REPORT ON THE

PHILIPPINE FINANCIAL SYSTEM

FIRST SEMESTER 2024

This semestral report is prepared by the Supervisory Policy and Research Department, Financial Supervision Sector, Bangko Sentral ng Pilipinas, pursuant to Section 39(c), Article V of Republic Act (RA) No. 7653 (The New Central Bank Act), as amended by RA No. 11211, RA No. 7906 (Thrift Banks Act of 1995), RA No. 7353 (Rural Bank Act of 1992), as amended by RA No. 10574, and RA No. 11901 (The Agriculture, Fisheries and Rural Development Financing Enhancement Act of 2022).

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

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GLOSSARY

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 an agent, does not hold legal title to the asset as ownership remains with the principal. In providing wealth, asset or fund management services to the client, the trust institution exercises either a 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 (RA) 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 Bangko Sentral ng Pilipinas (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 paying for services. These include housing loans; car or auto loans; loans for purchasing appliances, furniture, and fixtures; loans for educational and hospital bills; salary loans; and loans for personal consumption, including credit card loans.

Credit risk – the risk of default on a debt that may arise when a borrower fails to make required payments, such as the failure to repay a loan.

Debt securities measured at amortized cost –debt instrument held within a business model whose objective is to hold financial assets to collect contractual cash flows. 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 – consist of deposits that can be withdrawn by check through available bank channels. Also known as "current account" or "checking account," the 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, intended for relending or purchasing 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, the term "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 (MB).

The MB shall determine which specific instruments will be considered as deposit substitutes for purposes of Section 94 of RA No. 11211 (The New Central Bank Act), provided, however, that deposit substitutes of commercial, industrial, and other non-financial companies for the limited purpose of financing their own needs or the needs of their agents or dealers shall not be covered by the provisions of Section 94 of RA No. 11211.

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

(a) Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange (FX) rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, the variable is not specific to a party to the contract (sometimes called the "underlying").

(b) It requires no initial net investment or an initial net investment that is smaller than what is required for other types of contracts that would be expected to have a similar response to changes in market factors.

(c) 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. This is a new bank category that is separate and distinct from existing bank classifications.

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.

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 fair value through other comprehensive income (FVOCI) – financial assets held within a business model, whose objective is achieved by both collecting contractual cash flows and selling financial assets. The contractual terms of the financial assets 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 fair value through profit or loss (FVTPL) – financial assets not measured at amortized cost or at FVOCI and not part of a hedging relationship. These financial assets consist of financial assets held for trading (HFT), financial assets designated at fair value through profit or loss (DFVPL), and other financial assets mandatorily measured at FVTPL as defined under PFRS 9.

Financial liabilities designated at fair value through profit or loss (DFVPL) – financial liabilities that 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 its corporate and household sectors. These include both aggregate data on individual financial institutions and representative indicators of the markets in which these financial institutions operate. Supervisory data are important sources for the 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 RA 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 or derecognition of, and unrealized gains/(losses) from marking-to-market of financial assets and liabilities HFT as well as realized gains/(losses) from FX transactions.

Gross assets – total assets plus allowance on non-performing assets (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).

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. This risk includes the inability to manage unplanned decreases or changes in funding sources.

Loans to regular banking unit (RBU) by FCDU/expanded FCDU (EFCDU) – funds from an FCDU/EFCDU lent to an 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.

Negotiable Order of Withdrawal (NOW) accounts – interest-bearing deposit accounts that combine the payable on demand feature of checks and the 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 and 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; FX 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 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.

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 RA 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 these properties will be recovered principally through a sale transaction.

Real estate exposures (REEs) – assets held by financial institutions composed of:

(a) real estate loans (RELs), which include:
- residential RELs to individual households for occupancy; and
- commercial RELs for purposes of financing real estate activities, to:
  - individuals (including sole proprietorships), other than residential RELs granted to individual households for occupancy;
  - land developers and construction companies; and
  - other corporate borrowers, such as real estate brokers, real estate lessors, property management companies, and holding companies; and

(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.

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

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: (a) equity securities, or securities that represent ownership interest held by shareholders in an entity, realized in the form of shares of capital stock, and (b) 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 – composed of CET1 and additional Tier 1 capital. It is also known as "going-concern capital."

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

Total assets – the sum of all net assets, less due from the 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 the funds or properties of the trustor is transferred to the trustee (trust institution), subject to the trustee's equitable obligation to administer, hold and manage such funds and or properties for the use, benefit or advantage of the trustor or other designated beneficiaries. This consists 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 peso or any acceptable currency operated and administered by a trust entity and made available through participation. As an open-ended fund, participation or redemption is allowed as often as stated in its rules.

B. Other terms

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, while also meeting the Bank's statistical requirements.

Gross domestic product (GDP) – the sum of the gross value added of all resident producer units. Gross value added is defined as the value of output less the value of intermediate consumption, while output refers to the goods and services produced by an establishment. Output is equal to the value of sales adjusted for the changes in inventories of finished goods, that is, goods produced and ready for sale but not yet sold, or goods sold adjusted for sales of goods produced in an earlier period. Meanwhile, intermediate consumption consists of the value of the goods and services consumed as inputs by a process of production, excluding fixed assets whose consumption is recorded as consumption of fixed capital.

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

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

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

Residential Real Estate Price Index (RREPI) – an indicator of changes in the prices of residential properties in the Philippines over time. The growth rate of the index measures house price inflation.

[1] RA No. 11439 (An Act Providing for the Regulation and Organization of Islamic Banks).

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 while providing lasting benefit for both clients and society and reducing pressures on the environment. This also covers green finance, which is designed to facilitate the flow of funds toward environmentally friendly economic activities as well as climate change mitigation and adaptation projects.

Sustainable Finance Taxonomy - a tool to classify whether an economic activity is environmentally and socially sustainable and guides different stakeholders in making informed investment or financing decisions.

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

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

C. Financial and other prudential ratios

Basel III Leverage Ratio (BLR) – the ratio of capital (i.e., Tier 1 capital) to the 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 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 banks (D-SIBs) (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.

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

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.

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

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), of the Bangko Sentral ng Pilipinas (BSP). This is submitted by the Governor to the President and the Congress, pursuant to Section 39 (c), Article V of Republic Act (RA) No. 7653 or The New Central Bank Act, as amended by RA No. 11211 and other pertinent laws.

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

The report analyzes insights from various periodic reports submitted by BSP-supervised and regulated financial institutions to the FSS' Department of Supervisory Analytics. As of June 2024, these institutions consisted of 478 banks with 12,889 branches and other offices, 1,531 non-bank financial institutions with 15,379 branches, and one offshore banking unit.

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

HIGHLIGHTS OF THE REPORT

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The **Philippine banking system sustains its growth momentum**, providing strong stimulus to the domestic economy and reinforcing trust and confidence in the financial system.

The robust performance of the Philippine banking system continued in the first half of 2024. This was marked by sustained growth in assets, loans, deposits, and earnings, along with strong capital and liquidity positions, buoyed by the country's improving economic condition[1] and continued banking reforms. The share of the banking sector to the financial system's total resources increased further to 83.4 percent. This placed banks in a position to support the growth of the domestic economy, delivering financial products and services to businesses and Filipino households.

The total assets of the banking system reached ₱26.2 trillion in June 2024, recording a 12.4-percent growth year-on-year (y-o-y). This was faster than the 9.1-percent increase in June 2023 and the 11.0-percent pre-pandemic growth rate. The expansion was largely funded by domestic deposits and channeled mostly to lending and investment activities collectively accounting for 81.6 percent of the system's total assets over the reference period.

₱26.2 trillion
in Total assets
in June 2024

₱14.3 trillion
in Total loans
in June 2024

Banks remain the pillar of the Philippine financial system, providing strong support for the development and growth of the economy.

Banks' loan portfolio expanded further with sustained lending to households and key productive sectors. This reflected strong consumer and business confidence on the back of a positive economic outlook and solid macroeconomic fundamentals. Gross total loans grew by 12.4 percent to ₱14.3 trillion in June 2024, largely driven by the 23.3-percent growth in loans to households for consumption and 12.1-percent growth in loans to the real estate sector, respectively. The real estate sector remained the largest recipient of bank loans, accounting for 18.3 percent (or ₱2.6 trillion) of the system's total loans. This was followed by households with a share of 13.3 percent (₱1.9 trillion), wholesale and retail trade with 10.5 percent (₱1.5 trillion), electricity, gas, steam, and air-conditioning supply with 9.11 percent (₱1.305 trillion), and manufacturing with 9.06 percent

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[1] Philippine Statistics Authority. (2024, August 08). *GDP expands by 6.3 percent in the second quarter of 2024* [Press release]. https://psa.gov.ph/content/gdp-expands-63-percent-second-quarter-2024

(₱1.297 trillion). The broad-based credit expansion highlights banks' predominant role in the continued development and growth of the economy. The ratio of banks' credit-to-gross domestic product[2] improved from 54.9 percent in June 2023 to 56.4 percent, in June 2024.

