percent (₱2.5 trillion) and 4.0 percent (₱272.9 billion) (*Figure 13*). Amid market expectations of policy cuts, the share of FVOCI securities has been steadily increasing, up by 13.7 percent from a 35.4-percent share in December 2022. In contrast, the share of AC securities declined from 61.3 percent, given the minimal growth of 5.6 percent in December 2023.

Deposits further expanded on the back of sustained double-digit growth in time deposits

Deposits continued to grow, providing a reliable source of funding for banks' lending, and investing activities. As presented in *Figure 13,* total deposits reached ₱19.0 trillion in December 2023, increasing by 7.1 percent, a slower pace compared to the 9.4-percent growth in 2022 and the 10.3-percent pre-pandemic average.

Figure 13
PBS Deposits (by Type)
as of end-periods indicated; in billion PH pesos; growth rate in percent



Source: DSA r/ revised

The bulk of the banking system's deposits were dominated in peso (83.9 percent or ₱16.0 trillion) and sourced from resident individuals (47.1 percent, or ₱9.0 trillion) and resident private corporations (32.9 percent, or ₱6.3 trillion). This stable funding base shields banks from potential fluctuations in the market ripples of global financial market fluctuations that can lead foreign investors to withdraw funds but also reduces the vulnerability of banks to exchange rate volatility.

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

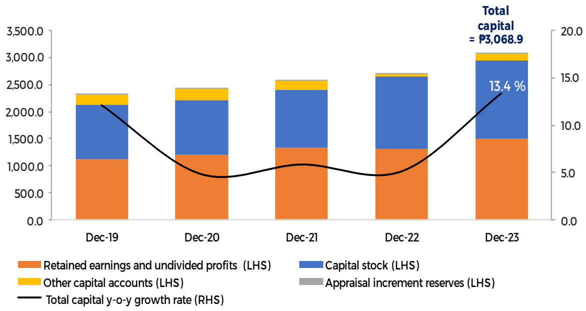
By type, savings deposits remained the largest component of the banking system's total deposits at 45.0 percent, growing by 2.5 percent to ₱8.6 trillion.[25] Time deposits, meanwhile, increased substantially by 22.8 percent (from 24.2 percent in 2022) to ₱5.1 trillion, driving the overall expansion in total deposits and highlighting depositors' preference towards high-yielding deposits amid a high-interest rate environment. Across banking groups, UKBs generated the most deposits, with a share of 94.0 percent (around ₱17.9 trillion).[26]

Other funding sources, such as bonds payable and bills payable, continued to be marginal, representing 2.2 percent (about ₱496.3 billion) and 3.5 percent (₱780.2 billion), respectively, of the banking system's total liabilities as of December 2023.

Capital remained strong, with capital ratios well above regulatory thresholds

As illustrated in *Figure 14*, bank capital has been steadily increasing, providing enough buffer to support operations and withstand potential market shocks. In December 2023, total capital rose by 13.4 percent to ₱3.1 trillion, higher than the 5.1 percent a year before and on par with the 13.4 percent pre-pandemic average. Retained earnings and paid-in capital held the bulk of the total capital at 48.8 percent (up by 14.1 percent to ₱1.5 trillion) and 47.2 percent (up by 8.5 percent to ₱1.4 trillion), respectively, increasing by 14.1 and 8.5 percent. The increase in paid-in capital was on account of public offerings and additional stock issuances in line with banks' long-term business plans.

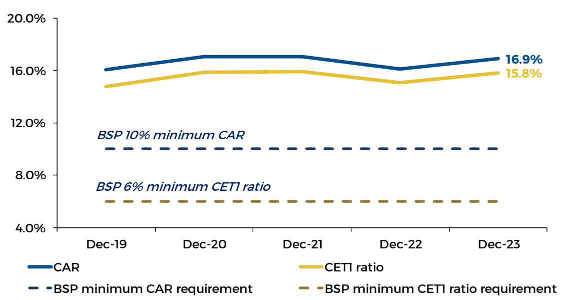
Figure 14
PBS Capital Composition
as of end-periods indicated; in billion PH pesos; growth rate in percent



Source: DSA

By banking group, UKBs contributed the largest share of the banking system's total capital at 92.0 percent (₱2.8 trillion).[27]

Figure 15
UKBs CAR and CET1 Ratio (consolidated)
as of end-periods indicated; ratio in percent



Source: DSA

Banks likewise maintain their risk-based capital ratios at levels higher than BSP and international standards (*Figure 15*). As of December 2023, the UKB industry's solo and consolidated capital adequacy ratios (CARs)[28] stood at 16.4 and 16.9 percent, respectively. In addition, the solo and consolidated common equity tier 1 (CET1)[29] ratios of UKBs were 15.3 and 15.8 percent, respectively, comfortably exceeding the minimum thresholds set by the BSP. Recent stress test results further confirm the resilience of bank capital against assumed stress scenarios, including a potential downturn in the real estate market.

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[25] The share of demand deposits and negotiable order of withdrawal (NOW) stood at 27.6 percent (around ₱5.3 trillion), while Long-Term Negotiable Certificate of Time Deposits remained minimal at 0.4 percent (₱81.2 billion).

[26] TBs, RCBs, and DGBs held the remaining share of 4.1 percent (₱789.3 billion), 1.5 percent (₱292.2 billion), and 0.4 percent (₱69.0 billion), respectively.

[27] TBs, RCBs, and DGBs comprised the remaining share of 5.1 percent (₱157.0 billion), 2.5 percent (₱76.2 billion), and 0.4 percent (₱12.1 billion), respectively.

[28] This ratio refers to regulatory capital to risk-weighted assets (RWAs).

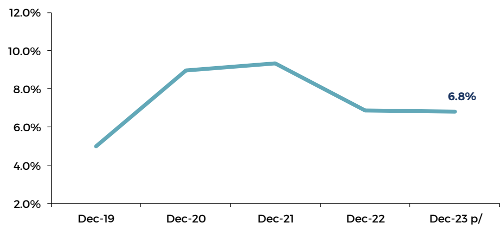
[29] This ratio refers to regulatory CET1 capital to RWA. The CAR and CET1 ratios are the most common measures of capital adequacy under the Basel Committee on Banking Supervision (BCBS) standards.

The banking system and all banking groups also sustained robust capital ratios, with the CARs of the banking system at 16.6 and 17.1 percent, respectively, on a solo and consolidated basis over the same reference period. Stand-alone TBs, RCBs,[30] and DGBs reported their CARs at 19.9, 21.5, and 43.8 percent, respectively.[31] Meanwhile, subsidiary TBs, RCBs, and DGBs exhibited CARs of 16.7, 14.6, and 20.8 percent, respectively.[32]

The BSP uses other indicators to complement its surveillance tools. These include the ratio of net NPLs[33] to the banking system's total capital, capital-to-asset ratio[34], and Basel III leverage ratio[35] (BLR). The former serves as an important gauge of a bank's ability to absorb losses stemming from NPLs not covered by specific loan loss provisions, while the leverage ratios, namely, capital-to-asset ratio and BLR measures how much of an asset's funding comes from the bank's resources and compares a bank's tier 1 capital to its total on- and off-book exposures, respectively.

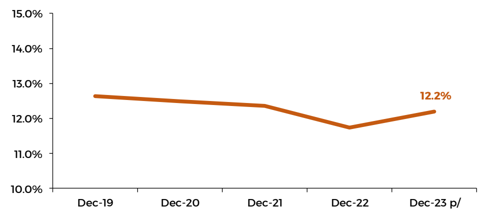
In December 2023, the ratio of net NPLs to the banking system's total capital stood at 6.8 percent (*Figure 16*), slightly dropping from 6.9 percent in 2022.[36] Notably, banks continue to beef up their loss reserves amid the uptick in NPLs.[37] On bank leverage, the capital-to-asset ratio reached 12.2 percent in December 2023 (*Figure 17)*, up from the previous year's 11.7 percent. Over recent years, this ratio remained relatively stable, signifying that banks have maintained adequate capital to support their asset base. Meanwhile, the UKB industry's BLR in December 2023 continued to surpass both BSP and international thresholds of 5.0 and 3.0 percent, respectively. The solo and consolidated BLR inched up to 9.2 and 9.7 percent, respectively, from 9.2 and 9.3 percent a year ago. A higher BLR indicates that the industry has a stronger capital position compared to its overall exposure, underscoring its ability to withstand financial stress without impairing its solvency.

Figure 16
PBS Net NPL to Capital Ratio
as of end-periods indicated; ratio in percent



Source: DSA

Figure 17
PBS Capital-to-Asset Ratio
as of end-periods indicated; ratio in percent



Source: DSA

The BSP also closely monitors the banking system's foreign exchange (FX) position. As of December 2023, banks reported an overbought FX position of US$580.8 million. This level remained manageable with the ratio of the net open FX position to the regulatory capital[38]

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30 Under the Basel 1.5 framework.

31 This is based on solo basis capital computation. Ratios are a combination of the Basel III and Basel 1.5 frameworks.

32 Under the Basel III framework.

33 This is net of provisions.

34 This pertains to the ratio of total capital accounts to total assets.

35 The BLR is expressed as a percentage of capital measure (Tier 1 capital) to exposure measure. 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.

36 Net NPLs rose by 12.1 percent to ₱208.7 billion in December 2023, a turnaround from the 22.5-percent contraction recorded a year ago.

37 In December 2023, the specific allowance for credit losses increased by 13.0 percent to ₱240.4 billion, marking a significant acceleration from the marginal 0.2 percent growth observed last year. In relation, banks reported an NPL coverage ratio of 101.7 percent, with UKBs posting an even higher NPL coverage ratio of 107.5 percent.

38 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.

of UKBs at 1.3 percent, lower than the 2.0 percent posted a year ago, an indication of banks active management of their FX exposures.

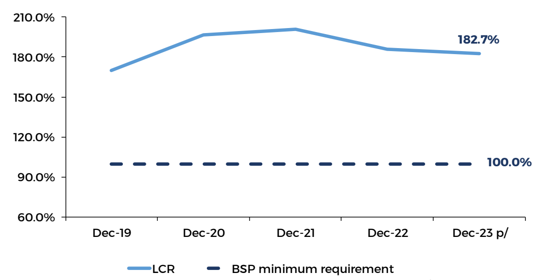
Highly liquid position, with key liquidity ratios surpassing BSP and international standards

In 2023, the banking system's liquidity ratios remained robust, highlighting the ability of banks to meet clients' funding and liquidity needs, even amidst potential financial shocks.

To gauge the banking system's liquidity position, the BSP employs various key indicators in its monitoring. Apart from the Basel liquidity ratios, the BSP also monitors the liquid asset ratio[39] and liquid assets-to-deposits ratio[40] of the banking system. The former offers insight into the liquidity available for banks to address both expected and unexpected cash outflows, while the latter indicates the extent to which banks could handle short-term fund withdrawals without encountering liquidity challenges.[41] These metrics provide the BSP with a comprehensive view of banks' liquidity profiles, including their ability to meet short- and long-term funding needs, maintain stable funding sources, and withstand prolonged liquidity stress scenarios.

As of December 2023, the banking system's liquid asset ratio and liquid assets-to-deposits ratio were 38.3 and 50.7 percent, respectively, reflecting a modest decline from the 40.5 and 52.6 percent recorded in December 2022.

Figure 18
UKBs LCR (solo)
as of end-periods indicated; ratio in percent



Source: DSA r/ revised

Meanwhile, for Basel liquidity ratios, the BSP implements the liquidity coverage ratio (LCR), minimum liquidity ratio (MLR), net stable funding ratio[42] (NSFR), and intraday liquidity[43] for supervised entities. In December 2023, the solo and consolidated LCRs of the UKB industry remained high at 182.7 and 181.4 percent, respectively (*Figure 18*). These ratios maintained a considerable margin above the regulatory threshold of 100 percent, indicating ample liquidity within the industry.

In December 2023, stand-alone TBs, RBs, and CBs reported their MLRs at 32.8, 52.4, and 39.6 percent, respectively, exceeding the minimum requirement of 20 percent for smaller banks.[44]

Meanwhile, the solo and consolidated NSFRs of the UKB industry continued to surpass the BSP's required minimum of 100 percent in September 2023, reporting ratios of 135.846 and 136.3 percent, respectively. Based on preliminary data as of December 2023, the UKB industry's solo NSFR remained high at 135.850 percent. These high liquidity ratios indicate banks' strong liquidity position and ability to withstand market disruptions over a one-year-time horizon.

39 This refers to the ratio of liquid assets to total assets.
40 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.
41 Source: IMF Financial Soundness Indicators Compilation Guide 2019
42 Based on Circular No. 1034, dated 15 March 2019, and Circular No. 1035 dated 15 March 2019.
43 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.
44 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.

In addition, the BSP uses the ratio of deposits to loans[45] to assess the liquidity and stability of the banking system's funding source. This ratio stood at 140.7 percent in December 2023, lower than 144.9 percent from the previous year but still well above 100 percent. This implies that banks maintain ample funds readily accessible to fulfill withdrawals and other short-term obligations, and that they predominantly rely on stable deposit funding rather than volatile sources such as borrowing from other financial institutions.

Sustained profitability, driven by high revenues from lending and investing activities and efficient management of operating expenses

For the year ending in December 2023, banks sustained profitable operations as net profit rose by 15.0 percent, reaching ₱356.5 billion and surpassing the 14.3-percent pre-pandemic average, although this is lower compared to the 38.0 percent recorded in December 2022. The satisfactory performance was on account of higher interest income generated for the period particularly, from lending to private corporations and households[46] and investments in securities[47], denoting that core activities continued to drive banks' operations. This enabled banks to manage the corresponding increase in their funding and borrowing costs amid the high-interest-rate environment, complementing banks' efficient management of their operating expenses[48]. The 41.2-percent increase (₱376.5 billion) in interest income offset the 137.2-percent increase (₱214.7 billion) in interest expense for the period. Interest expense on deposits and bills payable rose by 171.0 percent (to reach ₱305.4 billion) and 162.2 percent (to reach ₱32.3 billion), respectively. The notable rise in interest expense on bills payable was in view of the bank's strategy to tap alternative funding sources.

Other income likewise contributed to the sustained growth in earnings of banks. For the period ending in December 2023, income from fees and commissions and trading income[49] registered an increase of 14.1 percent (₱17.4 billion) and 39.4 percent (₱6.5 billion), respectively.

The improvement in the overall operations of banks translated to better returns during the reference period, with return on equity and return on assets, rising to 12.3 and 1.5 percent, respectively, from 11.7 and 1.4 percent the year before.

Contingent accounts increased, driven by growth in derivatives, credit line commitments, and trust-related activities

Total off-balance sheet accounts[50] reached ₱15.5 trillion in December 2023, rising by 15.9 percent (₱2.1 trillion) on account of higher domestic transactions from derivatives (up by 25.9 percent, or ₱1.2 trillion), credit card line commitments (up by 25.3 percent, or ₱304.4

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

[46] The bulk of the banking system's total interest income came from loans to private corporations and individuals, with shares of 35.3 percent (up by 35.1 percent to reach ₱454.7 billion) and 26.1 percent (up by 47.9 percent to reach ₱335.7 billion), respectively, in December 2023.

[47] Interest income from securities measured at AC accounted for 13.8 percent (up by 37.6 percent to reach ₱177.6 billion) of the system's total interest income.

[48] Cost-to-income (CTI), which refers to the ratio of annualized non-interest expenses to annualized total operating income, indicates operational efficiency. For the past years, CTI has been maintained below 60 percent. This ratio stood at 56.7 percent for the period ending December 2023, higher than the 55.2 percent posted in December 2022.

[49] Trading income was mainly composed of ₱10.6 billion realized gains from FX transactions and ₱10.2 billion profits in sales and/or redemption of trading securities. The growth in trading income was driven by the ₱2.2 billion unrealized mark-to-market gains incurred on trading portfolio, a reversal of the ₱2.9 billion unrealized losses in December 2022.

[50] This accounted for 61.4 percent (₱15.5 trillion) of the banking system's total assets in December 2023, increasing from 57.9 percent (₱13.3 trillion) in 2022. Total off-balance sheet accounts were largely resident transactions, amounting to ₱12.9 trillion or 83.3 percent, over the same reference period.

billion), and trust activities (up by 8.6 percent, or ₱331.9 billion). These accounts collectively comprised 75.3 percent (₱11.6 trillion) of the banking system's total off-balance sheet accounts.

In terms of composition, off-balance sheet accounts were predominantly made up of derivative instruments (44.5 percent, or ₱5.9 trillion). The remainder consisted of trust department accounts (31.4 percent, or ₱4.1 trillion), commitments (16.8 percent, or ₱2.2 trillion), bank guarantees (4.9 percent, or ₱655.5 billion), trade-related accounts (1.2 percent, or ₱165.4 billion), and others[51] (17.1 percent, or ₱2.3 trillion).

The substantial increase in derivatives was largely driven by the notional amount of foreign exchange contracts[52], which grew by 21.2 percent (₱749.9 billion). Notional amount of foreign exchange contracts constituted 84.0 percent (₱4.3 trillion) of total derivatives.

Banks' total commitments likewise rose by 20.8 percent (₱384.7 billion), propelled by the increase in committed credit card lines, which accounted for 67.5 percent (₱1.5 trillion) of the banking system's total commitments. The upsurge in credit card lines signals increased activity in the market for short-term borrowing.

While most contingent accounts exhibited an upward trend, trade-related accounts veered off course with a decline of 12.7 percent (₱24.1 billion). This downturn can be attributed to the slowdown in trading activities,[53] marking a deviation from the prevailing trend.

Further insights on trust industry operations are discussed in a separate section of this report.

Extensive banking landscape, providing a strong support to banks operations and the Philippine economy

The banking industry further rationalized its operations as a leaner and stronger banking landscape complemented its effort to efficiently deliver financial products and services to Filipinos. As of December 2023, the total number of bank offices reached 13,359, an improvement from 13,269 a year before. The increase was due to banks' strengthening their network of branches and branch-lite units (collectively referred to as other offices), which grew by 105 to 12,877. Meanwhile, the total number of head offices declined to 482 from 497 a year before on account of banks' mergers, consolidations, and closures as the financial system streamlined its landscape to promote resilient financial institutions.

[51] This was largely comprised of securities held under custodianship by the bank proper at 12.6 percent (₱2.0 trillion) of total contingent accounts.

[52] This excludes spot foreign exchange contracts.

[53] The country's total external trade in goods amounted to US$199.8 billion in 2023, which indicates an annual decline of 7.8 percent from the US$216.8 billion total external trade in the previous year. The country's total export sales in 2023 amounted to US$73.6 billion, indicating an annual decrease of 7.5 percent from the US$79.57 billion total exports a year before. The total imported goods in 2023 amounted to US$126.2 billion, indicating an annual decline of 8.0 percent from US$137.2 billion in the previous year. (Source: Philippine Statistics Authority)

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

Table 1
PBS Network
as of December 2023

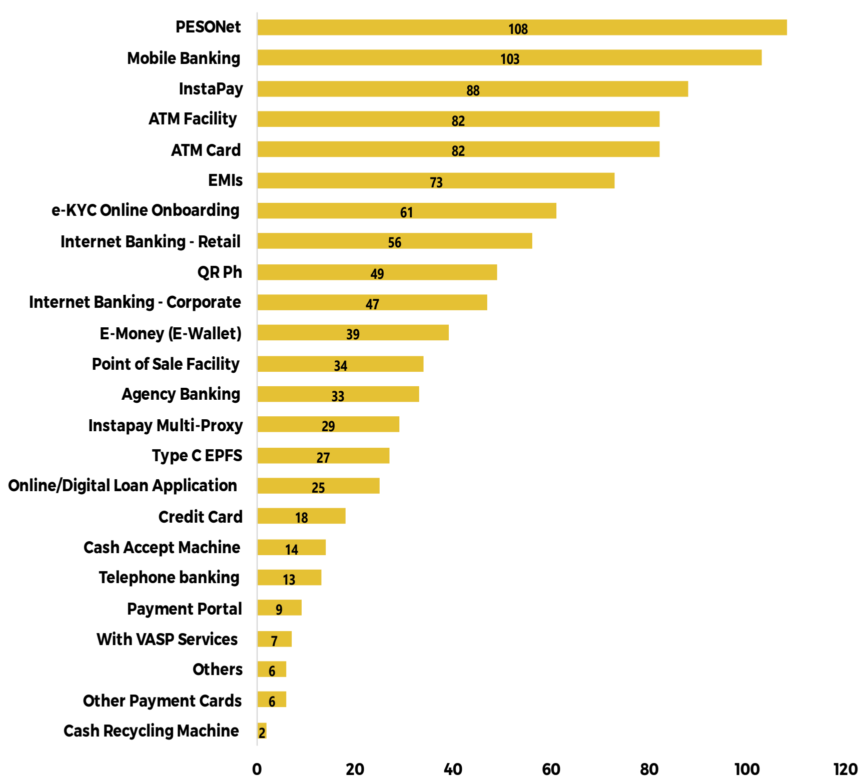
	Total	UKBs	TBs	RCBs	DGBs
Head offices	482	45	42	389	6
Other offices	12,877	7.153	2,562	3,162	-
Total Offices	**13,359**	**7.198**	**2,604**	**3,551**	**6**

Source: DSA

Moreover, bank offices in the Philippines remained highly concentrated in Luzon, with the National Capital Region (NCR) having the most number of bank offices (3,780, or 28.4 percent), followed by CALABARZON (1,923, or 14.5 percent), and Central Luzon (1,388, or 10.4 percent). The Bangsamoro Autonomous Region in Muslim Mindanao (BARMM) has the fewest bank offices (42, or 0.3 percent).

Notwithstanding, BSP's active promotion of a streamlined financial landscape, banks and other financial institutions increased their touchpoints by widening their market reach through digital platforms to bring more innovative and efficient financial services to most Filipinos while ensuring the protection of financial consumers. In line with this digital transformation, electronic and digital payments as a medium for financial transactions continued to flourish. *Figure 19* shows that automated teller machines, or ATMs (cards and facilities) remained the most favored electronic facility used by most BSP-supervised entities (164 users), followed by PESONet (108 users), and mobile banking (103 users).

Figure 19
Electronic Payment and and Financial Services (EPFS)
as of December 2023 p/

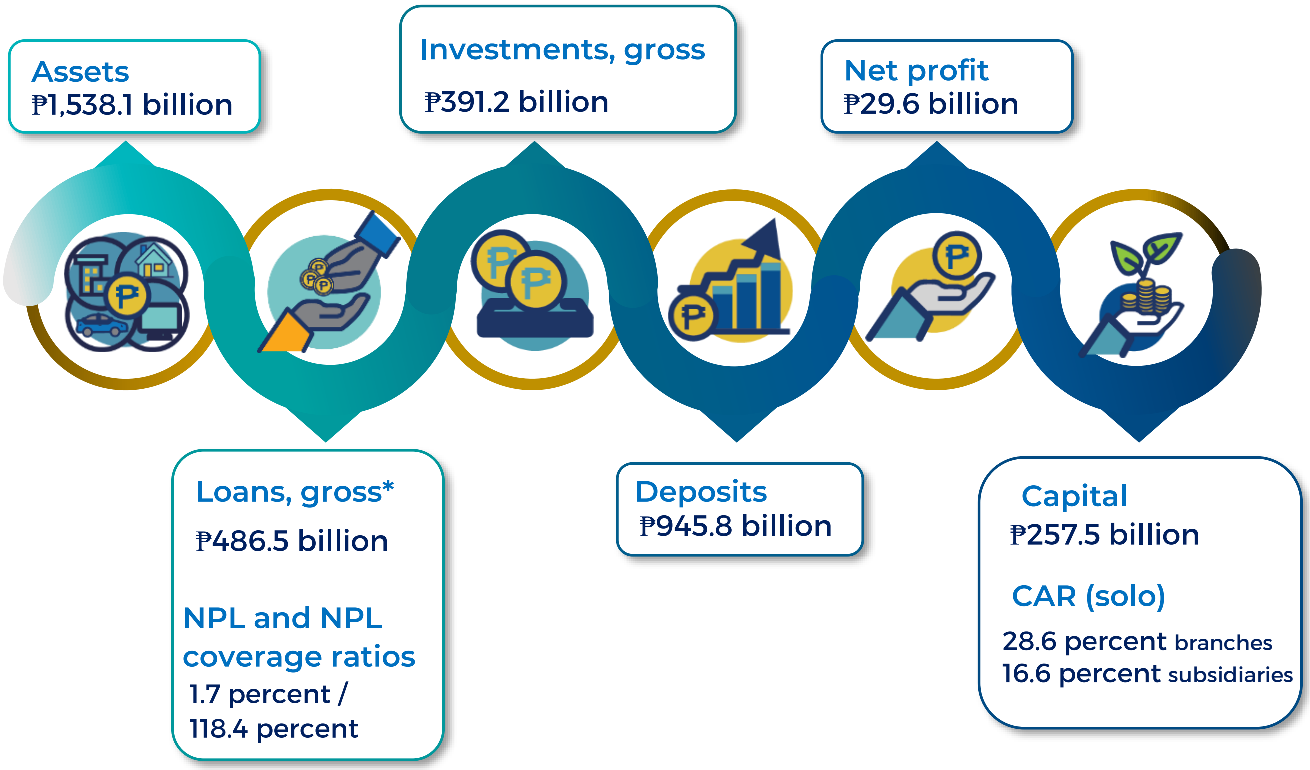


Source: DSA
p/ preliminary

Foreign Bank Branches and Subsidiaries

Overview

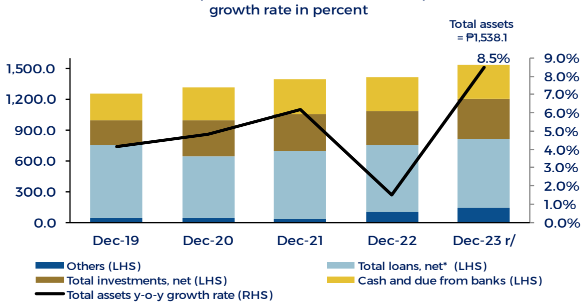
Foreign banks sustained growth in their assets, mostly in the form of investments and short-term financing arising from reverse repurchase agreements (reverse repos) and interbank lending. Overall, the operations of foreign banks remained profitable despite subdued lending activity, driven by higher interest earnings from core activities, coupled with effective management of funding and borrowing costs and operating expenses. This, in turn, provided banks with ample buffers to maintain their capital and key liquidity ratios above domestic and global standards.



These exclude reverse repos and interbank loans receivables.

Assets grew faster, largely channeled to investments, reverse repos, and interbank lending

Figure 1
Foreign Banks Asset Composition
as of of end -periods indicated; in billion PH pesos; growth rate in percent



Source: Department of Supervisory Analytics (DSA)
* Inclusive of IBL and repos
LHS - left-hand side
RHS - right-hand side
r/ revised

Total foreign bank assets displayed robust growth of 8.5 percent (up by ₱120.4 billion) year-on-year[1] (y-o-y), reaching ₱1.5 trillion in December 2023 (*Figure 1*) and outpacing the 1.5 percent increase in December 2022. This expansion was largely funded by growth in domestic deposits. In terms of composition, around 44.1 percent (₱678.4 billion) of the total assets were in the form of loans[2], while investments in securities[3], and cash and due from banks[4] stood at around 25.4 percent (₱391.3 billion) and 21.5 percent (₱330.7 billion), respectively.

In 2023, asset expansion of foreign banks was in the form of reverse repos and interbank loans receivables (IBLs). Reverse repos with BSP[5] and IBL[6] sustained their double-digit growth, growing by 76.6 percent (up by ₱51.5 billion to reach ₱118.7 billion) and 36.1 percent (up by ₱10.5 billion to reach ₱39.6 billion), respectively. The subdued credit demand prompted banks to temporarily channel their funds toward these financing channels.

Portfolio investments[7] likewise increased by 15.1 percent to ₱391.2 billion in 2023, reversing the 6.3-percent decline in 2022. By counterparty, majority or about 67.3 percent (₱263.2 billion) of the industry's total investments in securities were issued by resident private corporations and the Philippine government[8], expanding by 45.5 percent from ₱180.9 billion in 2022. Meanwhile, the share of investments in securities issued by non-residents[9] was 32.2 percent (₱125.9 billion), declining by 37.6 percent from ₱201.8 billion a year ago.

The industry capped the year 2023 with a modest share of the banking system's total assets at 6.1 percent, a slight drop from 6.2 percent a year ago. In terms of network, there were 28 foreign bank branches and subsidiaries in the country, comprising 24 branches and four (4) subsidiaries (*Table 1*). This number, however, declined when compared to the 29 branches and subsidiaries in 2022, following the voluntary surrender of the license of a commercial foreign bank subsidiary. Notwithstanding, the country's sound macroeconomic fundamentals and conducive regulatory environment are expected to continue to attract foreign players.

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1 All of the discussed growth rates and reference period pertain to y-o-y, and as of December 2023, respectively. unless otherwise specified. Similarly, all discussions were based on available data and information at the time of report preparation.
2 These include interbank loans receivable (IBL) and reverse repurchase agreements (repos) and were net of allowance for credit losses.
3 These include equity investments and were net of allowance for credit losses and accumulated market gains or losses, as applicable.
4 This was largely composed of due from BSP at 76.3 percent share or about ₱252.4 billion.
5 These comprised around 7.7 percent of the foreign bank industry's total assets. In December 2022, reverse repos with BSP grew by 4.4 percent.
6 These comprised around 2.6 percent of the foreign bank industry's total assets. In December 2022, IBLs grew by 27.7 percent.
7 These were comprised of securities measured at: (i) fair value through other comprehensive income (61.0 percent share, up by 18.3 percent to reach ₱238.6 billion); (ii) fair value through profit or loss (21.1 percent share, up by 33.1 percent to reach ₱82.7 billion); and (iii) amortized cost (17.9 percent share, down by 8.1 percent to reach ₱70.0 billion).
8 Residents include banks and other private corporations, and the Philippine government, namely, the national government, local government units, government-owned and controlled corporation, and the BSP.
9 Non-residents include central banks/governments, public sector entities, banks, private corporations, and multi-lateral agencies.

Table 1
FBB Network
as of end-December 2023

	Branch	Subsidiary	Total
By bank category			
Universal banks	6	0	6
Commercial banks	18	2	20
Thrift banks	0	2	2
Total	**24**	**4**	**28**
By mode of entry			
Republic Act (R.A.) No. 337	4	0	4
R.A. No. 7721	10	2	12
R.A. No. 10641	10	2	12
Total	**24**	**4**	**28**

Source: DSA

Loans[10] contracted, but remained supportive of the financing requirements of the important sectors in the economy

Loans, exclusive of reverse repos and IBL, declined by 4.9 percent (₱25.1 billion to reach ₱486.5 billion) in December 2023, following a 0.6-percent increase last year. The contraction was due to weak loan demand given the availability of cheaper sources of financing, coupled with maturing loans. Along with subdued lending activity, non-performing loans[11] (NPLs) picked up, increasing by 45.4 percent (₱3.8 billion to reach ₱12.0 billion) as of the same period due to the default of a big-ticket account. This translated to an NPL ratio[12] of 1.7 percent, a deterioration from the 1.3 percent posted in 2022. Banks, however, maintained high loss provisions to manage the uptick in NPLs, with an NPL coverage ratio of 118.4 percent, albeit lower than the 149.0 percent in 2022.

By economic activity, the manufacturing sector remained the largest recipient of loans of the industry, holding around 21.1 percent share or about ₱102.9 billion as of December 2023. This was followed by consumption loans (12.5 percent share or about ₱60.9 billion) and loans to other productive sectors, namely, wholesale and retail trade (11.7 percent share or about ₱56.9 billion), real estate (8.9 percent share or about ₱43.1 billion), electricity, gas, steam, and air-conditioning supply (8.7 percent share or about ₱42.5 billion), and financial and insurance services (7.4 percent share or about ₱35.9 billion). Loans to most of these sectors, however, declined by 17.8 percent (₱22.3 billion) for manufacturing, 11.1 percent (₱5.4 billion) for real estate, and 4.8 percent (₱2.9 billion) for wholesale and retail trade. Meanwhile, household loans rose by 26.9 percent (₱12.9 billion), while loans to finance electricity, gas, steam, and air-conditioning supply, and financial and insurance services grew by 12.6 percent (₱4.8 billion) and 3.5 percent (₱1.2 billion), respectively, as of the same period. Collectively, these five sectors, including consumption loans, accounted for about 70.3 percent (₱342.1 billion) of the industry's total loans (exclusive of IBL and reverse repos).

[10] This pertains to loans and receivables-others.
[11] IBLs were all current as of December 2023.
[12] As of December 2023, the gross NPL ratio (inclusive of IBLs) was 1.7 percent (up from 1.25 percent in 2022) while the gross NPL ratio (exclusive of IBLs) was 1.8 percent (up from 1.31 percent in 2022).

Deposits expanded and remained a reliable source of bank's funding, buoyed by strong growth in resident deposits

Deposits, which amounted to ₱945.8 billion, continued to fund most of the industry's operations, accounting for 61.5 and 73.9 percent, respectively, of the industry's total assets and total liabilities in 2023. The 7.1-percent increase (₱58.4 billion) in domestic deposits[13] propelled the 8.2 percent growth (₱71.4 billion) in total deposits of the industry, a reversal of the 1.5-percent decline recorded in 2022. The deposit structure of the industry, which was mostly domestic-based, shields banks from possible global funding shocks.

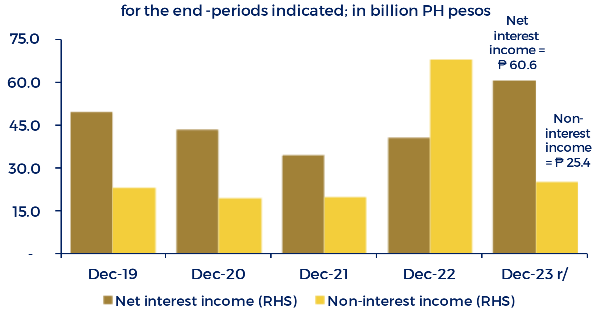
The industry, likewise, taps bills payable as its other source of funding. In December 2023, bills payable remained modest, with a share of 2.5 percent (₱32.5 billion) of the industry's total liabilities.

Operations remained profitable despite the drop in net profit

For the period ending December 2023, net profit amounted to ₱29.6 billion, recording a double-digit decline of 29.2 percent (₱12.2 billion). Apart from low non-core earnings, subdued lending activity contributed to the tapered performance of the industry as earnings opportunity was limited given the weak demand from the bank's clients.

Total operating income of the industry fell by 20.4 percent (₱22.0 billion) to ₱86.0 billion compared to ₱108.1 billion recorded in 2022. The contraction was due to the lower non-interest income in 2023, which saw a 62.4-percent drop vis-à-vis the 240.6 percent growth a year ago (*Figure 2*).[14] Despite this, banks maintained their funding and borrowing costs, including their operating expenses[15] at a manageable level. These helped the industry post favorable earnings metrics for the reference period, with higher net interest margin of 4.5 percent compared to 3.0 percent posted in 2022, while return on assets and return on equity stood at 2.0 and 11.4 percent, respectively, although this was lower compared to 3.0 and 16.9 percent recorded in 2022.

Figure 2
FBB Total Operating Income
for the end -periods indicated; in billion PH pesos



Source: DSA

r/ revised

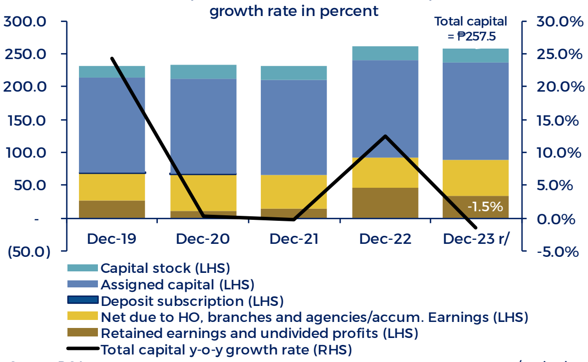
[13] Resident deposits made up most of the industry's total deposits at 92.9 percent or about ₱878.8 billion in December 2023. These deposits were largely peso-denominated (60.0 percent share, or about ₱567.5 billion), while the rest of the deposits were in foreign currency (32.9 percent or about ₱311.3 billion)

[14] For the period ending December 2023, other income amounted to ₱3.8 billion, lower than the ₱46.2 billion recorded in 2022. The higher other income in 2022 was due to a one-time gain from the sale of a business segment (consumer banking business) in 2022.

[15] Non-interest expense declined by 10.8 percent in 2023 due mainly to the 22.5-percent decline in miscellaneous expenses (₱2.8 billion), and the 8.7-percent decrease in compensation/fringe benefits (₱1.2 billion). In addition, the ratio of cost-to-income stood at 51.2 percent in December 2023. This ratio was higher than the 45.6 percent in December 2022 but better compared to the 79.1 percent in December 2021.

Well capitalized and highly liquid position, with CAR and key liquidity ratios that were above industry standards

Figure 3
FBB Capital Composition
as of end-periods indicated in billion PH pesos; growth rate in percent



Source: DSA r/ revised

As of December 2023, total capital accounts stood at ₱257.5 billion, recording a slight decline of 1.5 percent due to lower retained earnings and undivided profits (26.4 percent). Meanwhile, total assigned capital[16] comprised most of the total capital accounts of foreign banks at around 58.2 percent (₱149.9 billion) in 2023, higher than the 56.3 percent in 2022 (*Figure 3*).

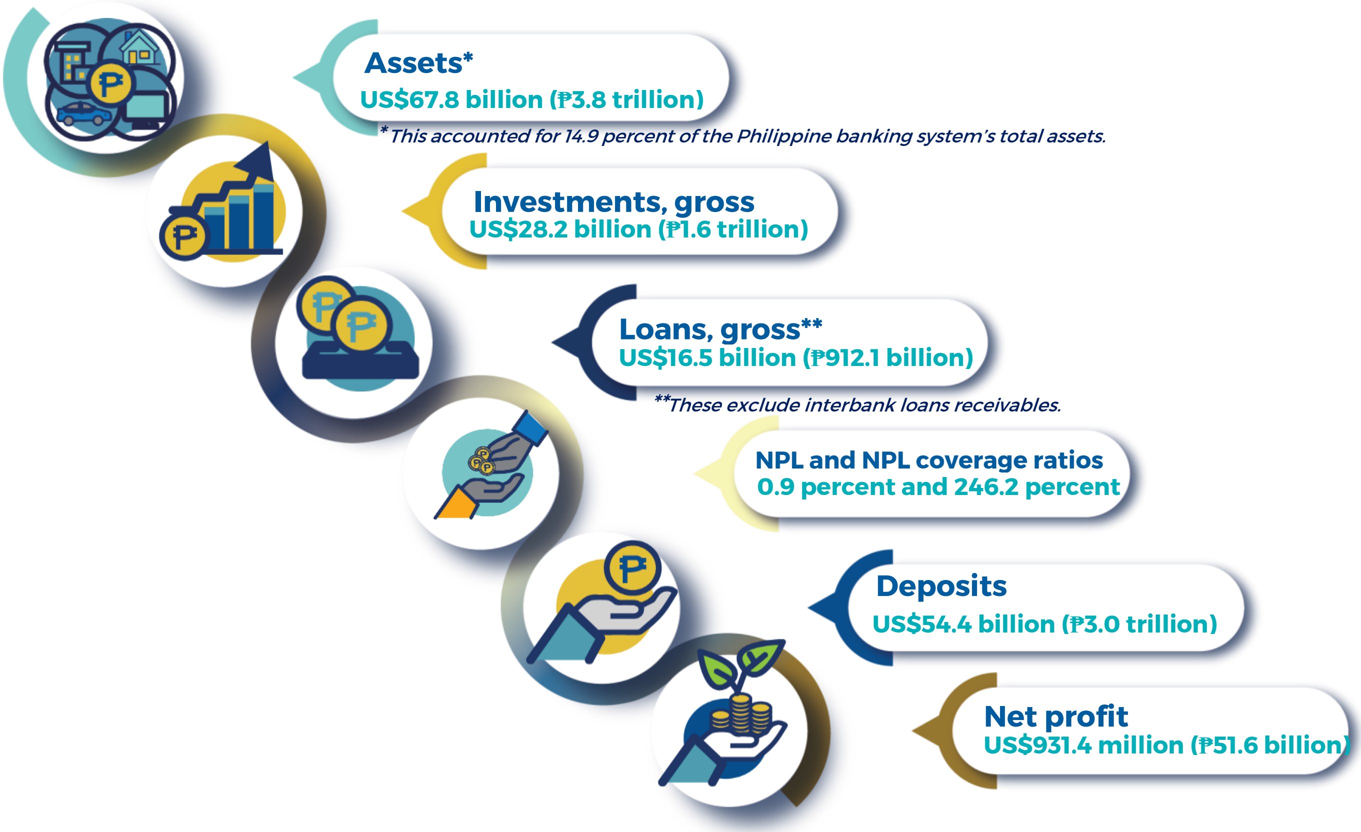
Importantly, the industry continued to record risk-based capital ratios at levels higher than the thresholds set by BSP and the Bank for International Standards (BIS). As of December 2023, the solo capital adequacy ratio (CAR) and common equity tier 1 (CET1) ratio of branches of foreign banks stood at 28.6 and 28.1 percent, respectively, marginally lower than the 28.8 and 28.2 percent registered in 2022 but well above the minimum thresholds set by the BSP and the BIS. Subsidiaries of foreign banks likewise maintained high capital ratios, with solo CAR and CET1 ratio of 16.6 and 15.7 percent, respectively, declining from 18.9 and 18.0 percent a year ago. In addition, the solo liquidity coverage ratios (LCRs) of foreign bank branches and subsidiaries were maintained at levels higher than the 100 percent minimum at 220.7 and 129.2 percent, respectively, as of December 2023.

[16] This refers to the capital permanently assigned by a foreign bank to its branches operating in the Philippines pursuant to Section 4 of R.A. No. 7721 (An Act Liberalizing the Entry and Scope of Operations of Foreign Banks in the Philippines and For Other Purposes).

Foreign Currency Deposit Unit Operations

Overview

Operations of the foreign currency deposit unit (FCDU) operations remain stable, with record-high growth in assets and deposits. This expansion enabled banks to support their clients as well as the lending and investment activity of the banks' regular banking unit. Banks remained cautious in their FCDU lending and investments, with a noted contraction in both activities in 2023. This trend could be associated with a number of factors, such as the impact of the high interest rate environment on the funding requirements of bank clients and on the bank's business strategy, tight credit standards of banks, and volatility in the foreign exchange market, among others. Notwithstanding, loan quality further improved, with the non-performing loan ratio at an all-time low in view of the bank's efficient credit management practices. The satisfactory loan quality was accompanied by a high provision for losses. Overall, FCDU operations remained profitable, generating favorable earning metrics despite tempered investments and lending activities, coupled with the high cost of funding on the back of a high interest rate regime.

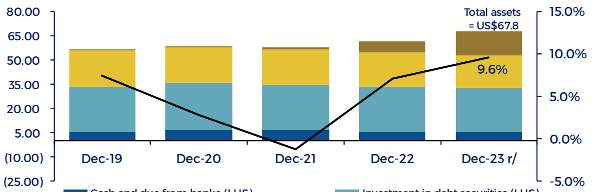


Based on closing rate of ₱55.37 as of December 2023.

Asset expansion surpassed the pre-pandemic average

Total FCDU assets[1] reached US$67.8 billion (₱3.8 trillion) in December 2023, expanding by 9.6 percent year-on-year (y-o-y).[2] As shown in *Figure 1*, this was a record-high growth over the last five years, exceeding the 6.6 percent pre-pandemic average[3] and the 7.1 percent posted a year ago. Expansion in FCDU resources in 2023 was mostly channeled to lending to the regular banking unit (RBU), which amounted to US$14.0 billion (₱772.4 billion or 20.6 percent of FCDU assets). In December 2023, loans to RBU grew by 110.7 percent (up by US$7.3 billion), enabling banks to use excess FCDU funds to support lending and investment activity of the banks' RBU. This is in line with the amendments to the FCDU regulations[4] which provide banks with greater flexibility in managing their foreign currency-denominated exposures on a bank-wide basis.

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



Source: Deparment of Supervisory Analytics (DSA)
* Inclusive of IBLs
LHS - left-hand side
RHS - right-hand side

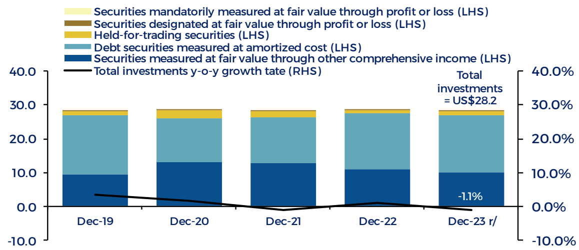
By composition, FCDU assets were largely investments in securities[5], with a 40.8 percent share (US$27.7 billion). This was followed by loans[6], other assets[7], and cash and due from banks, with shares of 29.5 percent (US$20.0 billion), 21.7 percent (US$14.7 billion), and 8.0 percent (US$5.4 billion), respectively.

The expanding FCDU activity was supported by a leaner network. As of December 2023, the total number of banks with FCDU and expanded FCDU (EFCDU) licenses stood at 75 (down from 76 in December 2022)[8], comprising 33 banks with FCDU licenses and 42 banks with EFCDU licenses.[9]

Investments declined due to reduced holdings of FVOCI securities

Gross FCDU investment in securities amounted to US$28.2 billion (₱1.6 trillion), declining by 1.1 percent (US$0.3 billion) in December 2023 (*Figure 2*) and posting a reversal of the 0.9-percent growth recorded in December 2022. Investment in securities measured at fair value through other comprehensive income (FVOCI) recorded a drop while debt securities at amortized cost (DSMAC) registered a slight increase.

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

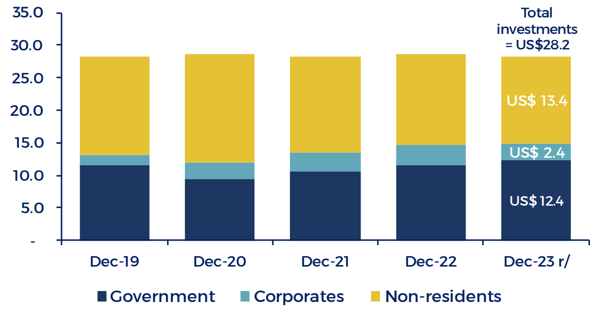


Source: DSA
r/ revised

[1] This is net of due from head office, branches, and agencies as well as due from FCDU and regular banking unit (RBU).
[2] All of the discussed growth rates and reporting periods pertain to y-o-y and as of December 2023, respectively, unless otherwise stated. Similarly, all discussions were based on available data and information at the time of report preparation.
[3] The pre-pandemic compounded annual growth rate (CAGR) was computed using December data from 2015 to 2019.
[4] BSP Circular No. 1134 dated 28 December 2021
[5] These are net of allowance for credit losses and accumulated market gains or losses, as applicable.
[6] These are net of allowance for credit losses, and inclusive of interbank loans receivables (IBLs).
[7] The share of other assets stood at 11.9 percent and 1.7 percent in December 2022 and December 2021, respectively.
[8] The decline in the total network was due to the voluntary surrender of the banking license of one thrift bank (TB) as approved by the Monetary Board, in its Resolution No. 1274 dated 28 September 2023.
[9] As of December 2023, there were 75 banks with FCDU/EFCDU licenses, i.e., 45 universal and commercial banks (UKBs), 19 TBs, 10 rural and cooperative banks (RCBs), and one digital bank (DGB).

In December 2023, DSMAC comprised around 59.8 percent (US$16.9 billion or ₱935.4 billion) of FCDU's total investment in securities from 58.2 percent share a year ago. DSMAC recorded a marginal growth of 1.6 percent (up by US$0.3 billion), much slower than the 21.9 percent recorded a year ago. Meanwhile, the share of securities measured at FVOCI to total securities further contracted to 36.0 percent (US$10.2 billion or ₱563.0 billion) from 38.0 percent a year ago. Financial assets measured at FVOCI declined by 6.2 percent (US$0.7 billion) over the same period, but this was slower than the 14.9-percent contraction in December 2022. To mitigate mark-to-market losses amid a high interest rate environment, banks shifted investment portfolio strategy towards DSMAC from securities measured at FVOCI.

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



Source: DSA r/ revised

Figure 3 depicts the increase in the share of the FCDU's investment in securities issued by the Philippine government[10]. Investments in government securities rose by 6.4 percent to US$12.4 billion, or around 43.9 percent share (compared to 40.8 percent a year ago), of FCDU's total investments in securities in December 2023. The FCDU investments were largely in the form of bank holdings of US dollar-denominated Republic of the Philippines (ROP) bonds. Meanwhile, the share of investment in securities issued by non-residents[11] and resident corporates both dropped to 47.5 percent (US$13.4 billion) and 8.6 percent (US$2.4 billion), respectively, from 48.7 and 10.5 percent. The high interest rate environment prompted banks and other corporations to tap other sources for their funding requirements, resulting in a lower number of debt securities issued by these counterparties.

Loans[12] to both resident and non-resident borrowers declined

FCDU lending activity declined, recording a 4.5-percent drop (US$0.8 billion) to US$16.5 billion (₱912.1 billion) in December 2023, a reversal of the 5.0-percent expansion a year ago. Notably, loans to residents and non-residents both contracted by 5.5 percent (US$0.6 billion) and 3.0 percent (US$0.2 billion), respectively. The slowdown in lending was in view of the high-interest-rate environment, which affected foreign currency funding requirement of bank clients, and the bank's business strategy; tight credit standards of banks; and volatility in the foreign exchange market. This prompted borrowers to tap cheaper sources of funding.