₱488.1 billion
in MSME loans
in June 2024

₱1.7 trillion
in AFRD loans
in June 2024

The banking system provided strong credit support to marginalized and priority sectors in the country, contributing to the continued promotion of inclusive growth for all Filipinos. Bank financing for micro, small, and medium enterprises (MSMEs) reached a new peak of ₱488.1 billion in June 2024, surpassing the ₱461.4 billion in June 2023. Similarly, based on preliminary data as of June 2024, banks allocated 192.4 percent (₱1.7 trillion) of their total loanable funds (₱912.7 billion) for agriculture, fisheries, and rural development (AFRD) financing, as prescribed under Republic Act (RA) No. 11901 or the AFRD Law. This was an increase from the 36.4 percent (₱3.1 trillion) AFRD compliance rate recorded in June 2023 (total loanable funds of ₱8.4 trillion) on account of a shorter reference cut-off date in computing the total loanable funds as provided under the law, i.e., from 18 August 2023 to the reporting date as of end-June 2024 and from 20 April 2010 to the reporting date as of end-June 2023.

3.5%
NPL ratio
in June 2024

95.4%
NPL coverage ratio
in June 2024

Loan quality remains satisfactory, with a low NPL ratio and adequate provisions for potential losses in banks' portfolios.

Loan quality remained satisfactory despite the increase in non-performing loans (NPLs). The combined effect of challenges from post-pandemic recovery and elevated borrowing costs due to the high interest rate environment affected the paying capacity of both business and individual borrowers. The NPLs of the banking system grew by 14.8 percent to ₱502.4 billion in June 2024, higher than the peak of ₱495.7 billion in May 2024, and faster than the 3.9-percent growth in June 2023. This translated to an NPL ratio of 3.5 percent during the period, a marginal increase from 3.4 percent a year ago. Nonetheless, easing market conditions particularly the moderation of inflationary pressures is seen to provide relief and improve bank borrowers' repayment capacity. Meanwhile, banks' credit standards

[2] This refers to the proportion of gross total loans to annualized GDP, at current prices.

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remained intact, supported by sound risk governance, robust strategies, and precautionary measures, including the beefing up of provisioning to manage potential loan losses. The NPL coverage ratio of the banking system stood at 95.4 percent in June 2024.

₱19.5 trillion
in Total deposits
in June 2024

₱190.3 billion
in Net profit
for June 2024

Capital and Liquidity
buffers exceed domestic and global standards.

Remarkable growth was also seen in banks' deposits, providing stable funding for their operations. Strong depositor confidence, particularly from resident individuals and private corporations, enabled banks to reach ₱19.5 trillion in deposits in June 2024. This increase had a faster rate of 9.5 percent compared to 8.1 percent in June 2023. Capital base likewise grew stronger by 10.6 percent from ₱2.9 trillion in June 2023 to ₱3.2 trillion in June 2024. The profitable operations of banks contributed to their robust capitalization. The system's consolidated net earnings increased by 4.1 percent from ₱182.8 billion in June 2023 to ₱190.3 billion in June 2024. This solid performance was accompanied by ample capital and liquidity buffers that exceeded domestic and global standards, allowing banks to support their expanding operations and risk-taking activities. The results from the latest BSP stress tests likewise affirmed banks' resilience, recording post-shock capital adequacy ratio above 10.0 percent under assumed credit and market stress scenarios, including a potential downturn in the real estate sector.

US$70.6 billion
in Total FCDU assets
in June 2024

US$356.9 million
in FCDU Net profit
for June 2024

Other areas of bank operations sustained satisfactory performance in June 2024. Foreign currency deposit unit (FCDU) and trust operations both recorded double-digit growth in assets, accounting for 15.8 percent and 25.2 percent, respectively, of the banking system's total. The total FCDU assets expanded by 14.0 percent to US$70.6 billion (₱4.1 trillion), driven by strong deposit generation particularly from resident deposits. Majority of these assets were investments at 40.3 percent (US$28.4 billion) and loans at 28.5 percent (US$20.1 billion). In June 2024, investments picked up, while lending remained muted due to tighter credit conditions, elevated interest rates, and a generally weaker credit demand. Despite the subdued FCDU lending, the NPL ratio remained low at 1.3 percent while the NPL coverage ratio was kept high at 171.4 percent. Overall, FCDU operations continued to be profitable, posting a net profit of US$356.9 million for the period ending in June 2024.

₱6.6 trillion
in Total Trust assets
in June 2024

₱4.1 billion
in Trust Net profit
for June 2024

Meanwhile, total trust assets rose by 12.9 to ₱6.6 trillion in June 2024. These assets remained domestic-oriented and highly liquid. In terms of accountabilities, agency and trust accounts comprised 54.7 percent (₱3.6 trillion) and 32.3 percent (₱2.1 trillion), respectively, of the total. Unit investment trust funds (UITFs) continued to be the preferred investment choice among trust clients. In terms of accountabilities, agency and trust accounts held 54.7 percent (₱3.6 trillion) and 32.3 percent (₱2.1 trillion), respectively. By product, UITFs continued to draw investors, with share reaching 13.4 percent (₱882.9 billion) of the total trust accountabilities. In June 2024, the total contributions and number of Personal Equity and Retirement Account (PERA) contributors reached ₱457.6 million and 5,686, respectively. These expanded by 24.4 percent and 5.3 percent although slower compared to the growth rates of 30.0 percent and 15.9 percent in June 2023. The industry's growth and sustained profitability was supported by the conducive operating environment. For the period ending in June 2024, the trust industry recorded a 12.3-percent increase in net profit, reaching ₱4.1 billion on the back of higher trust income from trust and agency accounts.

The BSP's continued implementation of financial reforms paved the way for sustained resiliency for the Philippine banking system and prepared banks to take on a bigger role in the domestic economy by serving their clients' businesses and households, ultimately improving the financial future of every Filipino.

Financial reforms help sustain the resilience of the banking sector, *enabling banks to take a bigger role in the domestic economy.*

THE PHILIPPINE BANKING SYSTEM


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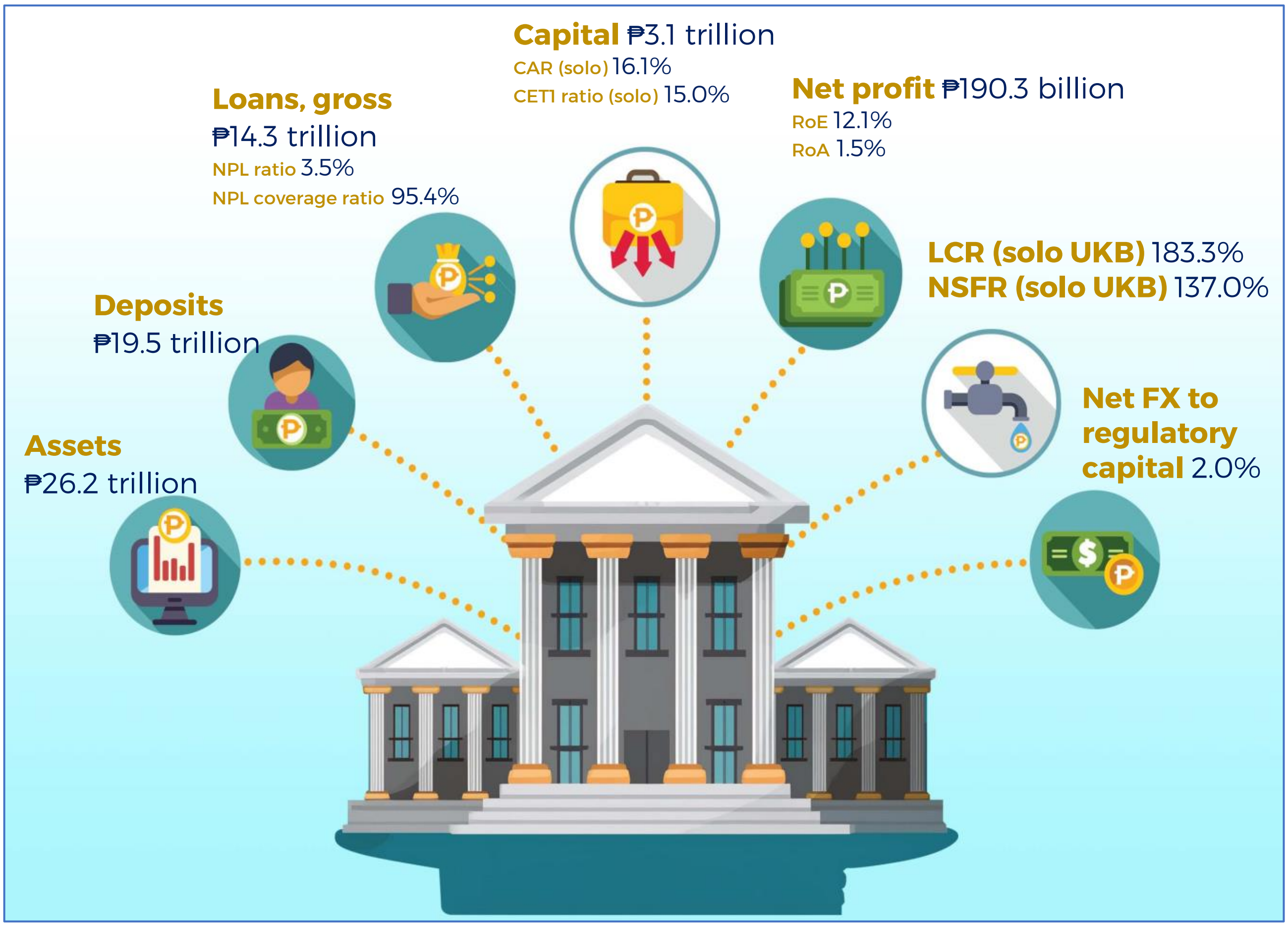
The **Philippine banking system sustains its growth momentum**, recording solid performance in line with improved economic conditions.