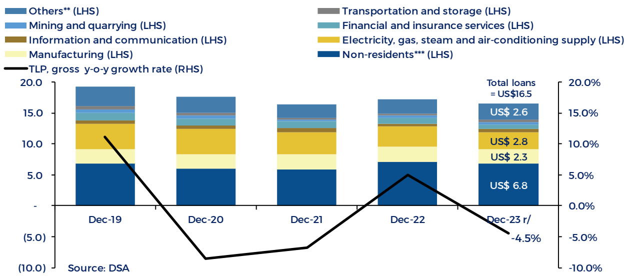
[10] The Philippine government includes national and local government, and government instrumentalities and agencies.

[11] 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 shares of 53.2 percent (US$7.1 billion) and 29.8 percent (US$4.0 billion), respectively.

[12] These refer to loans and receivables, which include loans and receivables arising from repurchase agreement (repo), certificates of assignment/participation with recourse (CA/PR), and securities lending and borrowing (SLB) transactions. Exclusive of IBLs amounting to US$3.9 billion as of December 2023.

As of December 2023, 58.6 percent (US$9.6 billion) went to resident borrowers while loans to non-residents[13] represented around 41.4 percent (US$6.8 billion). By economic activity *(Figure 4)*, the electricity, gas, steam, and air-conditioning supply, and manufacturing sectors received the largest share of FCDU loans at 16.7 percent (US$2.8 billion), and 13.8 percent (US$2.3 billion), respectively. Collectively, loans to these sectors amounted to US$5.0 billion, or around 30.5 percent of total FCDU loans in December 2023.

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



* These are exclusive of Interbank Loans Receivables and loans to BSP. r/ revised
**These includesloans to individuals for consumption purposes , loans to other productive sectors, and loans arising from repurchase agreements (resident)
*** These include loans arising from repurhase agreement (non -resident)

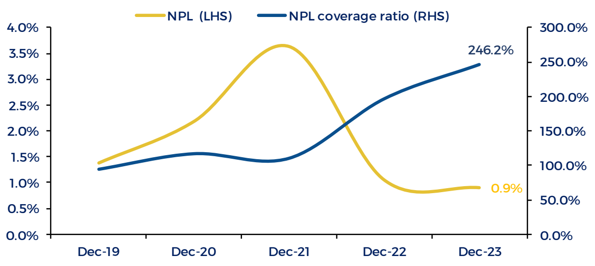
Loans to most economic sectors, however, contracted in December 2023, with the largest recorded by the electricity, gas, steam, and air-conditioning supply at US$524.3 million (down by 16.0 percent); financial and insurance services at US$208.1 million (down by 21.4 percent); and manufacturing at US$176.3 million (down by 7.2 percent) sectors. The steep decline in loans to these sectors was offset by an increase in loans to other sectors such as transportation and storage, real estate activities, and construction, which recorded an increase of US$190.7 million (up by 101.5 percent), US$185.5 million (up by 33.8 percent), and US$110.3 million (up by 117.6 percent), respectively. Meanwhile, loans to non-residents of US$6.8 billion, which include reverse repurchase (reverse repo) transactions, recorded a 3.0-percent decline (US$209.4 million) in December 2023.

In terms of maturity profile, about 49.5 percent (US$8.2 billion) of FCDU loans had a long-term tenor, while 28.6 percent (US$4.7 billion) and 21.8 percent (US$3.6 billion) were short- and medium-term loans, respectively.[14]

Satisfactory loan quality, with a record low NPL ratio, and ample loss provisions

The non-performing FCDU loans (NPLs) improved in December 2023, declining by 18.1 percent (US$32.9 million to reach US$149.3 million) in view of the reduced risk of default following the normalization of economic activity along with banks' effective credit risk management practices. The decline in NPLs led to the FCDU's low NPL ratio of 0.9 percent in the last five years, as seen in *Figure 5*. Notwithstanding this, banks remained cautious given ongoing concerns about foreign exchange volatility and the high-interest-rate environment, maintaining high provisions with an NPL coverage ratio of 246.2 percent over the same reference period. This was also the highest NPL coverage recorded in the past years.

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



Source: DSA

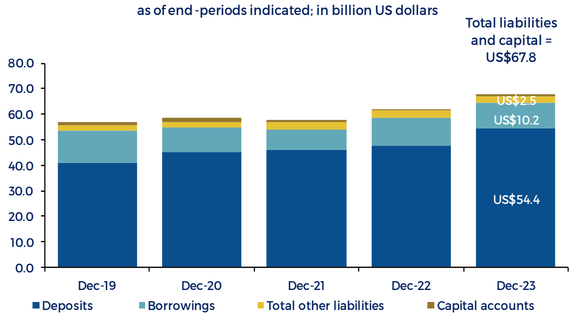
[13] These include non-resident loans arising from reverse repos.
[14] As of December 2022, distribution across tenors remained relatively unchanged except for medium-term loans. About 48.1 percent (US$8.3 billion) of FCDU loans had a long-term tenor, while 28.0 percent (US$4.8 billion) and 24.0 percent (US$4.1 billion) were slotted under short- and medium-term loans, respectively.

The improved performance of the agriculture, forestry, and fishing sector[15] in 2023 contributed to the 18.1 percent reduction in FCDU NPLs. This sector's NPLs, which accounted for 32.6 percent (compared to 47.7 percent a year ago) of FCDUs' total NPLs, posted a 44.0-percent decline (US$38.2 million) during the reference period. The other sectors that also recorded better-quality NPLs were wholesale and retail trade, repair of motorcycles, real estate activities, and non-residents, which recorded notable reductions of 25.0 percent (to reach US$13.8 million or a share of around 9.3 percent of FCDUs' total NPLs), 37.0 percent (to US$0.4 million or a share of around 0.3 percent), and 100.0 percent (to US$0), respectively, over the same period. The easing of NPLs was due to banks' pro-active risk management, early intervention efforts, and regular portfolio reviews across industries.

Deposits posted record high growth, and remained a steady funding source

FCDU deposits, which accounted for 80.2 percent (US$54.4 billion, or ₱3.0 trillion) of FCDU's total assets in December 2023 (*Figure 6*), recorded an all-time high over the last five years, growing by 13.7 percent (up by US$6.6 billion) and surpassing the growth rates of 3.8 percent a year ago and 6.1 percent before the pandemic. This was due to strong remittance inflows, particularly from an increase in time deposits owned by resident individuals, with sources coming from overseas Filipinos (OFs).[16]

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



Source: DSA

Notwithstanding, banks are guarded from potential spillover arising from global funding shocks as majority of FCDU deposits remain domestic oriented. As of December 2023, the share of deposits of resident individuals and resident private corporations stood at 51.7 percent (about US$27.9 billion) and 38.2 percent (about US$20.6 billion), respectively. By deposit type, time deposits comprised the largest share at 52.5 percent, or about US$28.6 billion (compared to a share of 43.6 percent in 2022, or about US$20.9 billion), increasing by 37.0 percent (US$7.7 billion) in December 2023. Conversely, the share of savings and demand deposits continued to decline, dropping to 44.9 percent (4.0 percent to US$24.4 billion) and 2.5 percent (9.6 percent to US$1.4 billion), respectively, from 53.2 and 3.2 percent shares a year ago. This deposit mix could be associated with depositors' preference for high-yielding deposits.

Meanwhile, FCDU bills and bonds payable remained modest at 11.1 percent (US$7.4 billion) and 4.1 percent (US$2.8 billion), respectively, of FCDU's total liabilities. Bills payable registered an increase of 31.5 percent (up by US$1.8 billion) as banks took advantage of cheaper funding sources to support their asset growth. Conversely, bonds payable fell by 44.5 percent (down by US$2.2 billion) in December 2023, driven mainly by the maturity of issued bonds.

15 Based on the press release of the Philippine Statistics Authority, the agriculture, forestry, and fishing sector grew y-o-y by 1.4 percent in Q4 2023, a turnaround from a decline of 0.3 percent in Q4 2022. For the full year 2023, this sector grew by 1.2 percent. (Source: https://psa.gov.ph/statistics/national-accounts/sector/Agriculture%2C%20Forestry%20and%20Fishing)

16 The growth in deposits may be partly attributed to strong remittances from OFs. Personal remittances from OFs peaked in 2023 at US$37.2 billion, a 3.0 percent increase from US$36.1 billion in 2022. Moreover, of the total personal remittances, cash remittances coursed through banks reached US$33.5 billion in 2023, a 2.9 percent growth from US$32.5 billion in 2022. (Source: BSP Press Release dated 15 February 2024)

Moreover, total capital reached US$711.6 million, growing by 84.0 percent (US$324.8 million) in December 2023 due mainly to favorable movement in net unrealized losses on FVOCI securities as lower losses were reported in 2023 at US$449.7 million, down by 48.4 percent from US$871.6 million recognized in 2022. There was a notable decline in other components of capital, like undivided profits and accumulated earnings, which registered contractions of 4.2 percent (down by US$31.6 million to US$715.2 million) and 10.0 percent (down by US$10.8 million to US$97.5 million), respectively, over the same period.

Subdued earnings due to higher growth in funding and borrowing costs over interest income from lending and investment activities

For the period ending December 2023, net profit declined by 13.3 percent (US$143.5 million), dropping to US$931.4 million (₱51.6 billion) from US$1.1 billion a year ago. The subdued performance was due to the combined effect of dampened lending and investment activities in the FCDU and the high cost of funding and other administrative expenses.

For the reference period, interest revenue from FCDU loans[17] and DSMAC securities grew by 76.5 percent (US$528.1 million) and 24.6 percent (US$122.5 million), respectively. The high interest revenue, however, was offset by faster growth in interest expense on FCDU deposits and bills payable, which rose by 243.7 percent (US$554.3 million) and 252.0 percent (US$223.1 million)[18], respectively. Among FCDU deposit types, interest expense on time deposits recorded the highest growth at 245.1 percent (up by US$509.7 million). This was followed by savings deposits at 202.2 percent (up by US$38.2 million). Notwithstanding, the net interest income recorded a 5.7-percent increase (US$55.5 million) and reached US$1.0 billion, while the net interest margin improved to 1.9 percent from 1.7 percent a year ago. Amid expectations of a possible rate cut in 2024, banks remain vigilant of NIM compression. Return on assets (RoA) dropped to 1.4 percent from 1.8 percent in 2022. The narrowing RoA could be attributed to diminished earnings from FCDU's core operations, as lending to RBU, which is a non-interest-bearing loan, continued in 2023.

Meanwhile, the US$40.4 million unrealized gains from foreign exchange (i.e., revaluation of foreign currency denominated accounts in the FCDU) compensated for the US$40.2 million bad debts written off/provision for credit losses for the reference period.

Also contributing to the muted net profit of the FCDU were the higher fees and commission expenses of US$13.2 million, and administrative expenses of US$115.7 million for the period, which rose by 51.2 percent (US$4.5 million) and 10.6 percent (US$11.1 million), respectively, from US$8.7 million and US$104.6 million a year ago. This translated to a cost-to-income ratio of 14.6 percent, slightly higher than the 14.5 percent recorded last year.

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[17] These include IBLs.

[18] Interest expense on bills payable was comprised of interbank bills payable of US$84.5 million (up by 523.1 percent or about US$70.9 million) and other deposit substitutes of US$227.1 million (up by 385.3 percent or about US$180.3 million) for the period ending December 2023.

Trust Operations

Overview

The industry posted robust growth in operations, with a double-digit increase in assets and investments. The expansion in assets was on account of agency accounts, which have been steadily growing for the past years. Trust assets have mostly been in the form of investments in securities issued by the national government and domestic private corporations. Amid the changing preferences of trust clients, trust entities have been improving their products and services to remain competitive as well as to better serve the evolving needs of their clients. Meanwhile, trust accounts, particularly unit investment trust funds (UITFs), maintained a modest share of the industry's total accountabilities. Overall, the net income of the trust industry reported record growth during the period, as trust income enabled trust entities to offset their operating expenses. On the Personal Equity and Retirement Account (PERA), improvement was noted on both the number of contributors and total contributions, indicating deeper appreciation by Filipinos of the importance of savings and investing in their retirement.

Assets*
₱6.2 trillion

Investments in securities
₱4.1 trillion

Agency accounts
₱3.5 trillion

Trust accounts
₱2.0 trillion

UITFs
₱856.5 billion

PERA
₱396.3 million

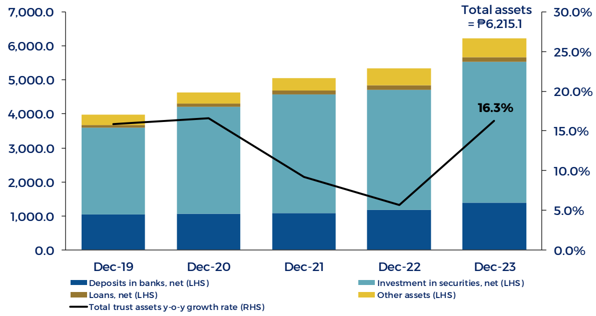
Net profit
₱7.4 billion

**This accounted for 24.7 percent of the Philippine banking system's total assets.*

Asset growth exceeded the pre-pandemic average in view of the continued increase in agency accounts

The industry recorded robust growth in total assets, expanding by 16.3 percent year-on-year[1] (y-o-y) to ₱6.2 trillion in December 2023. This growth, which outpaced the 10.4-percent pre-pandemic[2] average and the 5.7-percent growth recorded in the previous year, was largely fueled by the substantial increase in placements in agency accounts. The upbeat performance echoes the positive outlook of the industry. Industry leaders expect improvement in the growth of assets under management in the upcoming period, buoyed by a favorable macroeconomic outlook and its effect on the prices of both equity and fixed income asset classes.[3]

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

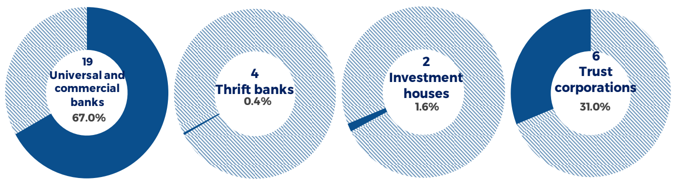


Source: Department of Supervisory Analytics (DSA)
RHS - right-hand side
LHS - left-hand side

The bulk of these assets remained liquid as shown in *Figure 1*, with 66.7 percent (₱4.1 trillion) invested in securities[4], and 22.3 percent (₱1.4 trillion) deposited in banks.[5] Loans, net of allowance for credit losses, constituted a smaller portion, representing 2.1 percent (₱128.4 billion).

As of December 2023, 31 trust entities (TEs) actively offered trust and other fiduciary products and services to the public.[6] Among these TEs, 23 were trust departments (TDs)[7] of banks, while the remaining eight were non-bank financial institutions (NBFIs). Trust assets were mainly concentrated within the TDs of banks, representing a majority share of 67.4 percent (₱4.2 trillion) as illustrated in *Figure 2*, while the asset share of NBFIs stood at 32.6 percent (₱2.0 trillion). NBFIs consisted of six trust corporations (TCs, 31.0 percent share of the industry's total assets) and two IHs (1.6 percent share).

Figure 2
Asset Share of Trust Entities to Total Trust Assets
Total trust assets as of end-December 2023: ₱6,215.1 billion



Source: DSA

Investments further grew and remained domestic-oriented

As of December 2023, total trust investments rose by 17.3 percent to reach ₱4.1 trillion, surpassing the 1.1-percent growth recorded in the previous year.

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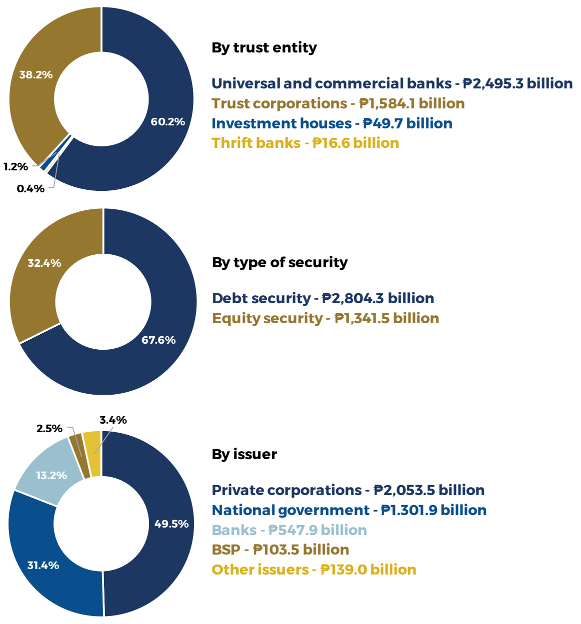
1 All of the discussed growth rates and reference period pertain to y-o-y, and as of December 2023, respectively. unless otherwise specified. Similarly, all discussions were based on available data and information at the time of report preparation.
2 Assets recorded a pre-pandemic compounded annual growth rate (CAGR) of 10.4 percent. The CAGR is computed using December data from 2015 to 2019.
3 Source: Trust Officers Association of the Philippines (TOAP) and Fund Managers Association of the Philippines (FMAP)
4 These were net of amortization and allowance for credit losses, as applicable, and accumulated gains/losses.
5 This consisted of deposits in banks (₱1.4 trillion), as well as cash and due from BSP (₱410.0 million).
6 This excludes six TEs that were inactive i.e., the trust departments of four universal and commercial banks (UKBs), one thrift bank (TB), and one investment house (IH).
7 This was composed of 19 TDs of UKBs and four TDs of TBs.

Figure 3
Trust Total Investments (by entity, security, and issuer)
as of end-December 2023; share in percent

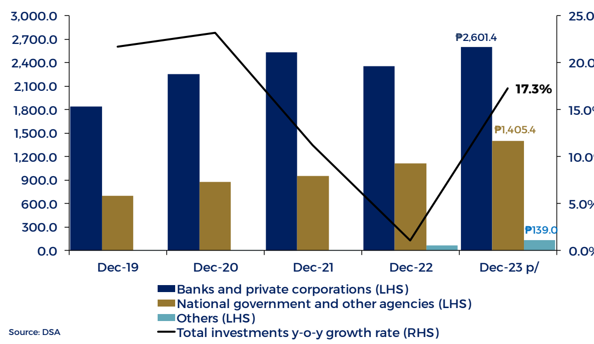


Source: DSA

As shown in *Figure 3*, the TDs of universal and commercial banks (UKBs) held most of the industry's investments, capturing a 60.2-percent share (₱2.5 trillion). Investments in debt securities continued to account for most of the industry's investments at 67.6 percent, rising by 18.0 percent to ₱2.8 trillion, while investments in equity securities held the remaining 32.4 percent (up by 15.8 percent to ₱1.3 trillion). This growth reflects the optimistic outlook of the industry and expectations of forthcoming accommodative policy measures.[8] Securities investments remained largely issued by residents at 90.1 percent (₱3.7 trillion). By issuer, trust clients' continued preference were securities issued by private corporations (49.5 percent, or around ₱2.1 trillion) and the national government and other government agencies (31.4 percent, or around ₱1.3 trillion). Investments in government securities have been rising[9] in the past five years, as seen in *Figure 4*. This trend could be associated with cautious investment decisions by trust clients amid market volatility.[10]

By composition, 70.2 percent (₱2.9 trillion) of total investments were in securities measured at fair value through profit or loss (FVTPL), while the remaining 24.3 percent (₱1.0 trillion) and 5.5 percent (₱229.7 billion) were in securities measured at fair value through other comprehensive income (FVOCI) and securities measured at amortized cost (AC), respectively. The large proportion of FVTPL securities could be attributed to the structure of TEs' accountabilities, which were mostly unit investment trust funds (UITFs) and retirement funds that require valuation of their assets at fair value.[11] Notably, the share of FVTPL securities has been declining in recent years, driven by an increase in redemptions in UITFs. In contrast, the share of FVOCI securities has been increasing, buoyed by trust clients' preference for maintaining liquidity and benefitting from high-yielding fixed income instruments.[12]

Figure 4
Trust Total Investments (by counterparty)
as of end-periods indicated; in billion PH pesos; growth rate in percent



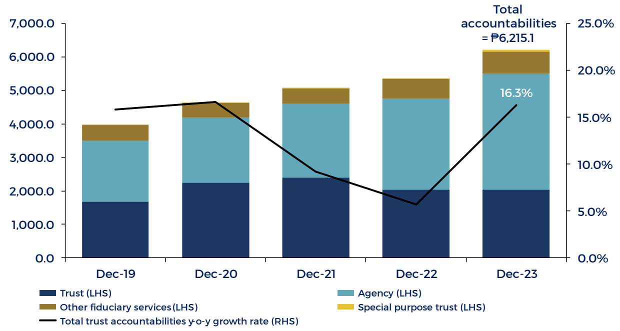
Source: DSA

8 Sources: TOAP and FMAP
9 Investment in government securities accounted for 31.4, 28.8, and 27.2 percent, respectively, of the industry's total investments in December 2023, December 2022, and December 2021. In 2023, investments in government securities rose by 27.7 percent, surpassing the 7.3-percent growth recorded in the prior year.
10 Source: FMAP
11 Sources: TOAP and FMAP
12 The share of FVTPL securities stood at 70.2, 72.5, and 76.0 percent, respectively, in December 2023, December 2022, and December 2021. Meanwhile, the share of FVOCI securities stood at 24.3, 23.1, and 20.5 percent, respectively, in December 2023, December 2022, and December 2021.

Growth in agency accounts continued, driving the expansion of trust accountabilities

Trust accountabilities rebounded strongly in December 2023, rising by 16.3 percent to ₱6.2 trillion more than double the 5.7-percent increase in 2022 (*Figure 5*). This was in view of the 28.0-percent increase in agency accounts, marking 12 consecutive quarters of double-digit growth since March 2021. The renewed interest in agency accounts was due to the availability of corporate securities and time deposits, which provide clients with investment alternatives that provide high returns.[13]

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



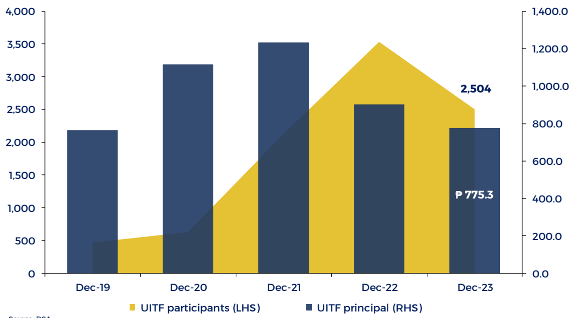
Source: DSA

Over the past years, the share of agency accounts has been rising, with 55.8 percent (or ₱3.5 trillion) in December 2023. This was followed by trust accounts with a 32.8-percent share (₱2.0 trillion), having declined by 0.2 percent much slower compared to the 14.7-percent contraction in 2022. This trend, however, is likely to change as the industry expects a shift in investor preference amid potential rate cuts and moderation in inflation.[14] Parallel to this and with evolving financial markets, TEs have been strategizing and improving their products and services to better cater to the changing preferences and financial needs of their clients. Notably, feeder funds[15] have emerged as a significant avenue, feeding into global and thematic funds, and attracting the interest of trust clients.

UITFs sustained a modest share of the industry's total accountabilities, with money market funds as the investment choice of most trust clients

UITFs remained a preferred investment option, with 13.8 percent (₱856.5 billion) of the industry's total accountabilities. As of December 2023, 24 financial institutions were granted a UITF license that offer this type of investment vehicle to the public.[16]

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



Source: DSA

UITF participation slumped toward the end of 2023 as the number of participants significantly dropped by 29.1 percent to 2,503,576 from 3,531,167 the previous year (*Figure 6*). This contraction offset the continued growth in the number of participants in the past four years. Consequently, placements in UITFs, as evidenced by the UITF principal amount, also declined by 14.0 percent to ₱775.3 billion from ₱901.3 billion in the previous year, marking two consecutive years of contraction since 2022.

Following the slowdown in UITF participation, total UITFs hit a downturn in 2023, declining by 10.3 percent to ₱856.5 billion (from ₱955.1 billion in 2022), although this was slower than the 27.6-percent contraction the previous year (*Figure 7*). This decline was driven primarily

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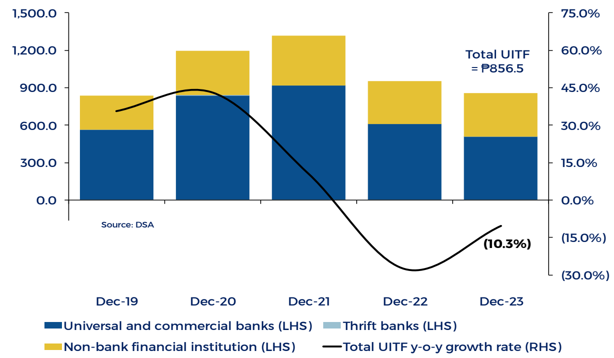
[13] Sources: TOAP and FMAP
[14] Sources: TOAP and FMAP
[15] Feeder fund refers to a UITF structure that mandates the fund to invest at least 90 percent of its assets in a single collective investment scheme.
[16] These include 16 TDs of UKBs, three TDs of TBs, and five NBFIs. The TDs of UKBs held the biggest portion of UITFs (59.5 percent, or around ₱509.4 billion), followed by NBFIs (40.4 percent, or around ₱346.4 billion). The TDs of TBs had a minimal share (0.1 percent, or around ₱0.8 billion).