Expansion in assets, loans, deposits, and earnings continued, enabling banks to support the growing demand of their clients as well as contribute to the development of the economy through financing of key productive sectors in the country, including households.

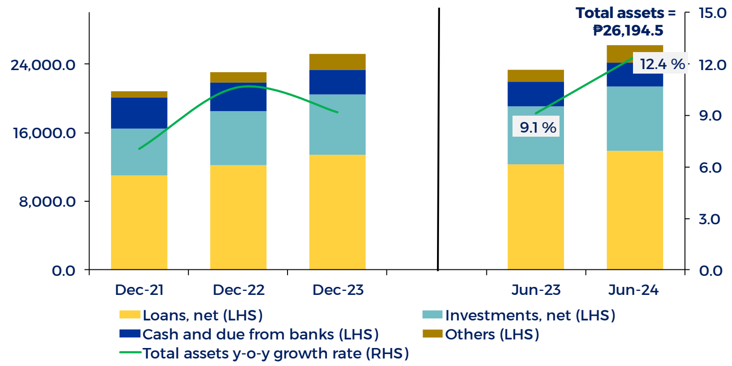
Prudent credit management and sound corporate governance supported by adequate capital and liquidity buffers, likewise, helped banks in maintaining their resilience, providing cushion against potential shocks arising from the prolonged high interest rate environment and inflationary pressures.



Banks' total assets reached ₱26.2 trillion in June 2024, growing at a faster pace by 12.4 percent year-on-year[1] (y-o-y) compared to the 11.0-percent pre-pandemic growth rate[2] and the 9.1-percent growth in June 2023, as shown in *Figure 1*. This double-digit growth was consistent with the upbeat industry outlook and continued domestic economic recovery[3].

UKBs hold the lion share of bank assets, which were mostly in the form of loans.

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



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

The system's asset mix were mostly in the form of loans[4], net of credit allowance, comprising 52.8 percent (₱13.8 trillion) share. Meanwhile, the shares of investments[5] and cash and due from banks stood at 28.7 percent (₱7.5 trillion) and 10.5 percent (₱2.7 trillion), respectively. The growth in total assets was largely driven by the universal and commercial bank (UKB) industry, accounting for the lion's share of 93.9 percent (₱24.6 trillion) as of June 2024. Over the same period, the shares of thrift banks (TBs), rural and cooperative banks (RCBs), and digital banks (DGBs) stood at 4.0 percent (₱1.1 trillion), 1.7 percent (₱439.2 billion), and 0.4 percent (₱104.1 billion), respectively.

Robust loan growth supports the broad-based lending activities of banks, including those targeting marginalized sectors.

The gross total loan portfolio (TLP) maintained its growth trajectory despite the high interest rate environment. It rose by 12.4 percent to ₱14.3 trillion as presented in *Figure 2*. This double-digit growth, which can be attributed to improving macroeconomic fundamentals[6] and strong consumer and business confidence[7], surpassed the 8.8-percent rise in June 2023

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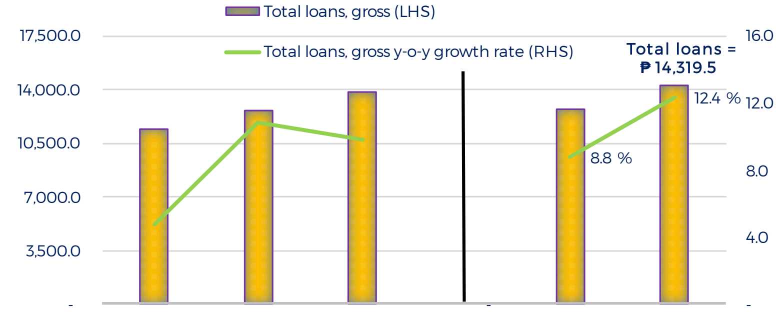
1 All the discussed growth rates and reporting periods pertain to y-o-y and as of June 2024, respectively, unless otherwise stated. Discussions were also based on the available data and information at the time of preparation.
2 The pre-pandemic compounded annual growth rate was computed using December data from 2015-2019.
3 Based on results of the 2023 Banking Sector Outlook Survey (BSOS), most of the respondent banks expect their assets, deposits, loans, and net earnings to grow double-digit in the next two years (2024-2025), ranging between 10.0 and 20.0 percent.
4 These include interbank loans receivable (IBL) and reverse repurchase (repo).
5 These were comprised of investments in debt and equity securities and derivatives and equity investments in subsidiaries, associates, and joint ventures, net of allowance for credit losses, as applicable.
6 The increase in credit coincided with improving economic activity, as real gross domestic product (GDP) accelerated to 6.3 percent in Q2 2024 from the adjusted 5.8-percent growth rate recorded in Q1 2024.
7 Based on the BSP's Q2 2024 Senior Bank Loan Officers' Survey (SLOS), the diffusion index (DI) method showed a higher net increase in loan demand from both enterprises and households, compared to previous quarter.

and continued to inch closer to the 13.8-percent pre-pandemic growth rate.

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



Source: DSA
RHS - right hand side
LHS - left hand side

Increasing credit activity is likely to continue as demand remains firm, supported by strong macroeconomic fundamentals.

As indicated in the latest surveys of the Bangko Sentral ng Pilipinas (BSP), the upbeat lending activity is expected to continue, driven by the higher loan demand from both firms and households given banks' more attractive financing terms and improved economic conditions. [8,9,10] The ratio of banks' credit to GDP rose from 54.9 percent in June 2023 to 56.4 percent in June 2024. [11]

Banks maintained their broad-based lending, serving the financial requirements of their clients (*Figure 3*). As of June 2024, loans to the real estate sector accounted for 18.3 percent (₱2.6 trillion) of the system's gross TLP. Households (13.3 percent share, or ₱1.9 trillion), and other productive sectors, particularly wholesale and retail trade (10.5 percent, or ₱1.5 trillion), electricity, gas, steam, and air-conditioning supply (9.11 percent, or ₱1.305 trillion), and manufacturing (9.06 percent, or ₱1.297 trillion) collectively held 42.0 percent (₱6.0 trillion) of the banking system's gross TLP. Loans to these five sectors grew in June 2024, with loans to households consistently recording the highest growth rate at 23.3 percent, followed by loans to the real estate sector at 12.1 percent.

Reasons for the higher loan demand of firms were increased inventory and accounts receivable financing needs, as well as improvement in economic outlook while households cited banks' more attractive financing terms, consumption, and housing investment as reason for the increased credit demand.

8 Based on the BSP's Q2 2024 SLOS

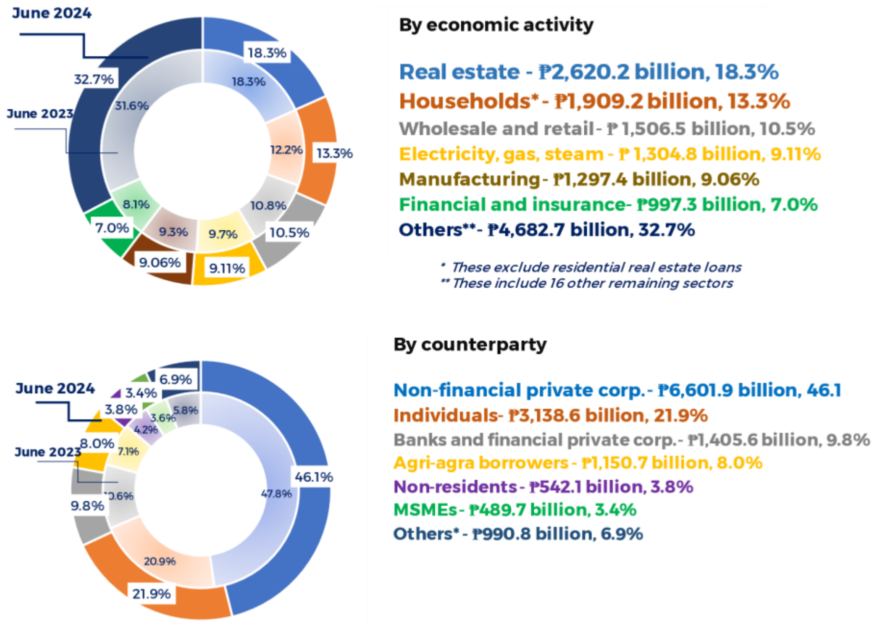
9 Based on the BSP's Q2 2024 Consumer Expectations Survey (CES), the overall consumer sentiment remained optimistic for the next 12 months.