Figure 7
Trust Level of Unit Investment Trust Fund (by financial institution)
as of end-periods indicated; in billion PH pesos, growth rate in percent



by the high redemption of UITF principal across all types of funds. The cumulative policy rate hikes over the past two years heavily affected UITF performance, particularly money market funds[17] as trust clients preferred low-risk investments with better returns, such as time deposits.[18] Thus, money market funds became less attractive to trust clients as a portion of these funds was locked in at lower rates. The contraction in total UITF principal, however, was tempered by the 53.0-percent increase in accumulated income from UITF assets.[19]

Despite subdued growth, money market funds remained the preferred UITF product of most trust clients, making up more than half (a 59.9-percent share, or ₱464.7 billion, with 1,217,594 participants) of the UITF principal, declining from a 64.1-percent share in the previous year. Meanwhile, equity funds, bond funds, and balanced funds accounted for the remaining portion with 32.3 percent (or ₱250.8 billion, with 850,450 participants), 4.5 percent (or ₱34.8 billion, with 406,870 participants), and 3.2 percent (or ₱25.0 billion, with 28,662 participants), respectively.[20]

Moreover, 66.0 percent (₱565.6 billion) of UITF assets were invested in securities measured at FVTPL[21], while deposits in banks stood at 33.5 percent (₱286.7 billion).

PERA continued to expand on the back of an increase in contributions across all types of contributors

In 2023, PERA further grew, increasing by 8.9 and 20.3 percent, respectively, in terms of both the number of contributors and total contributions. This growth, however, was slower compared to the previous year's 16.4 and 30.1 percent, respectively, as elevated inflation persisted, coupled with market and foreign exchange volatility, which presented a challenge to the finances of Filipino households, resulting in lower income and savings. Nonetheless, despite these hurdles, growth in PERA contributions reflects the shift in Filipinos' perception and understanding of the importance of savings and investing in preparation for their retirement and unforeseen financial circumstances.[22] The accessibility of PERA on various digital platforms is also expected to boost and encourage more Filipinos to save and invest in PERA.[23]

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17 UITF principal placed under money market funds contracted by 19.6 percent to ₱464.7 billion in December 2023, relatively slower than the 37.3-percent decline in December 2022. Likewise, bond funds, balanced funds, and equity funds recorded a downturn in UITF principal, declining by 16.7, 2.7, and 2.0 percent, respectively.

18 Sources: TOAP and FMAP

19 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. Gains from investments in securities of equity and money market funds contributed to the uptick in the total accumulated income of the trust industry.

20 The share of bond funds was lower than the 4.6-percent share noted in the previous year. In contrast, equity funds and balanced funds surpassed the 28.4 percent share and 2.9 percent share, respectively, in 2022.

21 Majority of financial assets booked at FVTPL were equity securities issued by resident private corporations (24.5 percent, or ₱138.6 billion), as well as debt securities issued by the national government (26.2 percent, or ₱148.4 billion) and the BSP (18.0 percent, or ₱102.0 billion).

22 Source: PERA-Technical Working Group (TWG)

23 Source: PERA-TWG

Table 1 shows that there were 5,555 PERA contributors, with total contributions amounting to ₱396.3 million in 2023. Nearly three-fourths (70.6 percent, or 3,924 contributors) of all PERA contributors were employed individuals, with total contribution of 68.9 percent (₱273.3 million). Meanwhile, self-employed individuals and overseas Filipino workers (OFWs) comprised 15.4 percent (856 contributors) and 14.0 percent (775 contributors), respectively, contributing of ₱53.9 million (13.6 percent share) and ₱69.2 million (17.5 percent share), respectively.

Table 1
Outstanding PERA Contributors and Contributions
as of end-periods indicated; total contribution in million PH pesos; growth rate in percent

	Dec-23		Dec-22		y-o-y growth rates	
Type of contributors	**No. of contributors**	**Total contribution**	**No. of contributors**	**Total contribution**	**No. of contributors**	**Total contribution**
Employee	3,924	273.3	3,594	223.7	9.2%	22.1%
OFW	775	69.2	721	60.6	7.5%	14.2%
Self-employed	856	53.9	785	45.3	9.0%	19.1%
Total	**5,555**	**396.3**	**5,100**	**329.5**	**8.9%**	**20.3%**

Source: BSP-PERA Technical Working Group

The heightened financial consciousness of the public alongside the steady recovery of the economy and the BSP's strong commitment to implement policy enhancements and initiatives are expected to further broaden the PERA ecosystem. Forthcoming BSP policy enhancements related to PERA include: (i) expansion of the PERA ecosystem by allowing non-bank entities such as electronic money issuers (EMIs) and stockbrokers to participate as administrators; and (ii) the release of a comprehensive document or frequently asked questions to guide contributors and employers on the proper procedure for availing themselves of and using tax credit certificates.

The BSP is also coordinating closely with PERA stakeholders and partner agencies to bolster awareness and encourage greater participation in PERA. Collaboration efforts involve the continuous enhancement of information and promotional materials and the conduct of awareness campaigns. This strong partnership plays a vital role in expanding the profile of PERA contributors to include various segments of the population, such as young professionals, practitioners, small businesses, and low-income communities. The BSP anticipates a continued uptrend in PERA participation in view of the shifting perspective of Filipinos on the long-term benefits of retirement savings.

Net profit grew, driven by high fees and commissions from trust and agency accounts

The net profit of the trust industry amounted to ₱7.4 billion, increasing by 3.0 percent for the period ending in December 2023 and reversing the 2.2-percent decline in 2022. The recovery in the industry's performance was on account of higher trust income, offsetting the high trust expenses for the period.

Trust income rose by 13.7 percent (₱2.0 billion) to ₱16.4 billion, driven mainly by the 9.4-percent increase (₱1.3 billion) in revenues from fees and commissions particularly from trust and agency accounts. [24] This satisfactory performance of trust income moderated the 24.5-percent increase (₱1.8 billion) in trust expenses, with employee wages and benefits and other expenses contributing the largest increase[25]. The higher expenses supported trust entities' ability to remain competitive as they maintained an experienced pool of trust professionals and invested in technological upgrades and other operational requirements.[26]

[24] These were comprised of fees and commissions from trust accounts (45.8 percent, or ₱7.5 billion), agency accounts (40.6 percent, or ₱6.6 billion), other fiduciary services (4.6 percent, or ₱745.8 million), and advisory/consultancy accounts (0.7 percent, or ₱121.9 million).

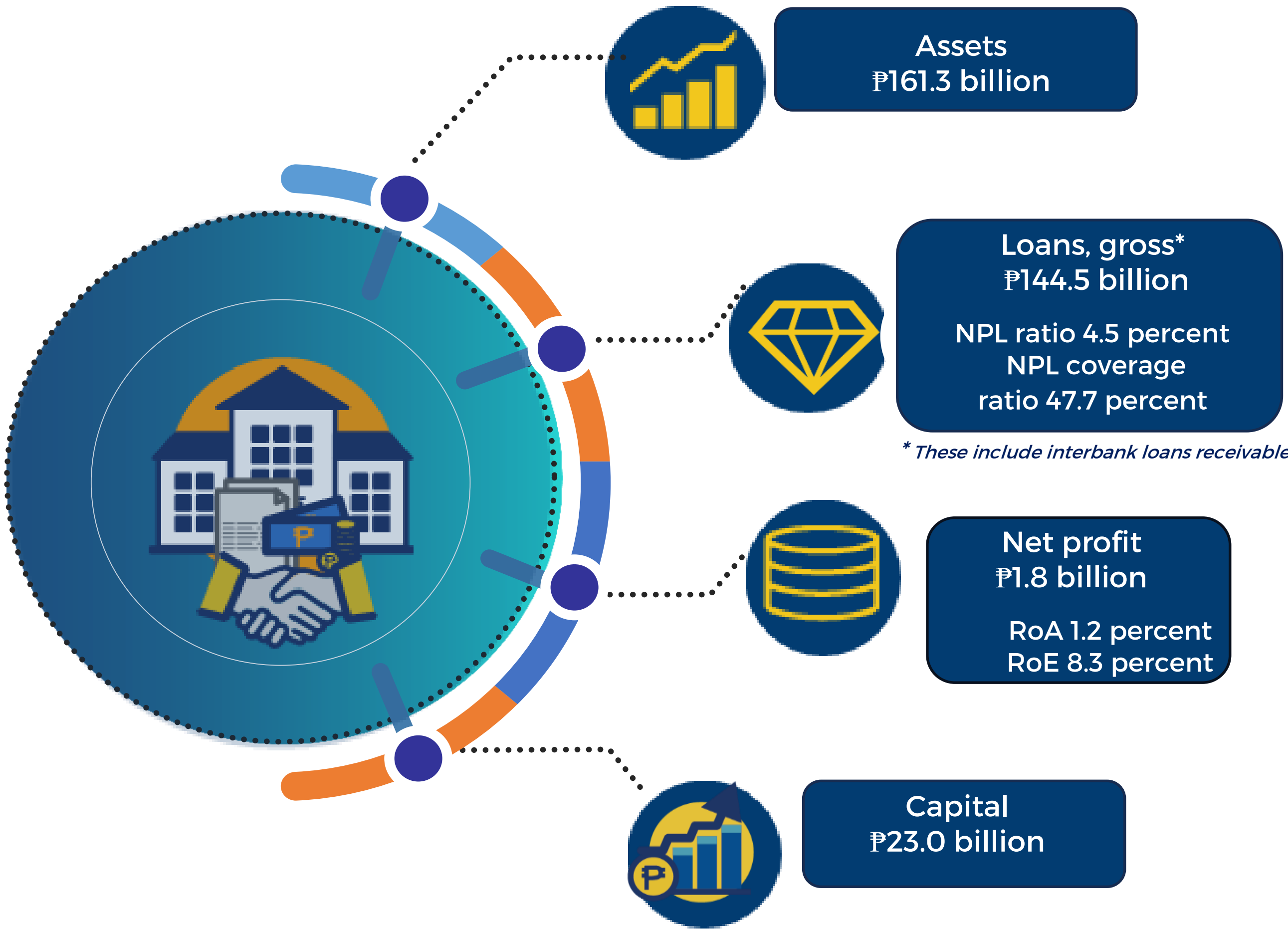
[25] Employee wages and benefits and other expenses stood at ₱3.6 billion and ₱1.9 billion, respectively, rising by 25.4 percent (₱729.7 million) and 45.1 percent (₱578.9 million) for the period ending in December 2023.

[26] Sources: TOAP and FMAP

Non-Bank Financial Institutions with Quasi-Banking Functions (NBQBs)

Overview

The industry bounced back after subdued performance in the past years, ending the year 2023 with growth in assets and loans. Alongside the improvement in lending activity, loan quality remained satisfactory. This contributed to the sustained profitability of the industry's operations, translating to favorable financial indicators for the reference period.

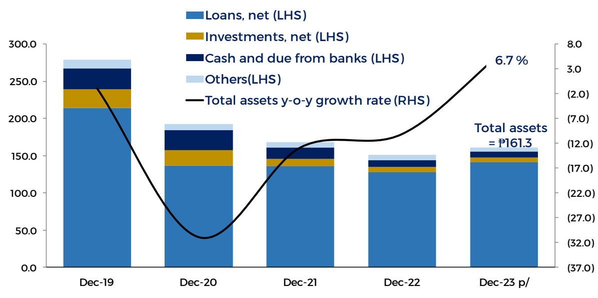


* *These include interbank loans receivables.*

Assets grew, recovering from the contractions in the past years

Total assets reached ₱161.3 billion in December 2023, expanding by 6.7 percent year-on-year[1] (y-o-y) and reversing the contractions for the past years[2] (*Figure 1*). This recovery, however, remained slower compared to the 8.0 percent average growth prior to the pandemic[3]. The industry contributed around 33.7 and 0.5 percent, respectively, of the total assets of non-bank financial institutions[4] (NBFIs) and the Philippine financial system[5].

Figure 1
NBQBs Total Assets
as of end-periods indicated; in billion PH Peso; growth rate in percent



Source: Department of Supervisory Analytics (DSA)
LHS - left-hand side
RHS - right-hand side
p/ preliminary

The total loan portfolio[6](TLP) comprised around 87.6 percent (₱141.3 billion) of the industry's total assets, while the remaining share was in the form of cash and due from banks at 5.3 percent (₱8.5 billion), investments[7] at 3.8 percent (₱6.1 billion), and other assets[8] at 3.4 percent (₱5.4 billion). Except for TLP, cash and due from bank, investments, and other assets[9], have been declining since 2021 owing to the closure of one (1) financing company (FC). Gross TLP[10] rose by 10.2 percent (₱13.4 billion) and reached ₱144.5 billion, reversing the 7.7-percent contraction a year ago but remained lower than the 19.5 percent pre-pandemic average.

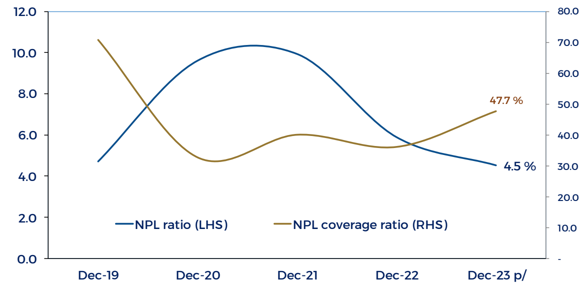
By type of NBQBs, FCs continued to hold the largest portion of the industry's total assets at around 97.9 percent (₱157.9 billion). The assets of the FCs were mostly in the form of loans, at around 90.9 percent (₱143.6 billion).

In terms of the industry's network, the total number of NBQBs remained at five, with 19 total offices in December 2023. These were composed of three FCs, with 14 other offices, one IH, and one other non-bank with a quasi-bank function.

1 All of the discussed growth rates and reporting periods pertain to y-o-y and as of December 2023, respectively, unless otherwise stated. Similarly, all the discussions were based on available data and information at the time of report preparation.
2 Assets declined by 30.9, 12.8, and 10.1 percent in December 2020, December 2021, and December 2022, respectively.
3 The pre-pandemic compounded annual growth rate (CAGR) was computed using December data from 2015 to 2019.
4 These refer to NBFIs under BSP's supervision.
5 As of December 2023, total assets of the Philippine Financial System reached ₱31.1 trillion.
6 These were net of allowance for credit losses, and inclusive of interbank loans receivables (IBLs). IBLs refer to loans granted to banks and other NBQBs. As of December 2023, IBLs remained minimal at around ₱1.1 million or 0.001 percent of the industry's total assets.
7 These were net of allowance for credit losses and accumulated market gains or losses, as applicable.
8 These included ₱553.0 million in real and other properties acquired (ROPA), net of allowance for credit losses as of December 2023.
9 As of December 2023, cash and due from other banks, investments, and other assets dropped by 3.8 percent (₱0.3 billion to reach ₱8.5 billion), 13.2 percent (₱0.9 billion to reach ₱6.1 billion), and 24.6 percent (₱1.2 billion to reach ₱5.4 billion), respectively.
10 These include IBLs.

Asset quality continued to improve, with low NPL and NPA ratios and increasing provisions

Figure 2
NBQBs NPL Ratio and NPL Coverage Ratio
as of end-periods indicated; ratio in percent



Source : DSA

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Alongside the improvement in lending activity, loan quality further eased, with the non-performing loan (NPL) ratio (*Figure 2*) and non-performing assets (NPAs) recording a continuous decline for the past years. As of December 2023, the NPL and NPA ratios of the industry both settled at 4.5 percent, better than the 5.9 percent recorded in December 2022 due to the 15.3-percent decline (₱1.2 billion) in NPLs and the 18.5-percent decline (₱1.6 billion) in NPAs. The NPL improvement was accompanied by an increase in provisions, which rose by 11.8 percent (₱0.3 billion) to reach ₱3.1 billion. The NPL coverage and NPA coverage stood at 47.7 and 46.4 percent, respectively, in December 2023, higher than the 36.2 and 34.2 percent posted a year ago. Furthermore, FCs improved their NPLs through enhanced collection and remedial efforts, as well as the enforcement of effective customer touchpoints.

Bills payable grew, and remained the primary source of funds

As of December 2023, bills payable, which accounted for 79.6 of total liabilities, grew by 3.7 percent (₱3.9 billion) to ₱110.1 billion, reversing the 1.1-percent decline in December 2022. Deposit substitutes comprised about 99.7 percent (or about ₱109.8 billion) of bills payable. Other liabilities comprised the remaining 20.4 percent, which grew by 18.4 percent (₱4.4 billion) to ₱28.1 billion.

Meanwhile, capital grew by 8.3 percent to ₱23.0 billion, reversing the 27.8-percent contraction from the previous year. This growth resulted from the 20.9-percent growth in surplus, surplus reserves, and undivided profits as of end 2023, mostly from the retention of earnings. This was a reversal from the 11.0-percent contraction in the previous year and faster than the pre-pandemic average growth of 4.1 percent.

Muted earnings on elevated operating expenses

For the period ending December 2023, net profit declined by 0.3 percent (₱5.7 million) and reached ₱1.83 billion, a marginal drop from the ₱1.84 billion reported a year ago. This was on account of the faster increase in total operating expenses, which grew by 15.2 percent (₱689.5 million), compared to the 9.3-percent increase (₱634.6 million) in total operating income. Leasing and interest income continued to drive the total operating income, contributing around 92.3 percent (or about ₱6.9 billion), while non-interest income remained minimal at 7.7 percent (or about ₱571.7 million). Meanwhile, the growth in total operating expenses for the reference period surpassed the pre-pandemic growth of 8.6 percent, reversing the 36.2-percent contraction in 2022. The growth in total operating expenses was driven by the 17.2-percent increase (₱501.9 million) in other operating expenses, particularly overhead costs (10.0 percent, or around ₱223.7 million) and other administrative expenses (40.6 percent, or around ₱278.3 million). Despite this, the industry maintained a steady cost-to-income ratio of 45.9 percent and recorded favorable returns, with return on assets and return on equity improving to 1.2 and 8.3 percent, respectively, from the 1.1 and 7.7 percent recorded a year ago.

Non-Stock Savings and Loan Associations

Overview

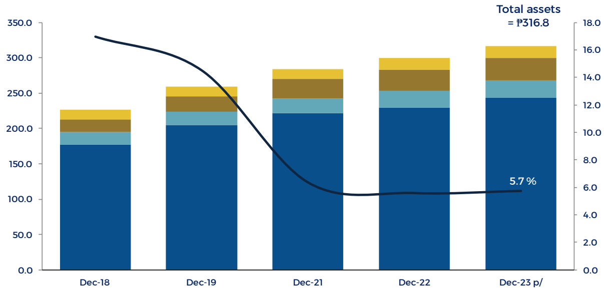
The industry ended the year 2023 with strong performance, recording continued growth in assets, loans, deposits, and earnings. This has enabled the industry to provide uninterrupted services and meet the financial needs of its members while ensuring profitable operations and better returns for all stakeholders. The confidence and sustained trust of its members likewise helped the industry maintain stable funding through members' deposits and capital contributions. Importantly, capital and liquidity buffers were maintained to promote operational resilience and stability.

This includes interbank loans receivables.

Assets grew at a steady rate

Total assets reached ₱316.8 billion in December 2023 and accounted for 34.4 and 1.0 percent, respectively, of the total assets of non-bank financial institutions[1] (NBFIs) and the Philippine financial system[2]. As shown in *Figure 1*, the industry's assets recorded stable growth over the past years, increasing by 5.7 percent year-on-year[3] (y-o-y) in 2023, better than the 5.6 percent recorded in 2022[4]. The tempered growth could be associated with the closure due to the revocation of non-stock savings and loan association (NSSLA) licenses in 2023.

Figure 1
NSSLAs Asset Composition
as of end-periods indicated; in billion PHpesos; growth rate in percent



Loans, net (LHS) | Investments, net (LHS) | Cash and due from banks (LHS) | Other assets (LHS) | Total assets y-o-y growth rate (RHS)

Source: Department of Supervisory Analytics (DSA)
LHS - left-hand side
RHS - right-hand side
p/ preliminary

Loans[5] continued to account for a substantial share of NSSLA assets at around 77.0 percent (₱243.9 billion)[6]. The remaining share was in the form of cash and due from banks at 9.9 percent (or about ₱31.3 billion), investments[7] at 7.7 share (or about ₱24.3 billion), and other assets[8] at 5.4 percent (or about ₱17.3 billion)[9]. This asset mix reflects continued focus on the industry's core lending activities and investment opportunities as well as liquidity management.[10]

The expansion in the industry's operations was supported by 192 total offices, with 56 head offices and 136 other offices i.e., branches and satellite offices. By sub-category, NSSLAs catering to military uniformed personnel (MUP) largely dominated the industry, with around 90.0 percent share of NSSLA assets based on the latest available data as of December 2023.[11] The industry's membership has the potential to further expand given the cross-membership features among MUP NSSLAs, wherein an individual can become a member in two or more NSSLAs. For smaller NSSLAs, particularly in the private and government sectors, the growth in membership is influenced by community ties, and personalized service, among others.[12]

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1 These refer to NBFIs under BSP's supervision.

2 As of December 2023, total assets of the Philippine Financial System reached ₱31.1 trillion.

3 All of the discussed growth rates and reporting periods pertain to y-o-y and as of December 2023, respectively, unless otherwise stated. Similarly, all discussions were based on available data and information at the time of report preparation.

4 Asset growth of the industry as of December 2023, December 2022, and December 2021 stood at 5.7, 5.6, and 6.3 percent, respectively. However, growth moderated compared to the compounded annual growth rate (CAGR) of total assets averaging 11.8 percent over the pre-pandemic period using December data from 2015 to 2019.

5 These were net of allowance for credit losses.

6 Total loans sustained their growth momentum, with an expansion of 6.4 percent in December 2023, faster than the 3.3 percent growth in December 2022 and 4.0 percent in December 2021. This growth, however, remained slower than the pre-pandemic CAGR of 16.1 percent.

7 These were net of allowance for credit losses and accumulated market gains or losses, as applicable.

8 These include real and other properties acquired (ROPA), net of allowance, amounting to ₱68.6 million in December 2023

9 Cash and due from banks, investments, and other assets continued to expand. Investments and other assets grew, albeit at a decelerated pace of 1.0, and 6.2 percent in December 2023, respectively, considerably slower than the pre-pandemic CAGR of 7.4 percent for investments, and 7.1 for other assets. As a result, cash and due from banks reported turnaround growth of 4.1 percent in December 2023 from 7.0 percent contraction in December 2022.

10 Based on the 2023 industry report prepared by the supervising department.

11 By type of NSSLA membership, NSSLAs catering to MUP largely dominated the industry's total assets, followed by workers from private companies, and employees of government agencies. These NSSLAs have 11, 19, and 25 head offices, respectively, in December 2023.

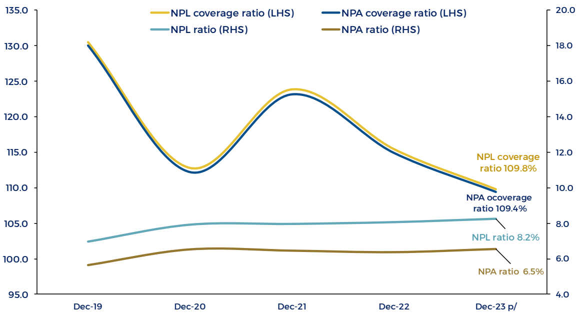
12 Based on the 2023 industry report prepared by the BSP supervising department.

Loans further grew, providing strong support to member's financing needs

Gross total loans reached ₱268.3 billion in December 2023, rising by 6.1 percent (₱15.4 billion) vis-à-vis the 2.7 percent growth recorded in 2022. Over the past years, the lending activity of NSSLAs grew at a steady pace, indicating the continued demand for accessible and affordable financial services offered by the industry to its members.

Amid the rise in loan portfolio, non-performing loans (NPLs) rose at a faster rate of 8.6 percent (₱1.7 billion) to reach ₱22.1 billion compared to 4.0 percent growth recorded in 2022. The increase in NPLs was largely attributed to default due to employment termination, suspension, and absences without official leave of member-borrowers. Despite this, the industry employs intensive collection efforts (i.e., automatic payroll deduction), conservative credit standards, as well as maintains a low credit risk appetite in its credit decisions thus, managing potential risks that may arise from lending. As such, the NPL ratio remained relatively steady at 8.2 percent, compared to the 8.1 percent a year ago.

Figure 2
NSSLAs Asset Quality Ratios
as of end-periods indicated; ratio in percent



Source: DSA

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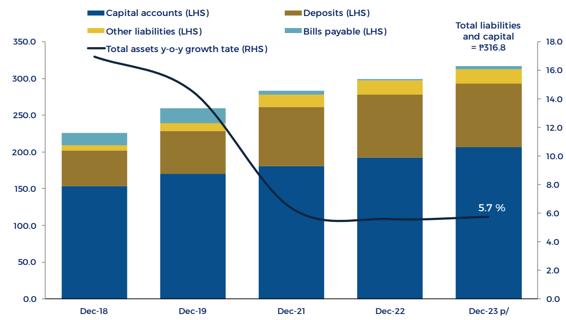
Meanwhile, the non-performing asset (NPA) ratio remained relatively unchanged at 6.5 percent compared to a year ago but with slight deterioration when compared to the pre-pandemic CAGR of 5.6 percent. Importantly, the industry ensures that potential losses in its portfolio are covered, maintaining ample provisions with NPL and NPA coverage ratios of 109.8 and 109.4 percent, respectively, in December 2023 (*Figure 2*).

Members' contributions continued, with sustained growth in capital and stable deposit base

The industry maintained a strong and well-diversified funding base in 2023, expanding to ₱316.8 billion (*Figure 3*), with capital and deposits accounting for 65.3 and 27.2 percent, respectively, of the industry's total funding. As of December 2023, members' capital amounting to ₱206.9 billion rose by 7.7 percent (or about ₱14.7 billion). This increase was due to the 6.2 percent-rise in members' capital contributions and the 11.9-percent growth in net income. Meanwhile, deposits from members also contributed to the overall growth of operations, albeit to a lesser extent, at ₱86.2 billion (down by 0.2 percent or about ₱154.7 million). The strong capital growth, coupled with the stable deposit base, demonstrates the industry's commitment to building a solid capital buffer to effectively meet its members' needs.

Figure 3
NSSLAs Funding Mix
as of end-periods indicated; in billion PHpesos; growth rate in percent



Source: DSA

p/ preliminary

Sustained profitability, with double-digit growth in net profit

Operations remained profitable, as net profit rose by 11.7 percent to reach ₱27.9 billion for the period ending December 2023, mirroring the growth observed in 2022. The strong performance was driven by high revenue from lending and investment activities on the back of a high interest rate environment, coupled with relatively low operating costs in view of subsidized operations[13]. Operating expenses declined by 16.2 percent (₱1.4 billion) to ₱7.2 billion for the reference period.

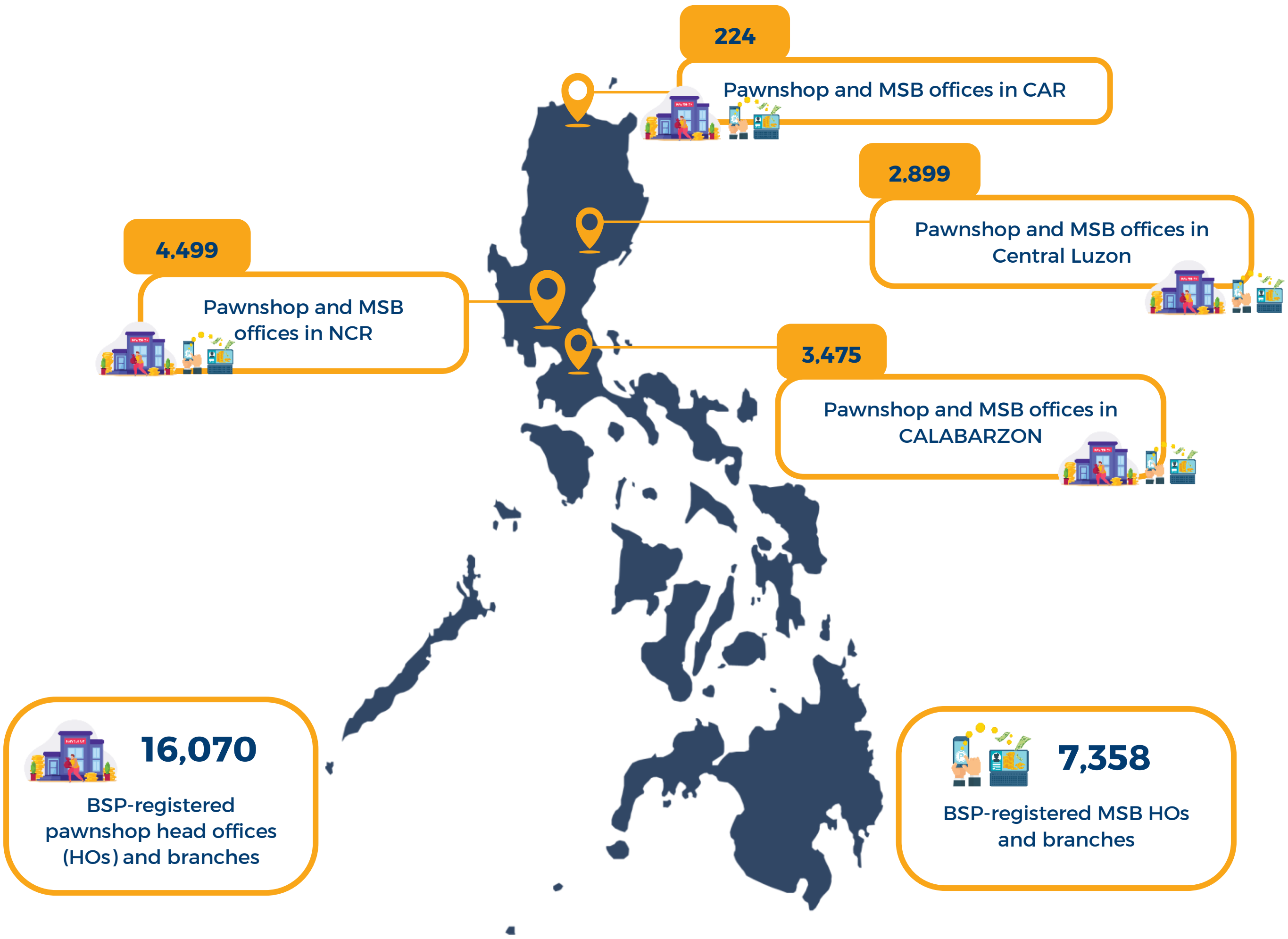
Following this, favorable returns were recorded in 2023 particularly return on assets and return on equity improving to 9.0 and 14.0 percent, respectively, from 8.6 and 13.4 percent a year ago. Thus, providing higher dividends, profit-sharing, and return on investments for their members.

[13] Based on the 2023 industry report prepared by the BSP supervising department, some operating expenses of NSSLAs are subsidized by the parent company providing them with savings from operating costs related to maintenance of workspaces, Information Technology and office equipment, including manpower support, among others.

Pawnshops and Money Service Businesses

Overview

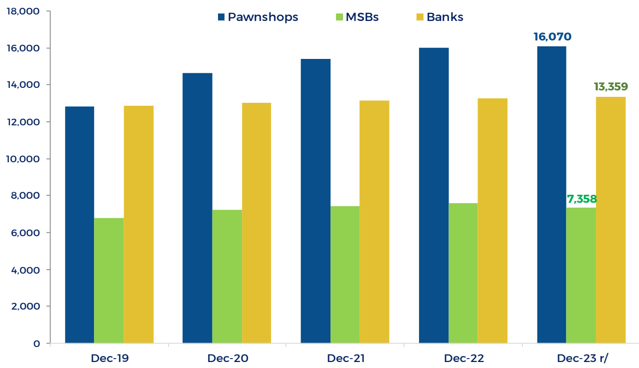
Pawnshops and money services businesses (MSBs) served as vital channels and platforms for promoting financial products and services in the country for a wider range of Filipinos, especially the underserved and unserved market segments. The extensive network of the industry has been instrumental in achieving the financial inclusion objectives of the BSP and that of the national government. This promoted entrepreneurship through microfinance and capital circulation for the overall development of the economy. Amid challenges posed by technological and innovative advancements and changing consumer behavior, the industry continuously diversifies, innovates, and adapts to the evolving financial landscape.



Financial touchpoints further increased, supportive of financial inclusion agenda of BSP

Pawnshops and money service businesses (MSBs) continued to maintain the greatest number of financial service access points in the country. Over the years, the network of the industry has been increasing (*Figure 1*), an indication of its strong commitment to providing vital financial channels and platforms to the unserved and underserved Filipinos where access to traditional banking services is limited. These establishments offer various financial products and services, namely, remittance and money-changing, including corollary services like money exchange and bill payments.

Figure 1
Pawnshops and MSBs Major Financial Access Points
as of end-periods indicated



Source: Department of Supervisory Analytics (DSA) and Financial Supervision Department (FSD) IX

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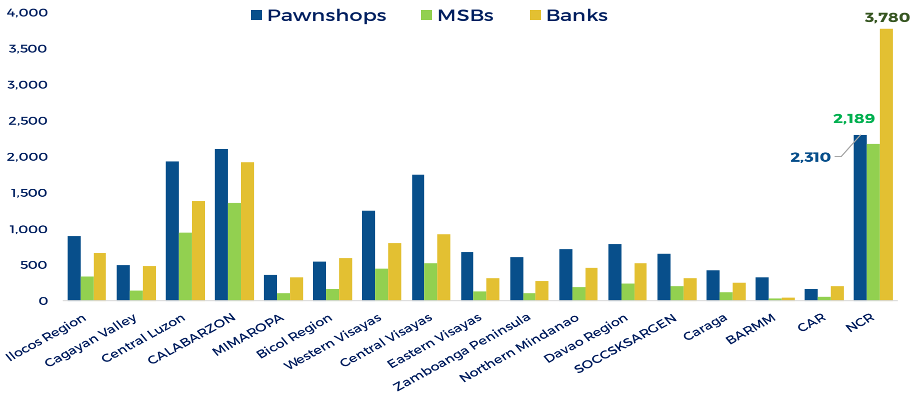
As illustrated in *Figure 1*, the number of pawnshops increased to 16,070 (0.4 percent, or around 71 additional offices), comprising 1,160 head offices and 14,910 branches, in December 2023 from 15,999 a year ago. Majority, or around 77.9 percent (12,512 pawnshops), of these pawnshops were authorized to engage in remittance activities.

In contrast, the number of MSBs slightly decreased to 7,358 (3.0 percent or around 226 offices), comprising 722 head offices and 6,636 branches, from 7,584 over the same period. This decline was due to various factors, including regulatory changes, industry consolidation, and shifts in consumer behavior. Notably, the MSB industry was dominated by large-scale remittance operators with an average monthly network volume of transactions of at least ₱75 million. Despite this slight dip, MSBs remain crucial players in offering a diverse range of financial services for individuals and businesses.

Amid the marginal decline in the total offices of pawnshops and MSBs to 23,428 (0.7 percent or around 155 offices) in 2023 from 23,583 a year ago, the industry continued to provide complementary and additional touchpoints to the banking system's extensive network (13,359 total offices). This widespread coverage underscores the significant role both industries play in advancing national financial inclusion objectives.

In terms of regional distribution, the National Capital Region (NCR) emerged as the top region, with the highest number of combined pawnshops and MSBs nationwide. *Figure 2* shows that the NCR holds a significant share with 4,499 pawnshops and MSBs, accounting for roughly 19.2 percent of the total network of the industry. Following closely, were CALABARZON (3,475 or 14.8 percent share), Central Luzon (2,899 or 12.4 percent share), Central Visayas (2,284 or 9.7 percent share), and Western Visayas (1,708 or 7.3 percent share). These highly urbanized and economically progressive regions collectively contributed over 63.4 percent of the nationwide pawnshops and MSBs' network. Conversely, the presence of pawnshops and MSBs in the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM) and Cordillera Administrative Region (CAR) was considerably less, with 367 and 224 pawnshops and MSBs, or mere 1.6 and 1.0 percent, respectively, of the total industry's network. This stark contrast in access points presents a significant challenge for financial inclusion in these areas, emphasizing the pressing need for targeted interventions to bridge the gap.

Figure 2
Pawnshops and MSBs Regional Distribution of Access Points
as of December 2023 r/



Source: DSA and FSD IX

r/ revised

Majority of the pawnshops and MSBs offered remittance services

Pawnshops have long been known to obtain quick cash by using personal assets as collateral. However, in recent years, pawnshops in the country have evolved beyond their traditional role and offered more than just pawning services. This shift is evident in the growing number of pawnshop offices operating in the country, which has reached a total of 16,070 offices.

Table 1
Type of Pawnshop Licenses
as of December 2023

Pawnshop type	No. of offices	Percentage share
"A" (with no more than 10 offices)	2,815	17.5%
"B" (with more than 10 offices or money-changing/ foreign exchange dealing business)	742	4.6%
"C" (with remittance activity)	12,512	77.9%
"D" (virtual pawnshop or e-pawnshop)	1	0.01%
Total	**16,070**	**100.0%**

Source: FSD IX

As the pawnshop industry evolved, several industry players now offer a diverse array of financial services, such as remittance services. More than two-thirds of the pawnshop industry was registered under the type "C" license category, or those offering corollary remittance activity, representing 77.9 percent as of end-December 2023 (*Table 1*).

Pawnshops with less than 10 offices, classified under the type "A" license, accounted for 17.5 percent of the industry. Meanwhile, those holding more than 10 offices or those with money-changing/foreign exchange dealing activities, classified under the type "B" license, constituted 4.6 percent. With the increasing popularity of financial technology, one head office was registered under the type "D" license, which is a virtual pawnshop operator that conducts pawnshop business through electronic pawning (e-pawning). This expansion caters to the evolving financial needs of the unbanked and underbanked segments of the population, offering greater convenience and accessibility to those who lack access to traditional banking institutions.

Meanwhile, MSBs continued to support the evolving need of their customers by facilitating remittance services, money-changing, foreign exchange dealings, and other financial services. As shown in *Table 2*, majority, or around 70.8 percent of MSBs were large-scale remittance operators (type “A” license), comprising 5,213 head offices and branches, as of December 2023. This was followed by small-scale remittance operators (type “B” license), accounting for 13.4 percent or 986[1]. Those MSBs offering combined money-changing/foreign exchange dealing services mostly operated on a small-scale basis (type “F” license[2]), making up 10.7 percent or 790 out of the total industry count. Only a minimal fraction, specifically six MSBs or 0.1 percent, were remittance platform providers (type “D” license).

Table 2
Type of MSB Licenses
as of December 2023

MSB type	No. of offices	Percentage share
"A" (Large-scale remittance agent operator)	5,213	70.8%
"B" (Small-scale remittance agent operator)	986	13.4%
"C" (E-money issuer or EMI)	0	0.0%
"D" (Remittance platform provider)	6	0.1%
"E" (Large-scale money changer/ foreign exchange dealer operator)	363	4.9%
"F" (Small-scale money changer/ foreign exchange dealer operator)	790	10.7%
Total	**7,358**	**100.0%**

Source: FSD IX

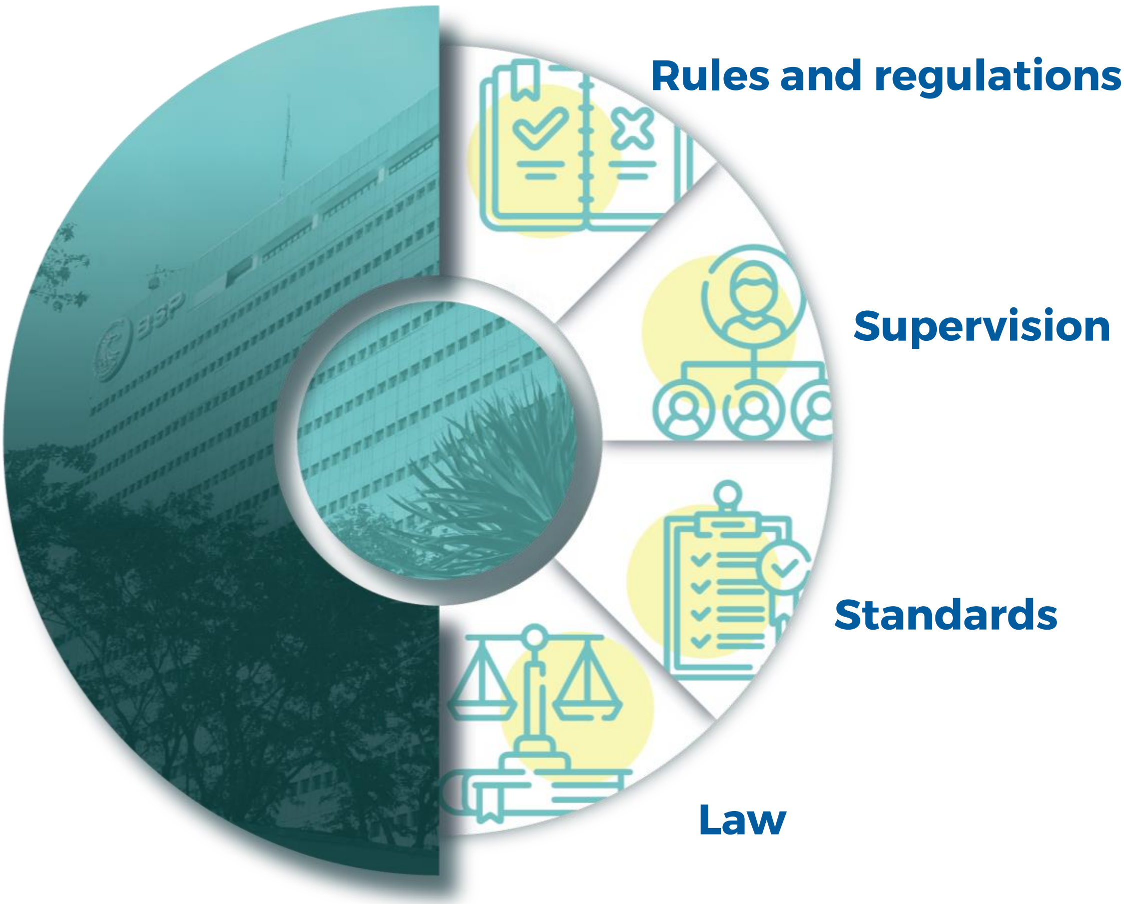
[1] Type “A” MSBs are large-scale remittance operators with an average monthly network volume of transactions of at least ₱75 million. In contrast, type “B” MSBs are small-scale remittance operators with an average monthly network volume of transactions of less than ₱75 million.

[2] Type “F” MSBs are small-scale money-changing/forex exchange dealing operators with an average monthly network volume of transactions of less than ₱50 million, whereas type “E” MSBs are large-scale operators with an average monthly network volume of transactions of at least ₱50 million.

Policy Reform Agenda

Overview

The BSP continued to adopt progressive financial sector reforms and prudential standards to ensure institutional stability, advance sustainable finance, and promote prudent innovation in the financial system consistent with its financial stability mandate. These reforms intend to foster a resilient, dynamic, and inclusive financial system supportive of sustainable domestic economic growth.



On ***promoting the operational resilience of BSP-supervised financial institutions*** (BSFIs)

The stability of the financial system is heavily underpinned by continued trust and confidence in BSFIs, including banks. In order to build trust and confidence in the financial system, the BSP ensures that BSFIs adhere to good governance standards, employ adequate risk management systems, and are not used as a means for money laundering as well as terrorist or proliferation financing. In line with these objectives, the BSP issued the following guidelines in the second half of 2023:

- ***Amendments to the guidelines on disclosures to the public.*** The guidelines on bank disclosures to the public, particularly on the published balance sheet and annual report, were revised to align the coverage of disclosures with international standards. The guidelines also provide for an expansion of dissemination channels for bank published reports, considering technological advancements. This approach is in line with the BSP's thrust of advocating sustainability and digitalization.

- ***Amendments to the regulations for unit investment trust funds.***[1] The BSP regulations on unit investment trust funds (UITFs) were amended to set out supervisory expectations on the selection of benchmarks. This helps ensure that the representations of trust entities on the return performance of UITFs against their chosen benchmarks remain relevant and that there are effective arrangements in place to manage conflicts of interest. In addition, pertinent information on the benchmark was required to be provided in the quarterly Key Information and Investment Disclosure Statement of a UITF. These disclosures are expected to help clients make better informed investment decisions.

- ***Enhanced provisions on targeted financial sanctions.*** The BSP enhanced regulations on targeted financial sanctions (TFS) related to terrorism, terrorist financing (TF), proliferation of weapons of mass destruction, and proliferation financing (PF). This is part of the overall strategy to strengthen existing measures to improve the effectiveness of the country's TFS regime and sustain efforts on TFS implementation and risk-based supervision. This circular highlights the obligation of banks to freeze without delay all property or funds of designated persons or any person/entity designated as a terrorist or one who finances terrorism under UN Security Council Resolutions or applicable laws and regulations.

The BSP also adopts targeted initiatives to ensure that small banks that cater to agriculture, fisheries, and rural communities are equipped to provide suitable financial products and services to these clients amidst an increasingly competitive digital financial environment. *Box Article 1* presents key initiatives and updates to the Rural Bank Strengthening Program (RBSP).

BSP frameworks, processes, and surveillance activities were further enhanced in support of the effective conduct of supervision. Surveillance tools on credit and market risk were improved through the expansion of the coverage of stress test scenarios to consider developments in the external environment. Thematic on-site examinations were also conducted to obtain a horizontal view of emerging risks in the financial system with respect to credit card operations, use of models, and disclosure of information to financial consumers. To support the effective supervision of financial conglomerates, the BSP held its third inter-agency cross-sectoral supervisory college in June 2023. This allowed financial sector regulators under the Financial Sector Forum to holistically assess the impact of emerging risks in financial conglomerates and adopt harmonized supervisory responses pursuant to their mandate of promoting financial stability.

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[1] BSP Circular No. 1178 dated 09 August 2023 [Guidelines on the Use of Benchmarks for Unit Investment Trust Funds (UITF)]

The BSP likewise operationalized supervision technology (SupTech) initiatives for the effective conduct of financial supervision. In the second half of 2023, the BSP improved the Visualization Tool for Analytics (VisTA), which provides BSP management with key information on the top 10 banks, and conglomerate exposures. The BSP also introduced the Comprehensive Credit and Equity Exposures (COCREE) Report to allow for a more granular analysis of loan performance and credit information across BSP-supervised entities, borrowers, and loan types.[2]

Finally, the long-standing memorandum of agreement between the BSP and the Philippine Deposit Insurance Corporation (PDIC) was updated to consolidate relevant information needed to effectively implement their respective mandates as well as streamline the process of sharing information between the two agencies. The corresponding *Box Article 3* underlines how heightened collaboration and stakeholder engagements of the BSP reinforces its regulatory capacity and capability. It also exemplifies how sharing of timely, secure, and efficient information can seamlessly happen through the use of a safe and secure digital platform.

For the second thrust, the BSP continued to provide a conducive regulatory environment for the ***sustained digital transformation of the financial sector***. In line with efforts to encourage responsible digital innovation and establish a level playing field for digital financial market players, the BSP launched the regulatory sandbox and open finance frameworks. The institutionalization of the BSP's "test and learn" approach in the regulatory sandbox allows financial institutions to put forward new business models or innovative fintech products and services that may potentially accelerate the participation of critical sectors of the economy, including MSMEs, in formal finance. The BSP also launched the Open Finance PH Pilot, a voluntary collaborative undertaking of financial institutions and third-party service providers to explore the use of application programming interface technologies in the delivery of financial products and services that are responsive to the needs of customers. This is part of the BSP's seven-year revised Open Finance Roadmap toward building a cyber-resilient and open digital economy, which will pave the way for equal access to financial services for all Filipinos.

Meanwhile, the BSP's climate and sustainability actions are embodied in its **Sustainable Central Banking (SCB) Program,** adopted as one of its strategic thrusts. Since then, the BSP has undertaken a phased approach to the issuance of enabling regulations on sustainable finance to strengthen banks' response to managing environmental and social (E&S) risks and equip them to unlock financing for green, or sustainable projects.

In the second half of 2023, the BSP issued guidelines to ***support the development and growth of the Philippine sustainable finance market.*** In particular, the BSP granted an additional 15 percent Single Borrower's Limit (SBL) for financing eligible projects and activities, including the transition to decarbonization, and the gradual reduction of RR for sustainable bonds to zero percent from 3.0 percent.[3] *Box Article 2* delves into this sustainable finance incentive mechanism to bridge the funding gaps for climate action and sustainable development.

[2] BSP Circular No. 1184 dated 15 December 2023 [The Enhanced Comprehensive Credit and Equity Exposures Report (COCREE) of 2023]. The COCREE is designed to capture granular borrower/counterparty information for all credit and equity exposures of BSFIs.