10 Based on the BSP's 2023 BSOS, respondent banks remained upbeat, expecting double-digit growth in their loan portfolios in the next two years.

11 The ratio of banks' credit-to-GDP in June 2024 went up to 56.4 percent from 54.9 percent in June 2023. This ratio refers to the proportion of gross total loans to annualized GDP at current prices.

Figure 3 shows that banks largely catered to domestic borrowers, with resident non-financial private corporations taking nearly half of the TLP at 46.1 percent (₱6.6 trillion). The shares of resident individuals and resident financial private corporations stood at 21.9 percent (₱3.1 trillion) and 9.8 percent (₱1.4 trillion), respectively.[12] Across banking industries, UKBs continued to provide the bulk of the borrowing requirements of the public, with 92.5 percent share (₱13.2 trillion) of the TLP. The TB, RCB, and DGB industries provided the remaining share at 5.4 percent (₱768.9 billion), 1.9 percent (₱272.6 billion), and 0.2 percent (₱28.3 billion), respectively.

Figure 3
PBS Total Loans
as of end-periods indicated; in billion PH pesos; share in percent



Source: DSA

Banks strongly supported the growth and development of marginalized sectors of the economy particularly farmers; fisherfolks; and micro, small and medium enterprises (MSMEs).[13] As prescribed under Republic Act (RA) No. 11901 or the AFRD Law, banks allocated 192.4 percent[14] (₱1.7 trillion) of their total loanable funds (₱912.7 billion) for agriculture, fisheries, and rural development (AFRD) financing as of June 2024. This was an increase from the 36.4 percent (₱3.1 trillion[15]) AFRD compliance rate recorded in June 2023 (total loanable funds of ₱8.4 trillion) on account of a shorter reference cut-off date in

Banks play a pivotal role in the growth and development of the marginalized sectors of the economy, providing credit access to farmers, fisherfolks, and MSMEs.

[12] These include resident banks.
[13] These include farmers, fisherfolk, agrarian reform beneficiaries, agrarian reform communities, settlers, agricultural lessees, amortizing owners, farmworkers, fish workers, owner cultivators, compact farmers, tenant farmers, and members of their household and their MSMEs, as well as agriculture cooperatives, and farmer's and fisherfolk's organizations and associations in good standing.
[14] Based on the preliminary reports submitted by banks to BSP.
[15] The revised June 2023 figure was due to amendments of reports submitted by banks.

computing the total loanable funds as provided under the law, i.e., from 18 August 2023 to the reporting date as of end-June 2024 and from 20 April 2010 to the reporting date as of end-June 2023.[16] Relatedly, the BSP continues to monitor the credit allocation of banks to the MSME sector even after the expiration of the mandatory credit allocation for the sector. Bank financing for MSMEs reached a new peak of ₱488.1 billion in June 2024, surpassing the ₱461.4 billion recorded in June 2023.

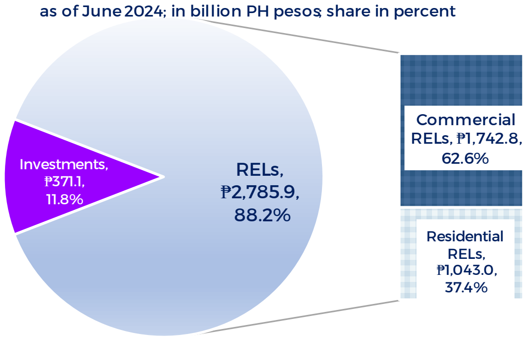
Exposures to the real estate sector moderate, remaining largely in the form of loans.

The real estate exposures (REEs) of UKBs and TBs reached ₱3.2 trillion in June 2024 on a consolidated basis, accounting for 12.1 percent of the banking system's total assets.[17] These exposures rose by 3.4 percent during the period, slower than the 5.0-percent increase in June 2023 and the 13.2 percent pre-pandemic growth rate. The easing trend was due to the continued decline in real estate investments since September 2023.[18]

As illustrated in *Figure 4,* real estate loans (RELs) accounted for majority of exposures at 88.2 percent (₱2.8 trillion). Meanwhile, real estate investments contributed 11.8 percent (₱371.1 billion).

Banks maintain a modest level of real estate exposures, with an easing share in real estate investments.

Figure 4
Real Estate Exposures of UKBs and TBs (Consolidated)
as of June 2024; in billion PH pesos; share in percent



Source: DSA

Nearly two-thirds of RELs were commercial RELs at 62.6 percent (₱1.7 trillion). These grew at a faster rate of 6.3 percent in June 2024, compared with 3.4 percent in June 2023. Commercial RELs were mainly used to finance land development, acquisition, construction, and/or improvement of commercial real estate units (82.8 percent, or ₱1.4 trillion), and largely with residual maturity of over one year to five years (44.8 percent or ₱780.6 billion).

Meanwhile, residential RELs held the remaining 37.4 percent (₱1.0 trillion) of total RELs. These grew by 8.9 percent in June 2024, higher than the 4.2 percent in June 2023. Residential RELs were at the mid-end (46.0 percent, or ₱479.6 billion) and low-cost (39.4 percent, or ₱411.2 billion) housing categories, and majority, or 52.1 percent (₱542.9 billion), has a residual maturity of over 10 years.

More than half, or 55.5 percent (₱1.5 trillion), of RELs were unsecured while 40.2 percent (₱1.1 trillion) were secured, of which ₱953.8 billion (34.2 percent) were secured by real estate

[16] The law mandates banks to allocate 25.0 percent of their total loanable funds to AFRD-related financing. The AFRD financing refers to loans and investments that will increase (the) income of an agricultural and fisheries household, thereby promoting agricultural sector productivity and competitiveness, as well as sustainable development of rural communities.

[17] The share of REEs of UKBs and TBs to the banking system's total assets has been declining for the past years. This stood at 12.1 percent in June 2024, 13.1 percent in June 2023 and 13.6 percent in June 2022.

[18] The largest recorded decline in real estate investments was recorded in June 2024 at 18.4 percent, higher than March 2024's 10.8-percent contraction.

mortgage (REM). The remaining 4.3 percent (₱119.8 billion) was loans to real estate developers/construction companies that are covered by contracts to sell.[19]

RELs grow amid an uptick in demand for both commercial and residential RELs.

Alongside the increasing trend, banks satisfactorily managed the quality of their RELs. As of June 2024, low non-performing loan (NPL) ratios were recorded for both commercial and residential RELs at 2.3 percent (from 2.1 percent in June 2023) and 6.8 percent (from 7.4 percent in June 2023), respectively.

The continued growth of both commercial and residential RELs is in line with property market experts' upbeat outlook.[20] Similarly, the latest BSP survey revealed a continued rise in prices across all housing types in the Philippines,[21] reinforcing industry experts' favorable prospects for the property sector.

As real estate activities remain an integral component of the country's domestic economy, the BSP regularly conducts monitoring and surveillance of banking system exposures to the sector. This helps identify emerging risks and vulnerabilities in the banking system. The latest BSP real estate stress test (REST) indicated the continued resilience of the banking system under an assumed downturn in the property market. Bank RELs also remained below the 25.0-percent REL limit,[22] based on the latest available data.

***BSP regularly monitors risks and vulnerabilities in the system**, including banks' real estate exposures.*

The double-digit expansion in consumer loans continues amid an upbeat consumer outlook.

Consumer loans of UKBs and TBs comprised 19.6 percent of the banking system's total loans. These loans grew by 19.7 percent to ₱2.8 trillion in June 2024 on a solo basis (*Figure 5*), driven by substantial increase in credit card financing. The growth in consumer loans, which has been in double digits since September 2022, surpassed the 13.6-percent rise in June 2023 and the 15.7-percent pre-pandemic growth rate. This trend is in line with the prevailing economic conditions in the country.