[3] BSP Circular No. 1185 dated 13 December 2023 (Grant of Additional Single Borrower's Limit for Financing Eligible Projects and Zero Percent Reserve Requirement Rate Against Sustainable Bonds)

The BSP likewise rolled out a report template for the mandatory Agriculture, Fisheries, and Rural Development (AFRD) Enhancement Financing Act to monitor the compliance of banks with the AFRD financing requirement, including the use of sustainable finance as an eligible mode of compliance.[4] It will also capture data that can be used to assess the effectiveness of the provisions of the law and inform policymaking.

The BSP, in collaboration with the World Bank, has undertaken a climate transition risk stress testing exercise, the results of which will shape the development of climate risk stress testing guidelines for banks and the enhancement of prudential reports that could facilitate the identification and collection of relevant data for the surveillance and analysis of emerging risks and trends arising from climate change and other E&S factors.

Policy priorities moving forward

To modernize the Philippine banking system and ensure a sustainable, digital, and inclusive banking future, the BSP will continue to work on initiatives aligned with the three supervisory priority areas for the year 2024 and beyond.

To ***further safeguard institutional stability and financial sector resilience***, the BSP is working on the issuance of operational resilience standards for supervised banks as well as the development of an enhanced crisis management and resolution framework. The National Risk Assessment on money laundering/terrorist financing (ML/TF) for the banking sector is well underway, with the final report expected in 2025. The BSP will also collaborate with concerned stakeholders on the development of the Financial Services Cyber Resilience Plan (FSCRP) for 2024-2029. These reforms will be accompanied by the BSP's strengthened macroprudential oversight and enhanced stress testing framework.

Prudential regulations governing NBFIs will also be strengthened. An MSB and pawnshop strengthening (MaPS) program will be developed to strengthen the capability of pawnshops and MSBs to manage their attendant risks by raising the regulatory standards on capitalization and form of organization. This will be accompanied by outreach programs to increase the understanding of regulatory expectations and improve compliance with the prudential requirements of pawnshops and MSBs. Meanwhile, with the proliferation of MSBs operating without BSP registration and the inherent vulnerability of MSBs to money laundering and terrorist financing activities, *Box Article 4* presents how the BSP has strengthened its surveillance and coordination efforts to cover illegally operating MSBs in the Philippines.

Similarly, supervisory measures and existing regulations on non-stock savings and loan associations (NSSLAs) are also being reviewed by the BSP to ensure that these associations continue to operate in a safe and sound manner. These include guidelines on well-defined group; capital-related requirements; rules on compensation; governance structure; and regulations on the voluntary surrender, revocation of license, and prohibition of doing business of an NSSLA.

The enhancement of supervisory processes remains a core priority for the BSP in 2024. Thus, the BSP will focus on *improving data analytics and SupTech capabilities* through the launch of the Fit and Proper system for use by BSP-supervised entities and the implementation of COCREE and supervisory use cases of the COCREE data.

[4] BSP Memorandum No. M-2023-028 dated 28 September 2023 {Guidelines on the Submission of the Report on Compliance with Mandatory Agriculture, Fisheries and Rural Development (AFRD) Financing}

On the ***sustainability agenda***, the BSP's priority is to further strengthen the sustainability-related information architecture to promote transparency and comparability of such information. This will empower investors to make informed decisions, and mitigate greenwashing risks, and protect the reputation of the Philippine financial system.

Furthermore, the BSP remains in close coordination with government agencies and both the House of Representatives and the Senate, providing strong support for key legislative reforms that continuously promote the development of the Philippine economy as well as strengthen and modernize the financial ecosystem for a sustainable, competitive, and responsive position.

These priority legislative reforms are the amendments to the laws on secrecy of bank deposits and the anti-financial account scamming act (AFASA) bill. The former aims to address the need for a more transparent financial environment while ensuring ample safeguards to protect bank depositors from unwarranted intrusion, while the latter seeks to deter financial cybercriminals from their activities and protect the financial industry and the transacting public by regulating and criminalizing the acts of money mules, social engineering schemes, and other related offenses. The passage of these bills is also expected to hasten the Philippines exit from the Financial Action Task Force Grey List and strengthen consumer protection in the country, respectively.

Moving forward, the BSP is steadfast in ensuring that the Philippine financial system is safe and sound in keeping with its financial stability mandate. In this regard, the BSP will continue to collaborate and closely work with relevant stakeholders on the adoption of key financial sector reforms aimed at ensuring institutional stability, promoting responsible innovation, and advancing sustainability in the financial system.

Rural Bank Strengthening Program: Key Initiatives and Updates

Box Article 1

The BSP continues to promote the stability and growth of rural banks (RBs) through the Rural Bank Strengthening Program (RBSP), a structured program anchored on the principle that a safe and sound bank is well-capitalized. The RBSP aims to enhance the operations, capacity, and competitiveness of RBs through four key elements:

1. A strengthened capital base
2. A holistic menu of five time-bound tracks
3. Incentives and capacity-building
4. Policy review and enhancements

Key Issuances

Following the release of Memorandum No. 2022-024 on 5 May 2022 introducing the RBSP, the BSP issued two key policies signaling the effectivity of the program:

On 24 August 2022, the BSP issued Circular No. 1151, amending the minimum capital requirements for RBs. It provides a five-year transitory period (until September 2027) for RBs to meet the new capital requirements. This issuance was followed by the release of Memorandum No. 2022-040 on 13 September 2022, which provides the implementing guidelines for the RBSP. The guidelines provide the procedures, requirements, and applicable laws, rules, and regulations of the five time-bound tracks:

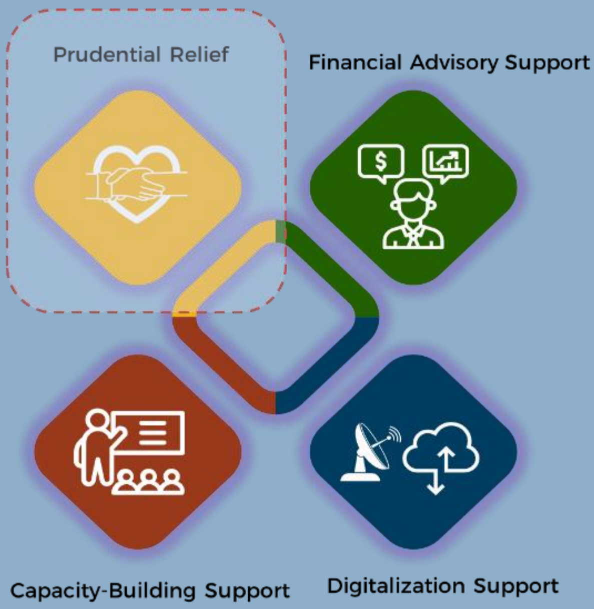
- Merger and Consolidation (Track 1)
- Acquisition or Third-Party Investment (Track 2)
- Voluntary Exit or Upgrade of Banking License (Track 3)
- Capital Build-up Program (Track 4)
- Supervisory Intervention (Track 5)

The guidelines also provide a list of incentives and the qualification requirements for RBs to avail of these incentives, the deployment of which will be covered by a separate BSP issuance with detailed guidelines and mechanics.

RBSP Technical Assistance

The RBSP will run for three years, or until September 2025. Qualified RBs—or RBs that were able to meet the new minimum capital requirements on or before said period—may avail themselves of technical assistance (TA) under the RBSP.

The RBSP TA aims to accelerate RBs' digital transformation and enhance their operations, capacity, and competitiveness. It thus serves as a mechanism for the BSP to deploy the RBSP incentives. The Rural Banks Act of 1992 gives the BSP authority to extend technical assistance to any RB.



The RBSP TA has three components: *financial advisory*, *digitalization*, and *capacity-building*.

The Financial Advisory TA aims to support the due diligence work of RBs that entered Tracks 1 and 2—or the merger, consolidation, and acquisition tracks—of the RBSP.

The Digitalization TA aims to support the RBs' migration to cloud-based core banking systems, thus promoting operational improvements, cost efficiency, business continuity, network security, and better regulatory compliance. It also aims to unlock better market opportunities for RBs by providing a platform for financial innovation. In addition, the Digitalization TA is looking into enhancing the internet connectivity of RBs through cable-less or satellite internet technologies.

The Capacity-Building TA aims to develop a program of training courses on key regulatory updates, financial system developments, innovations, and opportunities for RBs. It further aims to provide BSP-led seminars, awareness briefings, or fora for RBs to enhance their capability to navigate the evolving risks and financial landscape.

Qualified RBs may also avail themselves of prudential relief measures, subject to BSP approval. Such relief measures include, but are not limited to, waiver of all processing and licensing fees and condonation of liquidated damages/penalties on loan arrearages with the BSP; operational relief on submission of periodic reports; temporary relief from compliance with prudential limits/ratios; relocation of head offices and/branches/branch-lite units; downgrading of branch to branch-lite unit or upgrading of branch-lite unit to branch; concurrent directorship/officership between constituent banks; and other regulatory incentives as may be requested by banks.

The BSP's Sustainable Finance Incentives: Bridging Funding Gaps for Climate Action and Sustainable Development

Box Article 2

Delivering on sustainable finance, particularly climate finance, was a top-priority agenda at the 28th meeting of the Conference of the Parties to the United Nation s Framework Convention on Climate Change in December 2023. Considered the "great enabler of climate action," climate finance has a central role in fast-tracking efforts to address the climate emergency on both mitigation and adaptation fronts. To combat climate change and its impacts, government, and private-sector actors—including financial institutions, corporations, investors, and multilateral development organizations—must work together to unleash the trillions of dollars needed to operationalize climate action plans.

In the Philippines alone, investment opportunities in climate action are estimated to reach up to US$168 billion between 2020 and 2030, particularly in "greening" the energy, agriculture, manufacturing, and transportation sectors and building climate-smart cities. The lack of financing and the limited access to technology or skills are among the barriers that may hinder such investments from materializing.[1]

To help bridge the significant gap in sustainable finance in the country, the Bangko Sentral ng Pilipinas (BSP) promotes an enabling environment that empowers financial institutions to channel and mobilize funds toward the transition to a low-carbon, climate-resilient, and more sustainable economy. The BSP Sustainable Finance Framework and other sustainability-related guidelines aim to develop and strengthen the response of banks to climate and environmental and social threats. By embracing sustainability, banks—and the financial sector, more broadly—can integrate climate and other environmental and social considerations into their strategies and business decisions. This, in turn, is expected to unlock financing for activities or projects that contribute to positive environmental and social outcomes.

The preliminary results of the BSP's 2023 Banking Sector Outlook Survey (BSOS) reveal a growing appetite for sustainable finance among banks: 90.3 percent of respondents signified interest in lending to or investing in sustainable projects or activities over the next two years (2024–2025), an improvement from 79.3 percent in the 2021 BSOS.

To foster the growth of a sustainable finance market in the country, the BSP has provided measures to incentivize banks to finance investments for "green" or sustainable projects or activities including transitional activities for decarbonization. These measures are in the form of increased lending capacity of banks, with the top-up 15 percent single borrower's

[1] *Philippines Country Climate and Development Report 2022*, The World Bank Group (https://www.searca.org/files/learning-events/adss/20230216-ADSS-handout-Philippines-CCDR-full-report.pdf)

limit to finance eligible "green" or sustainable projects and activities[2] and the calibrated reduction in the reserve requirement rate (from 3.0 percent to 0 percent) on sustainable bond issuances of banks. This set of temporary measures, as embodied in BSP Circular 1185 dated 13 December 2023[3], is part of the suite of initiatives under the BSP's 11-point Sustainable Central Banking Strategy[4] to mainstream sustainable finance as well as support the achievement of the country's climate commitments and sustainable development goals.

The BSP had earlier issued Circular No. 1159 (Implementing Rules and Regulations of the Mandatory Agriculture, Fisheries, and Rural Development (AFRD) Financing, dated 4 November 2022, which recognized sustainable finance as an eligible form of compliance with the minimum requirement for AFRD financing.

Apart from existing regulatory incentives, the BSP will continue to explore and introduce measures, within its mandates, to promote sustainable financing. Complementary to this are key actions taken by the BSP in strengthening the information architecture to improve accountability, transparency, and comparability, setting the stage for market-oriented sustainable finance. The BSP's priority initiatives to enhance its sustainability disclosure requirements and prudential reports for banks, as well as the adoption of the local taxonomy, are paramount in creating a robust architecture and governance framework.

The BSP and the Securities and Exchange Commission (SEC) have adopted the Philippine Sustainable Finance Taxonomy Guidelines under Circular No. 1187 dated 21 February 2024[5] and SEC Memorandum Circular No. 05, series of 2024,[6] respectively. Such a taxonomy is seen to empower actors across the sustainable finance ecosystem in mobilizing capital toward projects and activities that are environmentally and socially sustainable, including those that support a low-carbon and climate-resilient transition.

According to the latest ad hoc survey conducted by the BSP, 75 percent of respondent universal and commercial banks as of 30 June 2022 have extended financing to 'green' or sustainable projects —a total of ₱830 billion and US$14 million, representing approximately 7 percent of the Philippine banking sector's total loan portfolio. The top priority "green"/sustainable projects or activities these banks support are renewable energy, sustainable water and wastewater management, energy efficiency, and "green" building,

[2] To be eligible, the projects or activities must meet any of the principles or eligible categories of projects as laid out in the (1) 2022 Strategic Investment Priority Plan on Green Ecosystems, Health, and Food Security; (2) Republic of the Philippines Sustainable Finance Framework; (3) Philippine Sustainable Finance Guiding Principles; (4) ASEAN Taxonomy for Sustainable Finance; or (5) Philippine Sustainable Finance Taxonomy Guidelines. The underlying project or activity should be legal and compliant with any Philippine environmental laws and regulations.

[3] https://www.bsp.gov.ph/Regulations/Issuances/2023/1185.pdf

[4] https://www.bsp.gov.ph/StrategicPrograms/SCBRoadmap.pdf

[5] https://www.bsp.gov.ph/Regulations/Issuances/2024/1187.pdf

[6] https://www.sec.gov.ph/mc-2024/sec-mc-no-05-series-of-2024/#gsc.tab=0

Approved Revised Memorandum of Agreement on Information Exchange between the BSP and the PDIC

Box Article 3

The Bangko Sentral ng Pilipinas (BSP) and the Philippine Deposit Insurance Corporation (PDIC) recently approved in the last quarter of 2023 the Revised Memorandum of Agreement ("Revised MOA") on Information Exchange updating the existing information sharing agreement between the two agencies in support of the effective conduct of their respective mandates and their complementary roles in the promotion of financial stability and protection of deposits.[1]

The Revised MOA supports the conduct of the BSP and the PDIC mandates under their respective charters. The Revised MOA on Information Exchange allows the BSP and PDIC to effectively discharge their respective functions and authorities as provided under Republic Act No. (R.A.) No. 7653 (The New Central Bank Act) or the BSP Charter and R.A. No. 3591, or the PDIC Charter, as amended. It also operationalizes the provisions of the amended PDIC Charter which state that BSP and PDIC shall share with each other reports or information, as may be agreed upon and prescribed by applicable laws and regulations.

The BSP is authorized under **R.A. No. 7653 or the BSP Charter**, as amended, to: (1) supervise and monitor performance of banks through the conduct of examinations and require the regular submission of reports affecting their operations; (2) under orders of the court, the Congress or any government office or agency authorized by law, or under such conditions as may be prescribed by the Monetary Board, disclose information relating to a bank's condition; and (3) request from any person or entity including government offices and instrumentalities, or government-owned or –controlled corporations, any data for the proper discharge of its functions and responsibilities

Meanwhile, pursuant to **R.A. No. 3591 or the PDIC Charter**, as amended, the PDIC, jointly with the BSP, may examine records and books of accounts, or inquire or look into deposit records of banks in the following cases: (1) there is finding of fraud; (2) there is finding of unsafe and unsound banking related to deposit-taking; (3) there is a failure of prompt corrective action; as declared by the Monetary Board due to capital deficiency; and (4) whenever the BSP deems it appropriate and necessary for the PDIC to join the conduct of the examination of a bank.

Strong collaboration and shared commitment towards a responsive and operational regulatory and supervisory framework in the banking sector. The BSP and PDIC finalized with strong support and collaboration the Revised MOA on Information Exchange as the coverage of the information sharing agreement is institution wide. The finalization of the MOA entails technical-level coordination on the contents among various BSP and PDIC units including exposure of draft and legal review. It also requires the conduct of the Privacy Impact Assessment to ensure compliance with the data privacy standards under the R.A.

[1] A ceremonial signing of the BSP-PDIC Revised MOA on Information Exchange was led by the BSP Governor Eli M. Remolona, Jr. and PDIC President and Chief Executive Officer (CEO) Roberto B. Tan on 08 February 2024 at the BSP Head Office in Manila. Bangko Sentral ng Pilipinas Media and Research Press Releases (bsp.gov.ph)

No. 10173, otherwise known as Data Privacy Act of 2012 with respect to the sharing and collection of personal data.

Privacy Impact Assessment (PIA). Assessment of risks related to the sharing of personal information under a program or process. PIA is required before implementation of the data sharing in compliance with the requirement of the **National Privacy Commission (NPC) and pursuant to the BSP's Data Protection policy**.

How is PIA performed:

- ✓ Identify and assess privacy risks (i.e., identification, analysis and evaluation) within the ambit of purpose, proportionality and transparency principles while ensuring confidentiality, integrity and availability.
- ✓ Address risks – controls and measures to mitigate the impact of these risks

The implementation of the Revised MOA allows the seamless and transparent communication between the BSP and the PDIC through the reports, information and data that are shared that will enable the comprehensive analysis of financial health of banks, thereby allowing the application of appropriate regulatory and supervisory framework as well as interventions needed. The collaborative efforts of the BSP and the PDIC in the Revised MOA is a shared commitment to keep the regulatory and supervisory framework in the banking industry responsive and operational amidst changing dynamics in the industry.

Salient features of the BSP-PDIC Information Sharing Agreement

- **Omnibus Agreement covering all reports, information and documents (RIDs).** The BSP and the PDIC currently exchange various reports, data, and information under separate agreements. The Revised MOA operationalized as an Omnibus Agreement covering all RIDs shared between the BSP and the PDIC.

- **BSP and PDIC-wide Coverage**. The Revised MOA is an updated and comprehensive stocktaking of all the RIDs currently being shared between the BSP and the PDIC in pursuit of their respective mandates. In addition to banking supervision data, the Revised MOA also covers information that support other functional departments of the BSP such as legal services, economic statistics, as well as loans and credit.

- **Streamlined bank prudential reporting**. The Revised MOA on Information Exchange will streamline prudential reporting requirements of banks, with banks no longer required to submit some prudential reports separately to the PDIC as the BSP will share these reports with the PDIC.

- **Leverage on digital technology**. The information sharing between the BSP and the PDIC will be seamless leveraging through digital platform for the timely, secure, and efficient sharing of RIDs while other modes of exchange will be available and acceptable such as encrypted email or physical delivery/hand-carry.

- **Updated and relevant information sharing agreement**. The Revised MOA is designed to be dynamic with embedded mechanisms that allow it to be periodically reviewed and updated to consider evolving supervisory requirements. It allows subsequent revisions, amendments, deletions, repeals, or supplements that should be made in writing and with the mutual consent of the BSP and PDIC

Surveillance of Illegally Operating Money Service Business

Box Article 4

As guided by international standards,[1] a deliberate and proactive approach to regulating money service businesses (MSBs) is fundamental to ensuring all MSBs operate within the regulatory perimeter. Hence, it is imperative that only those registered with the Bangko Sentral ng Pilipinas (BSP) as MSBs are allowed to operate as such, and that appropriate sanctions be imposed against unauthorized MSB operators and activities.

MSBs are inherently highly vulnerable to money laundering and terrorist financing given their cash-intensive business, use of agents, small-value remittances, customer diversity, and vast network and geographical scope. As reported in the 2017 Philippine National Risk Assessment (NRA) and the 2022 Money Service Business Sectoral Risk Assessment (SRA),[2] MSBs are constant targets of criminals to facilitate the proceeds of their activities due to their broad reach and speed and anonymity of the transactions they facilitate. These concerns are amplified by the proliferation of MSBs operating without BSP registration.[3]

Cognizant of the foregoing, the Monetary Board, in its Resolution No. 91-A dated 28 January 2021, issued a marching order to ensure that non-bank financial institutions (NBFIs) cannot operate without BSP registration. To carry out this order, the Financial Supervision Sector (FSS), on 26 October 2021, constituted a technical working group (TWG) to explore closer coordination with local government units (LGUs) on the matter. The TWG is mandated to propose strategies and approaches for effective surveillance of NBFIs in the regions to weed out all illegally operating MSBs. In July 2021, the FSS adopted guidelines on handling unregistered entities, thus providing the overall framework to effectively implement the International Cooperation Review Group (ICRG) Action Plan (AP). The guidelines are undergoing enhancements to reflect the effective practices acquired and the latest legal opinions on handling unregistered entities. It has also strengthened coordination with other agencies to identify unregistered MSBs and provide regular reports/information.

The BSP's relentless efforts in policing the regulatory perimeter have resulted in the conviction of four illegal MSB operators and disqualification of 28 unauthorized MSBs from securing registration and obtaining licenses to engage in any activity under the BSP's supervision. The concerted actions of the BSP demonstrate sustainable and effective supervision of MSBs, mainly addressing the deficiencies noted in the Report of the Asia Pacific Joint Group (APJG) to the ICRG.[4] In 2022, the Anti-Money Laundering Council (AMLC), the Philippines' financial intelligence unit, recognized the BSP for its assiduous and proactive endeavors in preventing money laundering and terrorism financing in the country.

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1 Financial Action Task Force (FATF) Recommendation 14 on Money or Value Transfer Services (MVTS) and Guidance on MVTS; The World Bank on General Principles for International Remittance Services

2 Led by the AMLC in 2017 (NRA) and in 2021 (SRA)

3 Cited in the 2019 Mutual Evaluation (ME) of the Philippines conducted by the Asia Pacific Group (APG) on Money Laundering in 2019

4 The APJG Report to the ICRG on Immediate Outcome 3-3 requires the Philippines to continue efforts to implement the new registration requirements and apply proportionate and dissuasive sanctions against unregistered and illegal remittance operators.

To accelerate efforts to strengthen surveillance measures and the imposition of proportionate, dissuasive sanctions against illegally operating MSBs, the BSP is looking to propose legislation for the possible imposition of administrative sanctions even against NBFIs not registered with the BSP. Such imposition of administrative sanctions shall be without prejudice to the criminal sanctions provided in Sections 34, 35, and 36 of the New Central Bank Act, as amended. The FSS has also initiated the creation of a centralized live surveillance system that leverages data analytics to surface illegally operating MSBs.

Annex 1

Implementation of the Barangay Micro Business Enterprises (BMBEs) Act

Overview

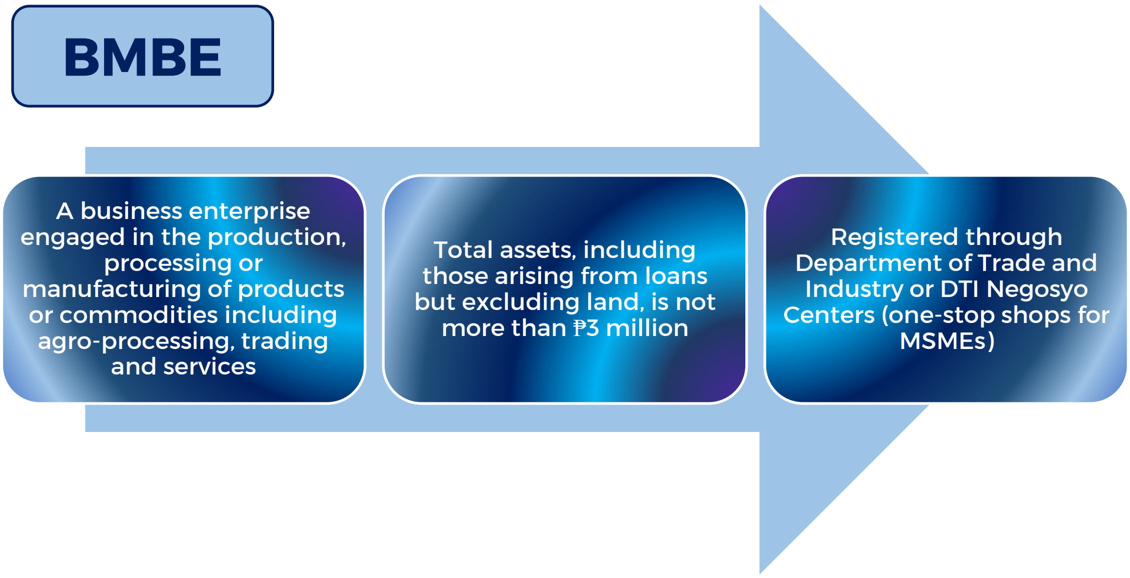
In line with Republic Act (R.A.) No. 9178 or the “Barangay Micro Business Enterprises (BMBEs) Act of 2002”, the Philippine banking system, together with other government financial institutions, continued to provide financing to BMBEs in 2023. This was complemented by enabling regulatory policies and regulations released by the BSP supporting the promotion of improved financial services delivery to BMBEs and other microenterprises.