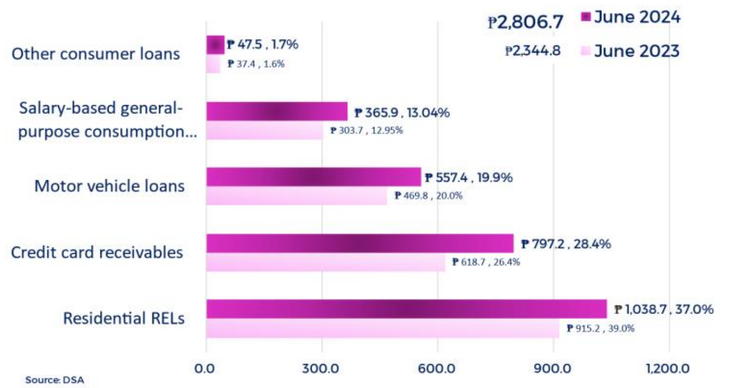
[19] RELs for socialized and low-cost housing reached ₱541.2 billion in June 2024, accounting for 19.5 percent of the total. These RELs increased by 4.6 percent in June 2024, higher than the 0.9-percent increase in June 2023. Loans granted to individual households for their residential units accounted for 76.7 percent of these loans.

[20] According to Collier's *Property Market Report–Office* for Q2 2024, the demand for commercial space, particularly in the Metro Manila, posted a higher net take-up compared to the previous quarter. However, the recent Philippine Offshore Gaming Operators (POGO) ban will likely have an impact on office take-up. Similarly, Collier's *Property Market Report–Residential* for Q2 2024 indicated that vacancy will likely increase. Rents and prices are also expected to adjust in response to the POGO ban. The impact of the POGO ban, though, is seen to be temporary and may not have a lasting effect on demand.

[21] Based on the BSP's Q2 2024 Residential Real Estate Price Index (RREPI)

[22] The REL limit, which applies to all UKBs, covers commercial RELs 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.

Figure 5
Consumer Loans of UKBs and TBs (Solo)
As of end-periods indicated; in billion PH pesos; share in percent



Source: DSA

Growth in consumer loans continues, in line with the prevailing economic conditions.

By composition, residential RELs accounted for 37.0 percent (₱1.0 trillion) of consumer loans in June 2024. Credit card receivables (CCRs), motor vehicle loans (MVLs), salary-based general-purpose consumption loans (SBGPCLs), and other consumer loans held the remaining share at 28.4 percent (₱797.2 billion), 19.9 percent (₱557.4 billion), 13.0 percent (₱365.9 billion), and 1.7 percent (₱47.5 billion), respectively. *Figure 5* illustrates the comparative levels of consumer loans, including the share for each type, as of June 2024 vis-à-vis June 2023.

Banks also reported double-digit growth rates across all types of consumer loans, CCRs had the highest growth rate at 28.8 percent (₱178.5 billion). Meanwhile, residential RELs, MVLs, SBGPCLs, and OCLs grew by 13.5 percent (₱123.5 billion), 18.7 percent (₱87.6 billion), 20.5 percent (₱62.2 billion), and 27.2 percent (₱10.2 billion), respectively. This increasing trend is expected to continue amid the strong consumer finance outlook and banks' strategic positioning to cater to the rising demand for consumer loans.[23]

Loan quality remains satisfactory, characterized by a low NPL ratio despite increased credit risk.

Precautionary measures are in place such as beefing up reserves to absorb potential losses in portfolios.

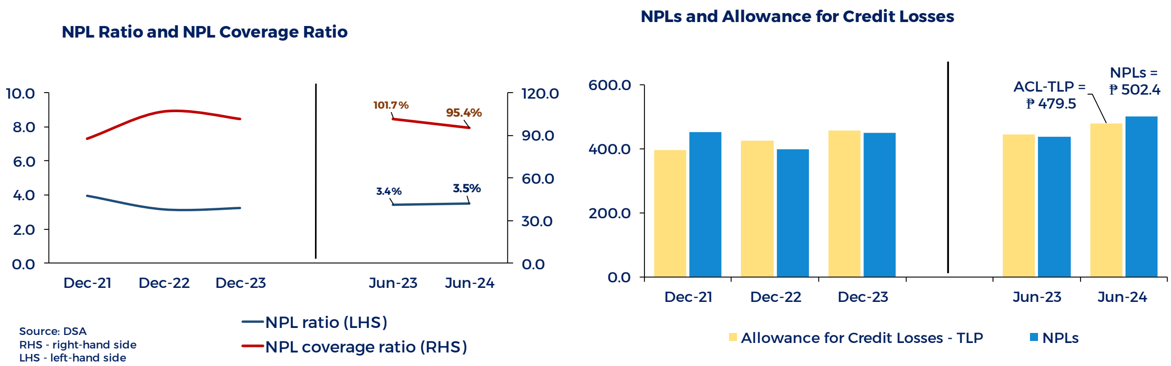
The banking system maintained satisfactory loan quality despite the uptick in NPLs. The combined effect of challenges from post-pandemic recovery and higher interest rate environment affected bank borrowers' paying capacity. In June 2024, the total NPLs of the banking system grew by 14.8 percent to ₱502.4 billion (*Figure 6*).[24] This was faster compared with the 13.2-percent pre-pandemic growth rate and the 3.9-percent increase in June 2023. Consequently, the NPL ratio slightly rose from 3.4 percent in June 2023 to 3.5 percent in June 2024, as NPL growth outpaced the 12.4-percent increase in loans. Banks responded by

[23] Based on the BSP's Q2 2024 SLOS, banks anticipate a net increase in household loan demand, driven by rising household consumption and more attractive lending terms of banks. Similarly, the percentage of households who intend to apply for a loan in the next 12 months reached 12.4 percent in Q2 2024 from 12.3 percent in the same period last year based on the BSP's Q2 2024 CES.

[24] This was higher than the previous peak of ₱495.7 billion in May 2024.

raising the allowance for credit losses by 7.7 percent (₱34.4 billion), resulting in an NPL coverage ratio of 95.4 percent over the same period.

Figure 6
PBS NPLs and Allowance for Credit Losses
as of end -periods indicated; in billion PH pesos; ratio in percent



Source: DSA
RHS - right-hand side
LHS - left-hand side

Notwithstanding this, banks continued to implement sound credit management practices, supported by robust strategies, and precautionary measures to mitigate the increase in credit risk. Easing market conditions and moderation of inflationary pressures are seen to provide relief and improve bank borrowers' repayment capacity, thus, enabling banks to maintain low NPLs and NPL ratio.

Investments continue to grow and remain largely issued by the government.

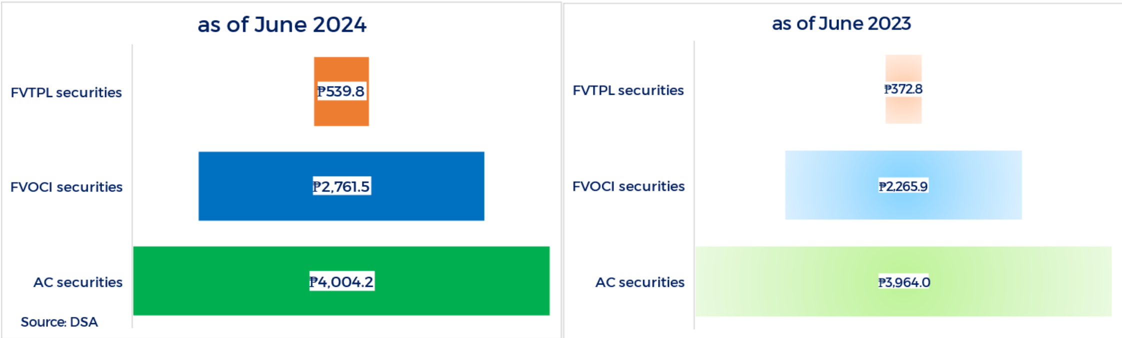
Total investments rose by 10.6 percent to ₱7.3 trillion in June 2024.[25] This was faster than the 9.2-percent increase in June 2023 but remained relatively unchanged compared with the pre-pandemic growth rate. These investments were largely composed of securities measured at amortized cost (AC) at 54.8 percent (₱4.0 trillion), followed by securities measured at fair value through other comprehensive income (FVOCI) at 37.8 percent (₱2.8 trillion). Meanwhile, securities measured at fair value through profit or loss (FVTPL) had a minimal share of 7.4 percent (₱539.8 billion). Nearly two-thirds, or 74.3 percent (₱5,427.3 billion), of the total investments were issued by the national government.

As shown in *Figure 7*, investments across all types posted an increase, with notable movement towards securities measured at FVOCI, which can be attributed to bank's strategy to manage liquidity amid expectations of easing interest rate environment. As of June 2024, the share of securities measured at FVOCI rose by 21.9 percent to 37.8 percent, improving from 34.3-percent share in June 2023. In contrast, the share of securities measured at AC declined to 54.8 percent from the 60.0-percent share in June 2023 due to

25 These exclude equity investments in subsidiaries/associates/joint ventures.

the meager 1.0-percent growth in June 2024. Meanwhile, the share of securities measured at FVTPL grew by 44.8 percent from 5.6 percent in June 2023 to 7.4 percent in June 2024.

Figure 7
PBS Investments
as of end-periods indicated; in billion PH pesos



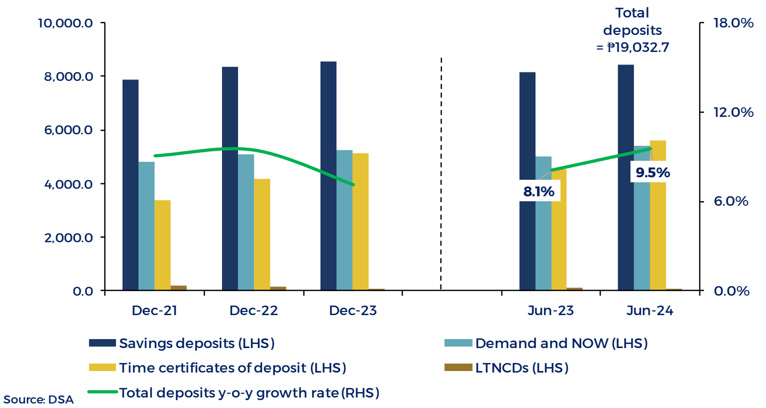
Source: DSA

The continued expansion in TDs fuels steady growth in deposits

Sustained depositor confidence provided banks with a reliable funding source for their operations, As of June 2024, the banking system's total deposits grew by 9.5 percent to ₱19.5 trillion (*Figure 8*). This growth was faster than the 8.1-percent in June 2023 inching closer to the 10.3-percent pre-pandemic growth rate. The double-digit growth in certificate of time deposits (TDs) enabled banks to expand their deposit base, which was predominantly peso denominated (83.1 percent, or ₱16.2 trillion) and mainly sourced from resident depositors (99.1 percent, or ₱19.3 trillion). This structure shields the banking system from significant funding withdrawals arising from global financial market fluctuations and reduces banks' exchange rate risk and vulnerability.

Domestic-based deposits mitigate risks and vulnerability arising from external market fluctuations.

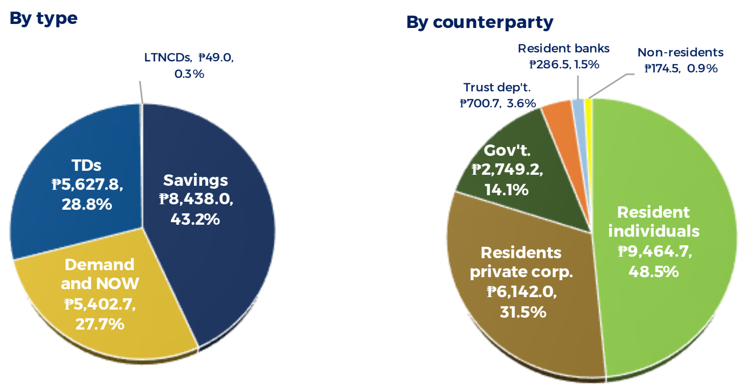
Figure 8
PBS Deposits by Type
as of end-periods indicated; in billion PH pesos; growth in percent



Source: DSA
RHS - right hand side
LHS - left hand side

As shown in *Figure 9*, savings deposits comprised 43.2 percent (₱8.4 trillion) of the banking system's total deposits in June 2024. This was followed by TDs with a 28.8-percent share (₱5.6 trillion) and demand deposits and negotiable order of withdrawal (NOW) with 27.7-percent share (₱5.4 trillion). Long term negotiable certificates of deposits (LTNCDs) had a minimal share of 0.3 percent (₱49.0 billion). The continued growth in TDs, which rose by 23.9 percent in June 2024, was due to depositor's strong preference for high-yielding investments amid a high interest rate environment. By counterparty, resident depositors particularly individuals and private corporations had the highest share of deposits at 48.5 (₱9.5 trillion) and 31.5 percent (₱6.1 trillion), respectively.

Figure 9
PBS Total Deposits by Type and Counterparty
as of June 2024; in billion PH pesos; share in percent



Source : DSA

Other funding sources continued to be minimal, with bills payable and bonds payable representing 4.1 percent (₱937.6 billion) and 2.4 percent (₱544.9 billion), respectively, of the banking system's total liabilities in June 2024.

Banks are well capitalized and highly liquid, with key risk-based capital and liquidity ratios above regulatory standards.

The capital position of banks further grew in June 2024, rising by 10.6 percent to ₱3.2 trillion. However, this expansion was slower compared with the 11.0-percent increase in June 2023 and the 13.4-percent pre-pandemic growth rate. The increase in retained earnings of 14.8 percent and capital stock of 5.0 percent contributed to the growth in banks' overall capital.

Risk-based capital ratios remained well above the minimum thresholds of 10.0 percent set by the BSP and 8.0 percent set by the Bank for International Settlement (BIS). As of June 2024, the banking system's solo and consolidated capital adequacy ratios (CARs) stood at 16.1 percent and 16.6 percent, respectively. All banking industries maintained high CARs during the period, similarly well above the minimum 10.0-percent requirement. In addition, the common equity tier 1 (CET1) ratios of the banking system were 15.0 percent on a solo basis and 15.5 percent on consolidated basis in June 2024, both exceeding the BSP's and the BIS' minimum thresholds.

Banks maintain robust capital and liquidity positions to support their risk-taking activities.

Moreover, the Basel III leverage ratios (BLRs) of UKBs settled at 9.1 percent on a solo basis and 9.6 percent on a consolidated basis. These were higher than the 5.0-percent BSP regulatory requirement and the 3.0-percent international standards. This underscores banks' ability to withstand financial stress without impairing their solvency.

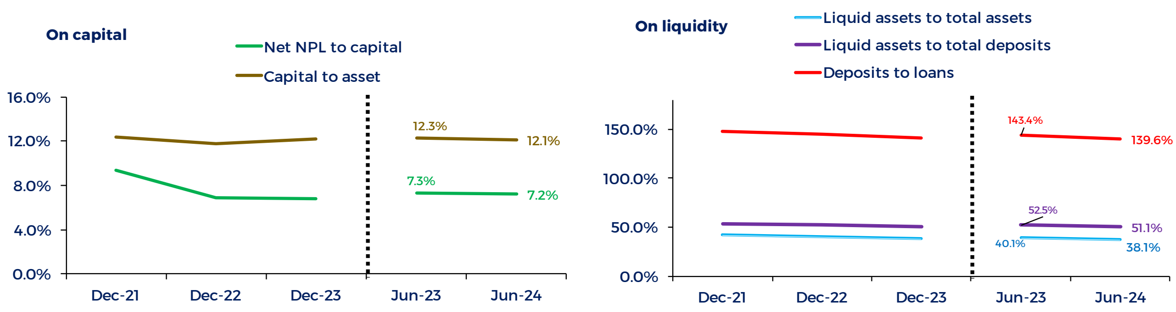
The strong capitalization of banks affirms their capacity to support lending and investing activities and absorb potential losses from credit portfolios. Relatedly, the results from the latest BSP stress tests confirmed the banking system's resilience to assumed stressed scenarios, including a potential downturn in the property sector.

BSP uses other financial soundness indicators to monitor capital and liquidity of banks.

In terms of liquidity buffers, banks maintained high liquidity, indicating their robust position to meet funding requirements. The latest data show that the UKB industry's liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) both surpassed the 100.0-percent regulatory threshold. As of June 2024, UKBs recorded LCRs of 183.3 percent on a solo basis and 184.2 percent on a consolidated basis. Meanwhile, their solo and consolidated NSFRs were 137.0 percent and 137.2 percent, respectively. For smaller banks, the minimum liquidity ratios (MLRs) of stand-alone TBs, RBs, and CBs in June 2024 exceeded the 20.0-percent minimum requirement.

Complementing risk-based capital and key liquidity ratios (i.e., LCR, NSFR, MLR), the BSP also monitors other financial soundness indicators (FSIs) of the banking system (*Figure 10*). On capital, these include the ratios on capital to asset and the net NPL to capital. For liquidity, the relevant ratios are liquid assets to total assets, liquid assets to deposits, and deposits to loans.[26]

Figure 10
PBS Other Financial Soundness Indicators on Capital and Liquidity
as of end-periods indicated; ratio in percent



Source: DSA

As of June 2024, the capital to asset and net NPL to capital ratios stood at 12.1 percent and 7.2 percent, respectively, a slight drop from 12.3 percent and 7.2 percent a year ago. These indicators show that banks maintained an acceptable level of capital, despite its marginal decline due to expansion in lending and investment activities.