Annex 1

Implementation of the Barangay Micro Business Enterprises (BMBEs) Act

Strong credit support to BMBE

Republic Act (R.A.) No. 9178 encourages the formation and growth of BMBEs through rationalization of bureaucratic restrictions,[1] active government intervention, and the granting of incentives and benefits. The Act primarily aims to integrate microenterprises into the formal sector and to the mainstream economy. The strengthening of BMBEs, which includes supporting their credit needs, is important in generating more jobs, providing livelihoods, and hastening economic development in the country, particularly the micro, small, and medium enterprises (MSMEs) sector.



In line with Section 9 of the BMBEs Act, special credit windows shall be set up for registered BMBEs by the government financial institutions or GFIs, namely, Land Bank of the Philippines (LBP), Development Bank of the Philippines (DBP), Small Business Corporation (SBC)[2], and People's Credit and Finance Corporation (PCFC). The law likewise mandates the Government Service Insurance System (GSIS) and the Social Security System (SSS) to set-up a special credit window to serve the financing needs of their respective members who wish to establish BMBEs. Moreover, in the case of agribusiness activities, SBC is required by the law to set up a special guarantee window to provide the necessary credit guarantee to BMBEs. Meanwhile, the BSP was tasked to formulate the implementing rules on credit delivery, as well as establish incentive programs to encourage and improve credit delivery to BMBEs.

BSP remains supportive of the BMBE sector, and continues to monitor the implementation of the BMBEs Act

The BSP closely monitors the compliance of concerned GFIs with the provisions of Section 9 and the second paragraph of Section 13 of the BMBEs Act, and subjects non-compliant GFIs that are banks, if any, to administrative sanctions and other penalties[3] under Section 333 of the Manual of Regulations for Banks (MORB). Under this regulatory framework, the

[1] The BMBE registration procedure as mandated under Section 4 of the BMBEs Act, as amended by R.A. No. 10644 (An Act Promoting Job Generation and Inclusive Growth through the Development of Micro, Small, and Medium Enterprises [MSMEs]), otherwise known as the "Go Negosyo" Act, enables a simpler BMBE registration process through Negosyo Centers (one-stop shops for MSMEs, including BMBEs) handled by the DTI, instead of the prior arrangement under the local government unit where the BMBE operates.

[2] Formerly the Small Business Guarantee and Finance Corporation

[3] In the case of a bank, the penalty imposed will be without prejudice to the administrative sanctions under Section 37 of R.A. No. 7653 (The New Central Bank Act), as amended.

special credit windows to be set up by the LBP, DBP, SBC, and PCFC are expected to serve the credit needs of BMBEs either through retail or wholesale lending, or both, as the GFIs may deem consistent with their corporate policies and objectives. In addition, for GSIS and SSS members, they may avail their BMBE credit needs through a special credit window, while for agri-BMBEs, they may avail a credit guarantee under the SBC guarantee program.

Banks and other financial institutions (FIs) may also tap other financing channels to support the credit requirements of BMBEs. Loans to BMBEs may still form part of a bank's compliance with the mandatory credit allocation for agriculture and agrarian reform credit at 100 percent of their outstanding balance, provided that these loans meet the qualification requirements for compliance with the mandatory agri-agra or agriculture, fisheries, and rural development financing credit, as applicable, under Section 331 of the MORB.

Importantly, banks and other FIs that lend to BMBEs are required to comply with the following requirements: (i) set just and reasonable interest on loans to BMBEs; (ii) develop schedule of loan amortization that considers the projected cash flow of the borrowers; and (ii) exempt registered BMBE borrowers from submission of income tax returns as a condition for the grant of loans, provided that before grant of the loan, banks shall undertake reasonable measures to determine the borrowers' capability to pay.

Retail loans to BMBEs further expanded

As shown in *Table 1*, total retail loans of the banking system to BMBEs reached ₱53.4 million in December 2023, higher compared to ₱43.2 million posted in 2022.[4] By banking group, rural banks continued to cater to the greatest number of borrowers and largest share of loans, with 2,883 BMBE borrowers and ₱31.2 million (58.4 percent of the total loans to BMBEs), respectively. Meanwhile, there were no wholesale loans granted for BMBE financing during the reference period.

Table 1
Philippine Banking System's Total Retail Loans to BMBEs
as of December 2023; in million PH pesos

Banks	Dec-23 No. of banks	Dec-23 No. of borrowers	Dec-23 Outs. loans	Dec-22 No. of banks	Dec-22 No. of borrowers	Dec-22 Outs. loans	y-o-y Growth Amount	y-o-y Growth %
Universal banks	-	-	-	1	2	1.5	(1.5)	(100.0%)
Thrift banks	3	353	11.3	1	137	4.0	7.3	183.5%
Rural banks*	18	2,883	31.2	17	2,642	28.7	2.5	8.6%
Cooperative banks	3	166	10.9	2	89	9.0	1.9	20.6%
Total	**24**	**3,402**	**53.4**	**21**	**2,870**	**43.2**	**10.2**	**23.5%**

* These include one microfinance rural bank.
Source: DSA

GFIs complied with the mandatory credits to BMBEs

Based on the annual report of GFIs, LBP, DBP, SSS, GSIS, PCFC, and SBC continued to implement the requirements of the BMBEs Act, particularly the establishment of special credit windows and facilities to serve the financing needs of BMBEs. Moreover, these GFIs regularly submit their annual report on the status of the implementation of the BMBEs Act to both houses of Congress as prescribed under Section 9 of the BMBEs Act.

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[4] Based on the Report on Loans Granted to BMBEs, which forms part of the quarterly Report on Compliance with Mandatory Credit Allocation Required under R.A. No. 6977, as amended. This report includes data on outstanding loans to BMBEs, and number of borrowers.

Annex 2

2023 Survey on the Effects of Foreign Bank Entry into the Philippine Banking System

Overview

Foreign banks' contributions to promoting our country to the world remain valuable, a bridge that connects the country to foreign financing through trade, investments, and other business opportunities. These banks have been introducing innovative financial products and services, as well as new technologies, to better serve their clients' financing needs. Moreover, these banks remain at the forefront of sustainable finance, embedding this in their operations, products, and service delivery.

Annex 2

2023 Survey on the Effects of Foreign Bank Entry into the Philippine Banking System

Objective

The survey aims to determine the extent of foreign banks' support to the policy objectives embodied in Section 1 of Republic Act (R.A.) No. 7721, as amended by R.A. No. 10641, which provides

> *"The State shall develop a self-reliant and independent national economy effectively controlled by Filipinos and encourage, promote, and maintain a stable, competitive, efficient, and dynamic banking and financial system that will stimulate economic growth, attract foreign investments, provide a wider variety of financial services to Philippine enterprises, households and individuals, strengthen linkages with global financial centers, enhance the country's competitiveness in the international market and serve as a channel for the flow of funds and investments into the economy to promote industrialization."*

Methodology

Survey questionnaires[1] were sent to all 28 foreign bank branches (FBBs) and foreign bank subsidiaries[2] in the Philippines to gather insights and information on: (i) investment and trade activities undertaken to attract foreign investments in the Philippines; (ii) other business opportunities undertaken to attract foreign investments in the Philippines; (iii) banking technology introduced for the benefit of local clients and depositors; (iv) financial products and services provided to local residents or companies based in the Philippines; (v) sustainable projects financed and supported; and (vi) number of Filipino officers and employees hired.

Key findings

A. Investments, trade, and business opportunities

Foreign bank branches and subsidiaries continued to facilitate, arrange, and assist various trade- and investment-related activities as well as other business opportunities between the Philippines and other countries, and vice-versa. In 2023, trade and investment-related activities promoted by foreign banks reached US$5.8 billion and US$9.8 billion, respectively, higher than the levels recorded in 2022 of US$5.7 billion and US$3.8 billion. This strong economic support provided by foreign banks echoes the upbeat sentiment of majority of foreign bank respondents in the latest industry survey[3].

The survey also disclosed that loan facilities, including letters of credit (LC), standby LC and guaranty, as well as underwriting and arranging of domestic bonds were the most common services availed of by their clients in 2023. Foreign banks likewise engaged in various event sponsorship and promotional campaigns, both within and outside the country, linking and promoting the Philippines with potential foreign investors.

B. New technology and new products and services

In 2023, majority of foreign bank branches and subsidiaries[4] employed various innovations to further improve the delivery of their products and services as well as

[1] The survey was conducted from January to February 2024.
[2] All 28 foreign bank branches and subsidiaries operating in the Philippines participated and submitted their survey responses.
[3] Based on the preliminary 2023 Banking Sector Outlook Survey (BSOS), respondent banks, which include foreign banks, forecast a double-digit expansion in their assets and key activities such as loans and investments in view of better economic prospects and expectations of continued economic recovery.
[4] 12 (around 42.9 percent) out of the 28 foreign bank branches and subsidiaries reported the use of new technology in their operations.

streamline key processes in their operations. Most foreign bank branches and subsidiaries applied innovations to their communication and documentation platforms and reporting and fraud detection tools. In addition, these banks continued to enhance and align their systems and processes using new technology, thus ensuring compliance with regulatory standards and requirements.

Table 1 summarizes key technology-related innovations that most foreign bank branches and subsidiaries used (i) generative artificial intelligence, or AI, (ii) traditional AI, (iii) other forms of next-generation technology, and (iv) other types of technology.

Table 1
Key New Technologies Introduced in 2023

Fintech tools	Remarks
Generative AI	
Chatbot	An application that provides swift and automated responses to internal communications, questions, and inquiries.
Traditional AI	
Document scrutinization platform	A platform that automates document scrutiny and compliance checks of various trade finance instruments such as letters of credit, documentary collections, and open accounts, over the platform, where all document content gets digitized and classified
Document processing AI	An application that captures, extracts, and processes data from a variety of document formats across domains.
Other forms of next-generation technology	
Real time fraud monitoring	A system that blocks blacklisted devices and internet protocols (IPs) and associated transactions from these devices /IPs
Other types of technology	
Cloud email and infrastructure	A virtual access solution that supports banks' implementation of work-from-home setups, which includes storage, central processing unit, and memory capacity management and a cloud-based email environment
Fraud detection and prevention system	A system that is used to identify fraudulent transactions
transaction lifecycle management	A system to automate custody and fund administration reconciliation processes
Neatboards	A collaboration tool that combines Zoom capabilities and whiteboard presentation functions on a movable device.
Product serving toolkit	A self-service analytics and reporting platform that enables users to freely explore and analyze data..
SWIFT alliance messaging hub	A system that facilitates the exchange of SWIFT messages to and from counterparties (other bank offices, correspondent banks, corporates).
Adocs	An online document submission and workflow solution for single-currency, cross-currency, domestic and cross-border payment, and receipt transactions.
Document management system	A system that enables banks to store documents after scanning or uploading them with approval following a workflow-based process.
Docusign	Document signing software for online approvals.
Managed print services	Printing services, which include the "pull-print" feature to secure print jobs

Half of foreign bank branches and subsidiaries[5] also introduced new products and services to better serve the financial needs of their corporate and retail clients (*Table 2*). Majority of these new products and services, particularly fund management solutions and loan facilities that promote sustainable financing and investing decisions, cater to corporate clients.

Table 2
Key New Products and Services in 2023

Product or service	Remarks
Corporate	
Virtual account	A cash management collection solution that enables corporate clients to consolidate their receivables from various sources and provide ease of reconciliation by assigning a unique virtual account number to their payors.
Fund order routing	A solution that allows local investors and asset managers to access foreign collective investment schemes to diversify their portfolios
Global e-banking service	An online banking service that integrates the domestic and overseas account information of affiliated enterprises whereby the parent company can log in to the e-banking service to inquire about or allocate the funds from the overseas branch account.
Working capital solutions	A solution that optimizes the working capital cycle to improve liquidity positions
Derivative embedded loan	A loan facility that combines floating and fixed rates in one single contract.
Green/Social/ Sustainability-linked loan/derivative	A loan facility that supports clients' efforts toward integrating environmental, social, and governance (ESG) and sustainable financing into their operations and investment decisions.
Retail	
Super bike loan	A loan facility for the acquisition or reimbursement of "big bikes"
Virtual card	A virtual debit card for all deposit customers that is linked to the customer's savings account and which can be used for safer and more secure online purchases and payments.

C. Sustainable finance

More than half of foreign bank branches and subsidiaries[6] represented undertaking various initiatives that support and continuously promote sustainable finance in their operations and in the delivery of products and services to their clients. These initiatives include embedding sustainable finance in the bank's risk management, policies, systems, and processes; offering ESG-linked/labeled loans, deposits, and investment banking services; financing projects that support the promotion of renewable energy; participating in and investing in ESG-linked bonds; increasing institutional awareness on ESG and sustainable finance through employee training; and contributing to the Philippines' transition to a low-carbon economy (e.g., the use of e-vehicles, solar panels, and paperless transactions in bank operations, and inclusion of ESG-linked rewards).

[5] 14 (50.0 percent) out of the 28 foreign bank branches and subsidiaries reported the introduction of new products and services.

[6] 19 (around 67.9 percent) out of the 28 foreign bank branches and subsidiaries disclosed their continued support to promote sustainable finance in their operations.

List of Appendices

Appendix 1

The Philippine Banking System: Financial Highlights and Growth Rates

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

	Financial Highlights			y-o-y Growth Rates	
			end-December		
	2021	2022	2023 r/	2022	2023 r/
On-Balance Sheet					
Total Assets [1]	20,828.1	23,047.7	25,165.9	10.7%	9.2%
Cash and due from banks	3,571.5	3,271.7	2,918.9	(8.4%)	(10.8%)
Investments, gross	5,221.0	6,207.5	6,786.4	18.9%	9.3%
Securities measured at fair value through profit or loss (FVTPL)	255.3	207.81	272.9	(18.6%)	31.3%
Securities measured at fair value through other comprehensive income (FVOCI)	2,337.5	2,194.78	2,495.8	(6.1%)	13.7%
Securities measured at amortized cost (AC)	2,628.2	3,804.91	4,017.7	44.8%	5.6%
Accumulated market gains/(losses)	(4.5)	(122.8)	(49.1)	2,653.0%	(60.1%)
Allowance for credit losses	20.7	17.7	14.7	(14.3%)	(17.0%)
Investments, net	5,195.9	6,066.9	6,722.6	16.8%	10.8%
Loans, gross	11,391.1	12,625.1	13,859.9	10.8%	9.8%
Allowance for credit losses	396.8	426.7	456.9	7.5%	7.1%
Loans, net	10,994.3	12,198.4	13,403.0	11.0%	9.9%
Equity investments in subsidiaries, associates and joint ventures, net	276.9	262.5	296.0	(5.2%)	12.8%
Real and other properties acquired, net	95.9	104.3	106.5	8.8%	2.1%
Other assets, net	693.6	1,143.9	1,718.8	64.9%	50.3%
Total Liabilities	18,254.2	20,341.3	22,097.0	11.4%	8.6%
Financial liabilities held for trading	43.7	72.9	57.0	66.7%	(21.7%)
Deposits liabilities	16,241.1	17,770.4	19,032.7	9.4%	7.1%
Peso liabilities	13,857.9	15,065.4	15,974.8	8.7%	6.0%
Foreign currency	2,383.2	2,704.9	3,057.8	13.5%	13.0%
Due to banks/others	181.9	114.4	164.3	(37.1%)	43.7%
Bills payable	496.9	666.0	780.2	34.0%	17.2%
Bonds payable	613.8	578.2	496.3	(5.8%)	(14.2%)
Unsecured subordinated debt	22.6	19.3	8.1	(14.5%)	(57.9%)
Redeemable preferred shares	0.2	0.3	0.3	19.3%	7.6%
Derivatives with negative fair value held for hedging	0.3	4.4	8.1	1,467.1%	85.5%
Other liabilities	653.5	1,115.6	1,549.9	70.7%	38.9%
Total Capital Accounts [2]	2,574.0	2,706.4	3,068.9	5.1%	13.4%
Total Off-Balance Sheet Accounts	12,171.3	13,344.5	15,461.5	9.6%	15.9%
Income Statement					
Total operating income	869.4	1,014.5	1,137.8	16.7%	12.2%
Net interest income	661.8	754.7	915.6	14.0%	21.3%
Non-interest income	207.6	259.9	222.3	25.2%	(14.5%)
Non-interest expenses	512.4	562.4	645.1	9.8%	14.7%
(Losses)/recoveries on financial assets	(97.7)	(88.6)	(84.2)	(9.3%)	(5.0%)
Net profit before share in the profit/(loss) of unconsolidated subsidiaries, associates and joint ventures	259.3	363.5	408.5	40.2%	12.4%
Share in the profit/(loss) of unconsolidated subsidiaries, associates and joint ventures	20.7	23.8	27.3	15.0%	14.3%
Total profit/(loss) before tax and before minority interest	280.1	387.4	435.7	38.3%	12.5%
Income tax expense	55.3	77.3	79.2		
Total profit/(loss) after tax and before minority interest	224.8	310.1	356.5	38.0%	15.0%
Minority interest in profit/(loss) of subsidiaries	-	-	-		
Net profit/(loss) after tax and minority interest	224.8	310.1	356.5	38.0%	15.0%

Source: Bangko Sentral ng Pilipinas

[1] Net of due to/from head office of foreign bank branches

[2] Inclusive of the portion of the net due to head office, which qualified as capital

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

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Appendix 2

The Philippine Banking System: Selected Performance Indicators

as of end-periods indicated; ratio in percent

	end-December		
	2021	2022	2023 r/
Asset Quality			
Restructured loans to total loan portfolio (TLP)	3.1%	2.6%	2.2%
Allowance for credit losses (ACL) to TLP	3.5%	3.4%	3.3%
Non-performing loan (NPL) ratio	4.0%	3.2%	3.2%
NPL ratio (net of interbank loans receivables)	4.1%	3.2%	3.3%
NPL coverage ratio	87.7%	107.0%	101.7%
Non-performing asset (NPA) ratio	2.7%	2.2%	2.3%
NPA coverage ratio	75.3%	87.9%	85.1%
Profitability			
Earning asset yield [1]	4.1%	4.4%	5.8%
Funding cost [2]	0.7%	0.9%	1.9%
Interest spread [3]	3.4%	3.5%	3.9%
Net interest margin (NIM) [4]	3.5%	3.6%	4.1%
Non-interest income to total operating income [5]	23.9%	25.6%	19.5%
Cost-to-income ratio [6]	58.7%	55.2%	56.7%
Return on assets (RoA) [7]	1.1%	1.4%	1.5%
Return on equity (RoE) [7]	9.0%	11.7%	12.3%
Capital Adequacy			
Total capital accounts[8] to total assets	12.4%	11.7%	12.2%
Capital adequacy ratio (CAR, solo) [9,10]	16.5%	15.4%	16.4%
Common equity tier 1 (CET1) ratio	15.3%	14.3%	15.3%
Capital conservation buffer	9.3%	8.3%	9.3%
Tier 1 ratio	15.5%	14.5%	15.5%
CAR (consolidated) [9,10]	17.1%	16.1%	16.9%
CET1 ratio	15.9%	15.0%	15.8%
Capital conservation buffer	9.9%	9.0%	9.8%
Tier 1 ratio	16.1%	15.2%	16.0%
Liquidity			
Cash and due from banks to deposits	22.0%	18.4%	15.3%
Liquid assets to deposits	54.0%	52.6%	50.7%
Loans, gross to deposits	70.1%	71.0%	72.8%

Source: Bangko Sentral ng Pilipinas

[1] Earning asset yield refers to the ratio of interest income to average earning assets.
[2] Funding cost ratio 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] NIM 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] Total capital accounts includes redeemable preferred shares.
[9] CAR refers to the ratio of qualifying capital to total risk-weighted assets.
[10] CAR data of universal and commercial banks, including their subsidiary banks and quasi-banks. This excludes CAR of stand-alone thrift, rural and cooperative banks.

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Appendix 3

The Philippine Banking System: Number of Offices and Regional Profile

as of end-periods indicated

	end-Dec 2023						
	Total	**Universal banks**	**Commercial banks**	**Thrift banks**	**Rural banks**	**Cooperative banks**	**Digital banks**
Total	**13,359**	**6,849**	**349**	**2,604**	**3,371**	**180**	**6**
Head Offices	**482**	**22**	**23**	**42**	**367**	**22**	**6**
Branches/Other Offices	**12,877**	**6,827**	**326**	**2,562**	**3,004**	**158**	-
Regular branch	9,933	6,553	304	1,630	1,319	127	-
Branch-lite unit	2,753	238	22	916	1,546	31	-
Microfinance-oriented branch	155	-	-	16	139	-	-
Representative office	18	18	-	-	-	-	-
Remittance desk office	14	14	-	-	-	-	-
Marketing office	2	2	-	-	-	-	-
Limited purpose branch	1	1	-	-	-	-	-
Sub-branch	1	1	-	-	-	-	-

		end-Dec 2022	end-Dec 2023		
		Total	**Total**	**Head offices**	**Branches/ Other offices**
Total		**13,269**	**13,359**	**482**	**12,877**
Nationwide		**13,215**	**13,307**	**482**	**12,825**
National Capital Region (NCR)		**3,803**	**3,780**	**80**	**3,700**
Luzon		**5,559**	**5,604**	**259**	**5,345**
Region I	- Ilocos	684	669	29	640
Region II	- Cagayan Valley	488	483	26	457
Region III	- Central Luzon	1,371	1,388	67	1,321
Region IV-A	- CALABARZON	1,906	1,923	84	1,839
Region IV-B	- MIMAROPA	316	328	20	308
Region V	- Bicol	588	601	18	583
Cordillera Administrative Region		206	212	15	197
Visayas		**2,003**	**2,043**	**81**	**1,962**
Region VI	- Western Visayas	777	803	39	764
Region VII	- Central Visayas	921	926	29	897
Region VIII	- Eastern Visayas	305	314	13	301
Mindanao		**1,850**	**1,880**	**62**	**1,818**
Region IX	- Zamboanga Peninsula	279	282	14	268
Region X	- Northern Mindanao	458	466	22	444
Region XI	- Davao Region	517	520	12	508
Region XII	- SOCCSKSARGEN [1/]	301	310	9	301
CARAGA		256	260	5	255
BARMM		39	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

Source: Bangko Sentral ng Pilipinas

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

Appendix 4
The Philippine Banking System: Number of BSFIs with Authority to Provide EPFS
as of end-December 2023 p/

	No. of BSFIs with authority to provide electronic payment and financial services (EPFS)	ATM card	Credit card	E-money issuers (EMIs)	E-money (E-wallet)	Other payment cards	Internet banking - retail	Internet banking - corporate	Mobile banking
Universal and commercial banks	**40**	**24**	**16**	**17**	**4**	**5**	**25**	**36**	**23**
Thrift banks	**30**	**28**	**1**	**7**	**1**	-	**14**	**8**	**17**
Rural and cooperative banks	**59**	**26**	-	**5**	**4**	-	**6**	**1**	**15**
Digital banks	**6**	**3**	-	-	-	-	**1**	**1**	**6**
Banks	**135**	**81**	**17**	**29**	**9**	**5**	**46**	**46**	**61**
EMIs	**43**	-	-	**43**	**30**	-	**3**	**1**	**30**
Others	**23**	**1**	**1**	**1**	-	**1**	**7**	-	**12**
Total	**201**	**82**	**18**	**73**	**39**	**6**	**56**	**47**	**103**

	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**	**1**	**22**
Thrift banks	**3**	**28**	**2**	**1**	**7**	-	-	**20**
Rural and cooperative banks	-	**25**	-	-	**7**	-	-	**18**
Digital banks	-	**3**	**1**	-	**1**	-	-	**6**
Banks	**13**	**81**	**13**	**2**	**32**	**8**	**1**	**66**
EMIs	-	-	**1**	-	**2**	**1**	**5**	**21**
Others	-	**1**		-	-	-	**1**	**1**
Total	**13**	**82**	**14**	**2**	**34**	**9**	**7**	**88**

	PESONet	QR Ph	Instapay multi-proxy	Agency banking	e-KYC online onboarding	Type C EPFS	Online/ Digital loan application	Others
Universal and commercial banks	**40**	**14**	**12**	**13**	**15**	-	**10**	**4**
Thrift banks	**18**	**10**	**1**	**5**	**3**	**4**	**2**	-
Rural and cooperative banks	**36**	**9**	**3**	**8**	**4**	**23**	**8**	-
Digital banks	**6**	**2**	**4**	**4**	**6**	-	**4**	**1**
Banks	**100**	**35**	**20**	**30**	**28**	**27**	**24**	**5**
EMIs	**8**	**14**	**9**	**3**	**27**	-	-	**1**
Others	-	-	-	-	**6**	-	**1**	-
Total	**108**	**49**	**29**	**33**	**61**	**27**	**25**	**6**

Source: Bangko Sentral ng Pilipinas
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Appendix 5

The Philippine Financial System: Number of Offices of FIs under BSP Supervision/Regulation

as of end-periods indicated

Type of financial institution (FI)	end-Dec 2022 Total	end-Dec 2022 Head offices	end-Dec 2022 Other offices	end-Dec 2023 p/ Total	end-Dec 2023 p/ Head offices	end-Dec 2023 p/ Other offices
BSP supervised/regulated FIs [1]	**37,327**	**2,589**	**34,738**	**37,305**	**2,528**	**34,777**
I. Banks [2]	**13,269**	**497**	**12,772**	**13,359**	**482**	**12,877**
A. Universal and commercial banks	**7,193**	**45**	**7,148**	**7,198**	**45**	**7,153**
Universal banks	**6,846**	**22**	**6,824**	**6,849**	**22**	**6,827**
Private domestic banks	5,995	13	5,982	5,994	13	5,981
Government banks	841	3	838	844	3	841
Foreign bank branches	10	6	4	11	6	5
Commercial banks	**347**	**23**	**324**	**349**	**23**	**326**
Private domestic banks	230	3	227	232	3	229
Foreign bank subsidiaries	98	2	96	98	2	96
Foreign bank branches	19	18	1	19	18	1
B. Thrift banks	**2,592**	**43**	**2,549**	**2,604**	**42**	**2,562**
Financial institution-linked banks	**1,154**	**11**	**1,143**	**1,158**	**10**	**1,148**
Domestic bank-controlled	1,121	8	1,113	1,131	8	1,123
Foreign bank-controlled	33	3	30	27	2	25
Domestic NBFI-controlled		-	-		-	-
Foreign NBFI-controlled		-	-		-	-
Non-linked	**1,438**	**32**	**1,406**	**1,446**	**32**	**1,414**
C. Rural and cooperative banks	**3,478**	**403**	**3,075**	**3,551**	**389**	**3,162**
Rural banks	2,386	374	2,012	2,469	362	2,107
Microfinance-oriented rural banks	917	5	912	902	5	897
Cooperative banks	175	24	151	180	22	158
D. Digital banks	**6**	**6**	-	**6**	**6**	-
II. Non-bank financial institutions (NBFIs)	**24,057**	**2,091**	**21,966**	**23,945**	**2,045**	**21,900**
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-banking function	1	1	-	1	1	-
B. Without quasi-banking function	**24,038**	**2,086**	**21,952**	**23,926**	**2,040**	**21,886**
AAB - forex corporation	2	2	-	1	1	-
Credit card companies	4	4	-	4	4	-
Credit granting entities	9	9	-	-	-	-
Electronic money issuers - others	62	43	19	118	43	75
Financing companies	149	21	128	149	21	128
Government NBFIs	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	194	58	136	192	56	136
Pawnshops [3]	15,999	1,172	14,827	16,070	1,160	14,910
Money service businesses (MSBs)	7,584	743	6,841	7,358	722	6,636
Remittance agent (subsidiary of a bank)	-	-	-	-	-	-
Securities dealers/brokers	12	12	-	12	12	-
Trust corporations	6	6	-	6	6	-
III. Offshore banking unit	**1**	**1**		**1**	**1**	-

Source: Bangko Sentral ng Pilipinas

[1] Excludes foreign banks' representative offices (ROs) in the Philippines; includes MSBs

[2] Includes ROs abroad of domestic banks

[3] Excludes pawnshops multi-functioning as MSBs

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Appendix 6

The Philippine Banking System: Compliance of Banks with the Mandatory Agriculture, Fisheries, and Rural Development (AFRD) Financing

as of end-periods indicated; in billion PH pesos; ratio in percent

	Total	Universal and commercial banks	Thrift banks	Rural and cooperative banks	Digital banks [1]
end-September 2022					
Total loanable funds (TLF)	7,439.7	7,134.8	188.9	99.6	16.5
25% of TLF	1,859.9	1,783.7	47.2	24.9	4.1
Total compliance	3,194.7	2,946.2	88.5	160.0	-
Percentage of TLF used for compliance	**42.9%**	41.3%	46.9%	160.7%	0.0%
end-December 2022					
TLF	8,055.6	7,728.6	199.0	103.1	24.9
25% of TLF	2,013.9	1,932.2	49.7	25.8	6.2
Total compliance	3,420.1	3,146.6	102.2	171.3	-
Percentage of TLF used for compliance	**42.5%**	40.7%	51.4%	166.1%	0.0%
end-March 2023					
TLF	7,918.9	7,574.8	195.9	107.6	40.6
25% of TLF	1,979.7	1,893.7	49.0	26.9	10.1
Total compliance	3,154.0	2,888.3	102.0	163.8	-
Percentage of TLF used for compliance	**39.8%**	38.1%	52.1%	152.2%	0.0%
end-June 2023 p/					
TLF	8,389.2	8,026.8	196.0	111.4	55.1
25% of TLF	2,097.3	2,006.7	49.0	27.8	13.8
Total compliance	3,166.1	2,908.9	93.9	163.3	-
Percentage of TLF used for compliance	**37.7%**	36.2%	47.9%	146.6%	0.0%

Source: Bangko Sentral ng Pilipinas

[1] Newly-established banks are exempted from the mandatory AFRD financing for a period of five years from their commencement of operations pursuant to Section 6 of R.A. No. 11901

p/ preliminary

Appendix 7

Foreign Bank Branches and Subsidiaries: Financial Highlights and Selected Performance Indicators

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

	Total			Foreign bank branches end-December			Foreign bank subsidiaries		
Selected accounts	**2021**	**2022**	**2023 r/**	**2021**	**2022**	**2023 r/**	**2021**	**2022**	**2023 r/**
Balance Sheet									
Total Assets	**1,396.6**	**1,417.6**	**1,538.1**	**1,211.2**	**1,229.1**	**1,327.3**	**185.4**	**188.5**	**210.8**
Cash and due from banks	341.5	331.3	330.7	305.5	301.9	310.6	36.0	29.4	20.1
Financial assets, net	362.0	335.0	388.9	316.6	291.1	339.7	45.3	43.9	49.2
Loans, net (inclusive of IBL and repos)	656.3	647.9	678.4	563.7	547.7	560.0	92.6	100.2	118.3
Equity investments, net	2.4	2.8	2.4	2.4	2.8	2.4			-
ROPA, net	1.9	3.0	3.2	0.0	0.0	0.0	1.9	3.0	3.2
Other assets	32.5	97.7	134.5	22.9	85.7	114.5	9.6	12.0	20.0
Total Liabilities	**1,164.4**	**1,156.4**	**1,280.6**	**1,007.3**	**996.1**	**1,096.6**	**157.1**	**160.3**	**184.0**
Financial liabilities held-for-trading	21.4	36.5	25.7	21.1	36.0	25.5	0.3	0.5	0.1
Deposit liabilities	887.4	874.5	945.8	755.1	742.2	812.1	132.3	132.3	133.8
Due to other banks/Treasurer of the Philippines/PDIC/BSP/head office/branch/agency	170.2	100.2	146.0	170.1	100.1	145.9	0.1	0.1	0.1
Bills payable	31.5	31.7	32.5	16.7	15.7	4.5	14.9	16.0	28.0
Unsecured subordinated debt	2.0		-			-	2.0		-
Derivatives with Negative Fair Value Held for Hedging	0.1	0.2	0.0	0.1	0.2	0.0			-
Other liabilities	51.7	113.3	130.5	44.1	101.9	108.6	7.5	11.4	22.0
Total Capital Accounts	**232.2**	**261.3**	**257.5**	**204.0**	**233.1**	**230.7**	**28.3**	**28.2**	**26.8**
Income Statement									
Total Operating Income	54.4	108.1	86.0	45.3	98.6	76.9	45.3	98.6	76.9
Net Interest Income	34.5	40.5	60.6	27.1	33.9	53.0	27.1	33.9	53.0
Non-interest Income	19.9	67.6	25.4	18.2	64.7	23.8	18.2	64.7	23.8
Non-Interest Expenses	43.0	49.4	44.0	35.6	41.7	36.3	35.6	41.7	36.3
(Losses)/Recoveries on financial assets	0.7	(2.6)	(5.3)	1.4	(2.1)	(4.6)	1.4	(2.1)	(4.6)
Share in the profit/(loss) of unconsolidated subsidiaries, associates and joint ventures accounted for using the equity method	(0.0)	0.1	0.3	(0.0)	0.1	0.3	(0.0)	0.1	0.3
Income tax expense	5.3	14.5	7.4	4.7	13.9	6.8	4.7	13.9	6.8
Net profit/(loss) after tax and after minority interest	**6.8**	**41.8**	**29.6**	**6.5**	**41.0**	**29.4**	**6.5**	**41.0**	**29.4**
Selected Performance Indicators									
Asset Quality									
Gross non-performing loan (NPL) to total loans	1.8%	1.3%	1.7%						
NPL ratio (exclusive of IBL)	1.9%	1.3%	1.8%						
NPL coverage ratio	134.8%	149.0%	118.4%						
Non-performing assets (NPA) to gross assets	1.0%	0.8%	1.0%						
NPA coverage ratio	118.5%	111.5%	95.4%						
Profitability									
Net interest margin	2.6%	3.0%	4.5%						
Cost-to-income	79.1%	45.6%	51.2%						
Return on assets	0.5%	3.0%	2.0%						
Return on equity	2.9%	16.9%	11.4%						

Source: Bangko Sentral ng Pilipinas

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

0.0 denotes below ₱0.05 billion

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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			y-o-y Growth Rates	
			end-December		
	2021	2022	2023 r/	2022	2023 r/
Balance Sheet					
Total Assets [1]	**57,796.1**	**61,920.0**	**67,836.2**	**7.1%**	**9.6%**
Cash and due from banks	6,547.2	5,577.6	5,405.3	(14.8%)	(3.1%)
Financial assets, gross	28,302.2	28,557.3	28,237.8	0.9%	(1.1%)
Allowance for credit losses	43.7	47.7	52.6	9.1%	10.3%
Accumulated market gains/losses	62.7	(903.6)	(475.1)	(1,540.9%)	(47.4%)
Financial assets, net	28,321.2	27,606.0	27,710.0	(2.5%)	0.4%
Interbank loans receivables (IBLs), net	6,132.3	4,464.9	3,900.5	(27.2%)	(12.6%)
Loans, gross (exclusive of IBLs)	16,456.5	17,243.1	16,472.4	4.8%	(4.5%)
Allowance for probable losses [2]	657.3	357.7	367.5	(45.6%)	2.7%
Loans, net (exclusive of IBLs)	15,799.2	16,885.5	16,104.9	6.9%	(4.6%)
Equity investments, net	-	-	-		
Real and other propoerties acquired, net	26.2	21.9	17.7	(16.2%)	(19.3%)
Other assets, net	970.0	7,364.2	14,697.8	659.2%	99.6%
Total Liabilities	**56,792.4**	**61,533.2**	**67,124.6**	**8.3%**	**9.1%**
Financial liabilities held-for-trading	87.9	111.1	115.3	26.4%	3.8%
Deposit liabilities	46,093.8	47,852.7	54,416.1	3.8%	13.7%
Due to other banks	698.9	741.5	538.4	6.1%	(27.4%)
Bills payable	3,210.8	5,654.3	7,437.3	76.1%	31.5%
Bonds payable, net	4,888.5	4,972.2	2,761.5	1.7%	(44.5%)
Unsecured subordinated debt, net	-	-	-		
Other liabilities	517.1	385.2	493.5	(25.5%)	28.1%
Due to head offices/branches/agencies/FCDU/regular banking unit (RBU), net [3]	1,295.4	1,816.3	1,362.5	40.2%	(25.0%)
Total Capital Accounts	**1,003.7**	**386.8**	**711.6**	(61.5%)	**84.0%**
Income Statement					
Total operating income	1,277.4	1,141.5	1,188.0	(10.6%)	4.1%
Net interest income [5]	825.5	981.9	1,037.3	18.9%	5.7%
Non-interest income	451.9	159.6	150.6	(64.7%)	(5.6%)
Non-interest expenses	185.4	165.4	173.5	(10.8%)	5.0%
(Losses)/Recoveries on financial assets	(240.2)	139.7	(28.4)	(158.2%)	(120.3%)
Bad debts/provision for credit losses	(245.0)	(23.0)	(40.2)	(90.6%)	74.9%
Recovery on charged-off assets	4.9	162.7	11.7	3,226.5%	(92.8%)
Income tax expense	43.9	41.0	54.6	(6.5%)	33.1%
Net profit/(loss) after tax and after minority interest	**807.9**	**1,074.9**	**931.4**	**33.0%**	(13.3%)

Source: Bangko Sentral ng Pilipinas

[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

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

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Appendix 9
Foreign Currency Deposit Unit (FCDU) Operations: Selected Performance Indicators
as of end-periods indicated; ratio in percent

	end-December		
	2021	2022	2023 r/
Asset Quality			
Non-performing loan (NPL) ratio [1]	3.6%	1.1%	0.9%
NPL coverage ratio [1]	109.9%	196.4%	246.2%
Non-performing assets (NPA) to gross assets [1]	1.1%	0.3%	0.3%
NPA coverage ratio [1]	103.7%	165.9%	202.0%
Profitability			
Cost-to-income ratio	14.5%	14.5%	14.6%
Return on assets	1.4%	1.8%	1.4%
Net interest margin	1.4%	1.7%	1.9%
Liquidity			
Liquid assets to deposits [2] (exclusive of ROPs)	55.2%	47.2%	40.4%
Liquid assets to deposits [2] (inclusive of ROPs)	75.6%	69.3%	60.9%
Loans, gross to deposits	49.0%	45.4%	37.4%

Source: Bangko Sentral ng Pilipinas
[1] Exclusive of IBLs
[2] 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)
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Appendix 10

Trust Operations (Philippine Banks and NBFIs): Financial Highlights and Growth Rates

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

	Financial Highlights			y-o-y Growth Rates	
		end-December			
	2021	2022	2023	2022	2023
Total Assets	**5,058.2**	**5,345.9**	**6,215.1**	**5.7%**	**16.3%**
Cash and due from banks	0.3	0.4	0.4	13.9%	8.1%
Deposits in banks, gross	1,086.2	1,181.0	1,389.3	8.7%	17.6%
Allowance for credit losses	-	-	0.7		
Deposits in banks, net	1,086.2	1,181.0	1,388.6	8.7%	17.6%
Financial assets, gross (net of amortization)	3,461.2	3,559.7	4,150.2	2.8%	16.6%
Accumulated market gains/losses	31.7	(28.1)	(3.7)	(188.6%)	(86.7%)
Allowance for credit losses	0.2	0.5	0.3	104.4%	(33.1%)
Financial assets, net	3,492.6	3,531.2	4,146.1	1.1%	17.4%
Loans, gross	118.6	134.2	137.4	13.1%	2.3%
Allowance for probable losses	7.5	6.4	9.0	(14.8%)	39.6%
Loans, net	111.1	127.8	128.4	15.0%	0.5%
Equity investments, gross	5.5	5.4	0.0	(2.4%)	(100.0%)
Allowance for probable losses	2.5	2.5	-	(3.0%)	(100.0%)
Accumulated market gain/(loss)	-	-	-		
Equity investments, net	3.0	2.9	0.0	(1.9%)	(100.0%)
Real and other properties acquired, net	0.1	0.2	0.3	245.5%	25.5%
Other assets	365.0	502.4	551.3	37.6%	9.7%
Total Accountabilities	**5,058.2**	**5,345.9**	**6,215.1**	**5.7%**	**16.3%**
Wealth/asset/fund management accounts (Trust)	2,395.2	2,043.4	2,040.2	(14.7%)	(0.2%)
Unit investment trust fund (UITF)	1,305.3	940.7	841.2	(27.9%)	(10.6%)
Employee benefit	460.1	465.9	523.1	1.2%	12.3%
Pre-need	127.9	125.3	133.9	(2.1%)	6.9%
Other institutional trust accounts	45.1	49.0	54.2	8.8%	10.6%
Personal trust	420.7	399.9	398.5	(4.9%)	(0.3%)
Personal retirement fund	0.1	0.1	0.1	(30.9%)	(22.7%)
Other individual trust accounts	36.0	62.5	89.3	73.6%	42.8%
Wealth/asset/fund management accounts (Agency)	2,207.0	2,708.6	3,465.9	22.7%	28.0%
Employee benefit	56.3	59.0	61.9	4.9%	4.9%
Pre-need	0.7	0.7	0.6	(3.7%)	(19.9%)
Other institutional agency accounts	1,189.5	1,405.5	1,797.8	18.2%	27.9%
Personal retirement fund	0.0	0.0	0.0	(8.1%)	147.4%
Other individual agency accounts	960.5	1,243.3	1,605.7	29.4%	29.1%
Other fiduciary services	455.3	593.2	652.3	30.3%	10.0%
UITF	13.6	14.5	15.3	6.3%	6.0%
Court trusts	2.4	1.2	0.1	(49.9%)	(88.3%)
Corporate fiduciary trust	47.7	44.1	63.3	(7.5%)	43.5%
Escrow	47.8	45.2	65.1	(5.5%)	44.0%
Custodianship	303.0	438.5	449.6	44.7%	2.5%
Safekeeping	0.0	0.0	0.2	1.9%	422.3%
Others	40.8	49.6	58.6	21.7%	18.1%
Advisory/consultancy	0.0	0.0	0.0		(5.1%)
Special purpose trust	0.6	0.8	56.6	26.3%	6,884.7%

Source: Bangko Sentral ng Pilipinas

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; ratio in percent

	end-December		
	2021	2022	2023
Asset Quality			
Non-performing loans (NPL) ratio	0.5%	1.7%	2.0%
NPL coverage ratio	1244.2%	285.4%	327.3%
Non-performing assets (NPA) to gross assets	0.0%	0.0%	0.0%
NPA coverage ratio	1068.5%	255.7%	292.1%
Liquidity			
Cash and due from banks to total accountabilities	0.0%	0.0%	0.0%
Liquid assets to total accountabilities	68.4%	66.6%	66.8%
Loans, gross to total accountabilities	2.3%	2.5%	2.2%

Source: Bangko Sentral ng Pilipinas

Note: "0.0%" denotes below 0.05%

Appendix 12

Non-Banks with Quasi-Banking Functions: Financial Highlights and Growth Rates

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

	Financial Highlights			Growth Rates	
	end-December				
	2021	2022	2023 p/	2022	2023 p/
Balance Sheet					
Total Assets	**168.3**	**151.3**	**161.3**	**(10.1%)**	**6.7%**
Cash and due from banks	15.8	8.8	8.5	(44.2%)	(3.8%)
Loans, gross (inclusive of Interbank Loans Receivables or IBL)	142.0	131.0	144.5	(7.7%)	10.2%
Allowance for probable losses	5.6	2.8	3.1	(50.6%)	11.8%
Loans, net (inclusive of IBL)	136.3	128.2	141.3	(5.9%)	10.2%
Investments, net	9.5	7.0	6.1	(26.4%)	(13.2%)
Other assets	6.7	7.2	5.4	8.2%	(24.6%)
Total Liabilities	**138.9**	**130.0**	**138.3**	**(6.4%)**	**6.4%**
Bills payable	107.4	106.2	110.1	(1.1%)	3.7%
Other liabilities	31.5	23.8	28.1	(24.5%)	18.4%
Total Capital Accounts	**29.4**	**21.3**	**23.0**	**(27.8%)**	**8.3%**
Income Statement					
Total operating income	8.6	6.8	7.5	(20.8%)	9.3%
Net interest income	7.0	6.4	6.9	(8.9%)	8.1%
Non-interest income	0.4	0.5	0.6	16.0%	25.8%
Operating expenses	7.1	4.5	5.2	(36.2%)	15.2%
Bad debts/Provision for credit losses	2.8	1.6	1.8	(41.1%)	11.5%
Other operating expenses	4.4	2.9	3.4	(33.2%)	17.2%
Net operating income	1.5	2.3	2.2	54.0%	(2.4%)
Extraordinary credits/(charges)	0.1	0.1	0.3	15.7%	69.4%
Net income before tax	1.6	2.4	2.5	51.0%	2.0%
Provision for income tax	0.3	0.6	0.6	99.0%	9.2%
Net income after tax and after minority interest	**1.3**	**1.84**	**1.83**	**40.1%**	**(0.3%)**

Source: Bangko Sentral ng Pilipinas

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

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Appendix 13

Non-Banks with Quasi-Banking Functions: Selected Performance Indicators

as of end-periods indicated; ratio in percent

	end-December		
	2021	**2022**	**2023 p/**
Asset Quality			
Non-performing loan (NPL) ratio	9.9%	5.9%	4.5%
NPL coverage ratio	40.1%	36.2%	47.7%
Non-performing assets (NPA) to gross assets	8.9%	5.9%	4.5%
NPA coverage ratio	37.7%	34.2%	46.4%
Profitability			
Net interest margin	4.8 %	4.5 %	4.8%
Cost-to-income ratio	50.7%	42.8%	45.9%
Return on assets	0.7%	1.1%	1.2%
Return on equity	3.8%	7.7%	8.3%

Source: Bangko Sentral ng Pilipinas

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Appendix 14

Non-Stock Savings and Loan Associations: Financial Highlights and Growth Rates

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

	Financial Highlights			Growth Rates	
			end-December		
	2021	2022	2023p/	2022	2023p/
Balance Sheet					
Total Assets	**283.8**	**299.6**	**316.8**	**5.6%**	**5.7%**
Cash and due from banks	27.1	30.1	31.3	11.1%	4.1%
Loans, gross (inclusive of Interbank Loans Receivables or IBLs)	246.3	252.9	268.3	2.7%	6.1%
Allowance for probable losses	24.3	23.5	24.3	(3.1%)	3.2%
Loans, net (inclusive of IBLs)	221.9	229.2	243.9	3.3%	6.4%
Investments, net	20.8	24.0	24.3	15.5%	1.0%
Other assets, net	14.0	16.3	17.3	15.9%	6.2%
Total Liabilities	**103.3**	**107.5**	**109.9**	**4.1%**	**2.3%**
Deposit liabilities	80.6	86.4	86.2	7.2%	(0.2%)
Bills payable	5.4	1.8	3.9	(66.7%)	116.1%
Other liabilities	17.3	19.3	19.8	11.7%	2.6%
Total Capital Accounts	**180.5**	**192.1**	**206.9**	**6.4%**	**7.7%**
Income Statement					
Total operating income	31.5	33.5	35.1	6.4%	4.6%
Net interest income	30.2	31.9	32.9	5.7%	3.1%
Non-interest income	1.3	1.6	2.1	23.3%	36.4%
Operating expenses	9.2	8.6	7.2	(6.3%)	(16.2%)
Bad debts/Provision for credit losses	(3.1)	(2.1)	(0.3)	(34.0%)	(87.3%)
Other operating expenses	6.1	6.6	7.0	7.9%	6.0%
Net operating income	22.3	24.9	27.8	11.6%	11.9%
Extraordinary credits/(charges)	0.1	0.1	0.1	54.2%	(23.8%)
Net income before tax	22.3	25.0	27.9	11.7%	11.7%
Provision for income tax	0.0	0.0	0.0	14.2%	8.8%
Net income after tax and after minority interest	**22.3**	**24.9**	**27.9**	**11.7%**	**11.7%**

Source: Bangko Sentral ng Pilipinas
Note: Figures may not add up due to rounding-off
0.0 denotes below ₱0.05 billion
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Appendix 15

Non-Stock Savings and Loan Associations: Selected Performance Indicators

as of end-periods indicated; ratio in percent

	end-December		
	2021	**2022**	**2023 p/**
Asset Quality			
Non-performing loan (NPL) ratio	8.0%	8.1%	8.2%
NPL ratio (inclusive of IBLs)	8.0%	8.1%	8.2%
NPL coverage ratio	123.9%	115.4%	109.8%
Non-performing assets (NPA) to gross assets	6.5%	6.4%	6.5%
NPA coverage ratio	123.2%	114.9%	109.4%
Profitability			
Cost-to-income ratio	19.4%	19.6%	19.9%
Return on assets	8.1%	8.6%	9.0%
Return on equity	12.6%	13.4%	14.0%
Liquidity			
Cash and due from banks to deposits	33.6%	34.8%	36.3%
Liquid assets[1/] to deposits	59.4%	62.7%	64.5%
Gross loans to deposits	305.5%	292.7%	311.1%

Source: Bangko Sentral ng Pilipinas

[1] Liquid assets refer to cash and due from banks plus investments,net (exclusive of equity investments)

[p/] preliminary

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