[26] Based on the International Monetary Fund (IMF)'s *Financial Soundness Indicators Compilation Guide*, the NPL to capital ratio is an important gauge of a bank's ability to absorb losses from NPLs that are not covered by specific loan loss provisions. The capital to asset ratio measures how much of an asset's funding comes from the bank's resources. On liquidity, the liquid assets to total assets ratio offers insight into the liquidity available for banks to address both expected and unexpected cash outflows while the liquid assets to deposits ratio indicates the extent to which banks could handle short-term fund withdrawals without encountering liquidity challenges. Finally, the ratio of deposits to loans shows how much of a bank's gross loans (excluding interbank loans) is funded by its deposits.

Meanwhile, ratios of liquid assets to total assets and liquid assets to deposits remained high at 38.1 percent and 51.1 percent, respectively, despite the marginal decline from 40,1 percent and 52.5 percent in June 2023. These ratios affirm banks' strong liquidity position, indicating their ability to withstand liquidity challenges. In addition, ratio of deposit to loans stood at 139.6 percent, a slight decline from 143.4 percent in June 2023. The high ratio, which remains above 100.0 percent, indicates that banks' lending is primarily funded by deposits rather than more volatile borrowings.

These ratios provide the BSP with a more a comprehensive view of the banking system's capital, liquidity profile and funding source.

Another FSI monitored by the BSP is the ratio of UKBs' net foreign exchange (FX) position to regulatory capital. This ratio remained low, slightly increasing from 1.9 percent in June 2023 to 2.0 percent in June 2024, indicating banks active management of their FX exposures.

Banks sustain profitability, buoyed by robust interests earned from their lending activities.

Bank earnings continued to be driven by interest income from their lending activities particularly loans to private corporations and households. For the period ending in June 2024, net profit rose by 4.1 percent to ₱190.3 billion, slower compared with 27.7 percent in June 2023. This was due to high funding costs that tapered the robust interests earned by banks amid the high interest rate environment.

Amid improved macroeconomic conditions and strong consumer and business sentiment, total interest income rose by 20.0 percent (₱121.4 billion) to ₱729.1 billion in June 2024. This increase was driven by robust earnings from lending particularly loans to private corporations and individuals, which grew by 10.1 percent (₱22.8 billion) and 45.5 percent (₱61.9 billion), respectively. Collectively, these earnings accounted for 74.7 percent (₱90.7 billion) of the total interest income earned for the period. Interest income from investments also contributed to banks' profitability, rising by 23.9 percent (₱31.1 billion). This growth was on account of higher yields from securities measured at FVOCI (up by 56.9 percent, or ₱22.0 billion) and at AC (up by 7.4 percent, or ₱6.4 billion).

The solid earnings from lending activities and investments helped banks offset higher interest expenses. Interest expenses rose by 31.3 percent (₱53.0 billion) due to high funding costs, particularly for deposits and bills payable, which expanded by 32.6 percent (₱45.1 billion) and 27.1 percent (₱4.1 billion), respectively. The increase in interest expenses on deposits was primarily attributed to high interest expenses on TDs.[27] Meanwhile, the increase in interest expenses on bills payable resulted from bank's strategy to utilize alternative funding sources.

Fees and commissions also contributed to the profitable operations of banks. This increased by 10.8 percent (₱7.5 billion) and helped temper operating costs, particularly for compensation and administrative expenses.[28]

[27] Interest expenses on TDs have been growing double digit since August 2022.

[28] Total non-interest expenses grew by 10.2 percent (₱31.5 billion) in June 2024, driven by compensation/fringe benefits, taxes and licenses, and other administrative expenses, which grew by 12.5 percent (₱12.6 billion), 18.0 percent (₱6.8 billion), and 8.1 percent (₱9.7 billion), respectively. Collectively, these accounts comprised 84.2 percent (₱287.2 billion) of the total non-interest expense (₱341.2 billion) of the banking system in June 2024.

Banks generate better returns amid improved macroeconomic conditions and strong customer base.

The satisfactory operating performance of banks enabled the system to achieve better returns. For the reference period ending in June 2024, return on assets (RoA) and return on equity (RoE) stood at 1.5 percent and 12.1 percent, respectively, a marginal decline from 1.6 percent and 12.8 percent, respectively, in June 2023. Moreover, the net interest margin improved from 4.0 percent in June 2023 to 4.3 percent during the period. The cost-to-income ratio slightly increased from 55.2 percent in June 2023 to settle at 56.6 percent in June 2024. This indicates banks continued operational efficiency.

Contingent accounts accelerated, driven by substantial growth in derivatives and credit line commitments.

Off-balance accounts[29] amounted to ₱18.2 trillion in June 2024, recording a faster increase of 22.3 percent (₱3.3 trillion) compared with the 5.6 percent in June 2023. The double-digit growth in contingent accounts was mainly due to the substantial increase in domestic transactions, with derivates and commitments rising by 29.3 percent (₱1.7 trillion) and 47.2 percent (₱922.6 billion), respectively.

The uptick in derivatives was on account of the growth in the notional amount of FX contracts[30], which went up by 29.3 percent (₱1.3 trillion). The notional amount of FX contracts made up 85.3 percent (₱5.7 trillion) of the total derivatives in June 2024. Meanwhile, commitments were mainly driven by credit card lines, which expanded by 57.6 percent (₱773.9 billion), indicating continued growth in the credit card market amid upbeat consumer sentiment.

In terms of composition, derivative instruments (41.7 percent or ₱7.6 trillion) and trust department accounts (22.6 percent or ₱4.1 trillion) made up 64.3 percent of the total off-balance sheet account. The remaining shares were in the form of commitments (15.8 percent or ₱2.9 trillion), bank guarantees (3.8 percent or ₱697.7 billion), trade-related accounts (1.2 percent or ₱218.0 billion), and others[31] (15.0 percent or ₱2.7 trillion).

All contingent accounts recorded an increase in June 2024. Majority had double-digit growth, except for trust department accounts.[32] (Note: A detailed discussion on the trust operations is presented in a separate section of this report).

The extensive network supported bank operations, with an increasing number of branches and BLUs nationwide.

The total number of bank offices increased from 13,335 in June 2023 to 13,367 in June 2024, making banking services accessible to more Filipinos. This growth was primarily driven by the expansion of other offices, which include branches and branch-lite units (BLUs). In June

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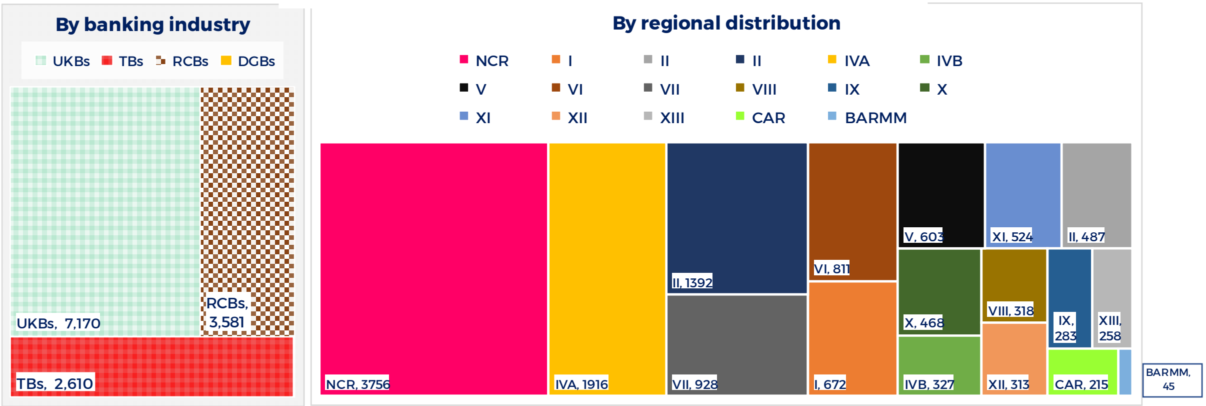
29 These represented 69.6 percent of the banking system's total assets in June 2024, an increase from 64.0 percent (₱14.9 trillion) in June 2023. The total off-balance sheet accounts were predominantly comprised of resident transactions, accounting for 84.1 percent (₱15.3 trillion).
30 These exclude spot FX contracts.
31 Others include securities held by the bank proper under custodianship, comprising 13.0 percent (₱2.4 trillion).
32 Bank guarantees went up by 23.2 percent (₱131.3 billion) while trade-related accounts and trust department accounts inched up by 30.2 percent (₱50.6 billion) and 1.2 percent (₱48.6 billion), respectively.

2024, there were additional 44 units, bringing the total number of other offices to 12,889. However, the number of head offices declined from 490 in June 2023 to 478 in June 2024 due to mergers, consolidations, and closures.

Figure 11 presents the total number of offices of the banking system across banking industries, including their distribution nationwide, as of June 2024.

Figure 11
PBS Bank Offices by Bank Industry and Regional Distribution
as of June 2024 ; number in absolute value



Source: DSA

UKBs remained the industry leader in terms of the number of bank offices, with a total of 7,170, composed of 44 head offices and 7,126 other offices. This was followed by RCBs with 3,581, which include 386 head offices and 3,195 other offices. The number of DGBs was six but the BSP will lift the moratorium on the granting of DGB licenses starting January 2025 to accommodate four additional players.

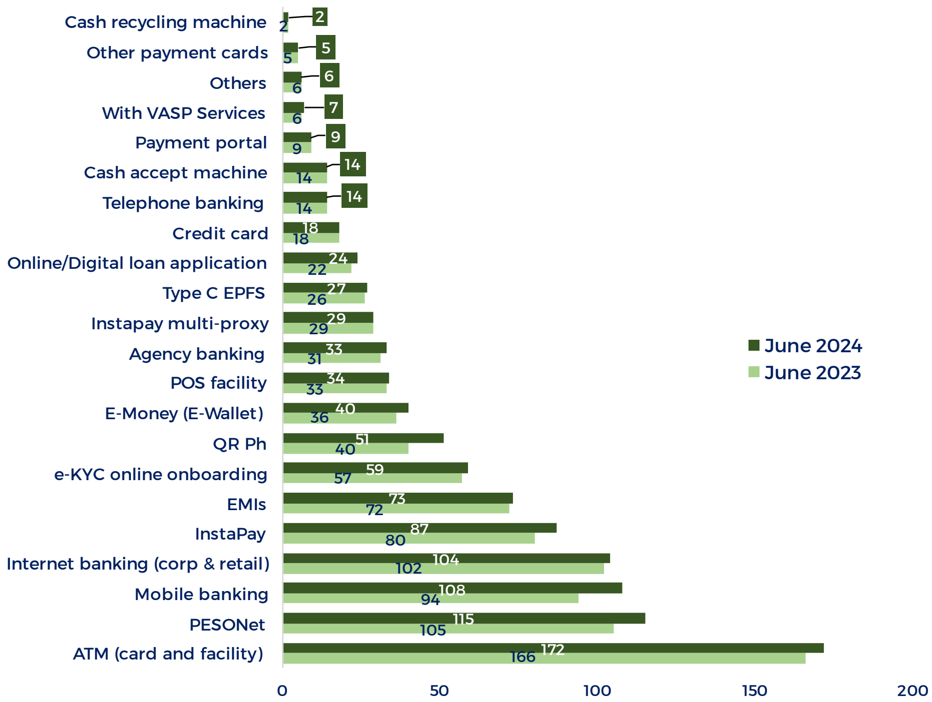
By region, bank offices remained concentrated in Luzon. The National Capital Region (NCR) hosted the largest number of offices at 3,756 offices (28.2 percent), followed by CALABARZON (Region IV-A) with 1,916 (14.4 percent), and Central Luzon (Region III) with 1,392 (10.5 percent). In contrast, the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM) had the smallest presence, with only 45 offices, accounting for 0.3 percent of the banking system's total offices.

Banks enhance their products and services through innovation and digital adoption, *offering EPFS to cater to the financial needs of their clients and onboard the tech-savvy generation.*

The BSP-supervised financial institutions (BSFIs), including banks, have been ramping up initiatives to widen their reach through digital innovations. Among these initiatives is the use of electronic devices to cater to the growing demand of their clients and onboard the tech-savvy generation. According to the latest data, the number of BSFIs offering automated teller machines (ATMs), both the card and facility, increased from 166 in June 2023 to 172 in June 2024. The number of BSFIs providing other type of electronic payment and financial services (EPFS) such as PESONet, mobile banking, internet banking (retail and corporate), Instapay, electronic money issuers (EMIs), e-KYC onboarding, QR Ph, e-money (e-wallet), point of sale (POS) facility, among others, likewise increased.

Figure 12 presents the number of BSFIs offering EFPS as of June 2024 vis-à-vis June 2023.

Figure 12
Electronic Payment and Financial Services (EPFS)
as of end-periods indicated



Source: DSA

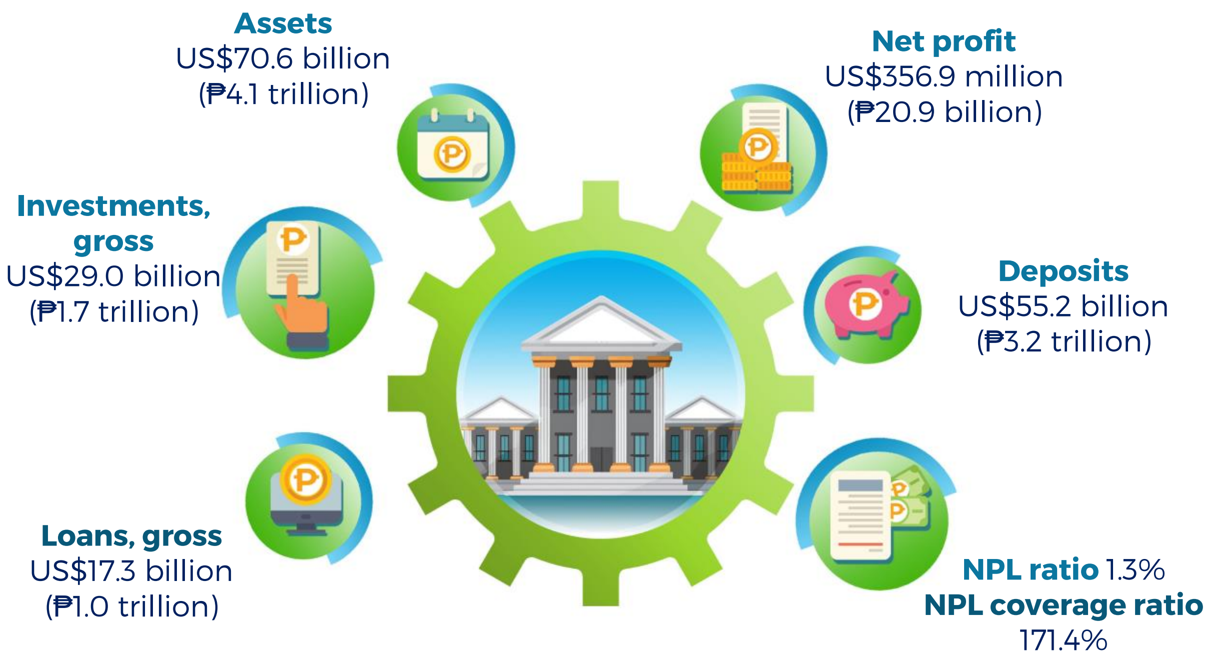
FOREIGN CURRENCY DEPOSIT UNIT OPERATIONS

The **robust growth in foreign currency deposit unit (FCDU) assets and deposits** points to increasing foreign currency activities in support of key productive sectors in the country.

Asset expansion, funded by residents' deposits, has enabled banks to continue catering the financial needs of their clients and support the lending and investment activities of their regular banking units.

Despite concerns over tight financing conditions and foreign exchange movement, lending to key productive sectors continued, with notable growth recorded in FCDU loans to the electricity, gas, steam, and air-conditioning supply, manufacturing, and transportation sectors. Amid this development, loan quality remained satisfactory, with a low non-performing loan ratio and ample provisions. Investments also picked up as banks aim to capitalize on expected policy rate cuts.

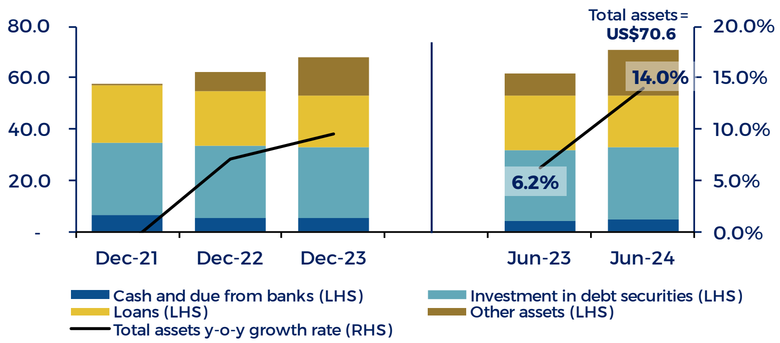
Overall, FCDU operations demonstrated resilience, generating a net profit despite higher funding costs.



Double-digit growth in assets bolsters RBU funding.

The total assets[1] of FCDUs surged to US$70.6 billion (₱4.1 trillion) in June 2024, an increase of 14.0 percent year-on-year (y-o-y)[2]. This surpassed the 6.2 percent rise in June 2023 and the 6.6 percent pre-pandemic growth rate[3]. The expansion was mainly driven by deposits and largely channeled to loans to regular banking units (RBUs), which rose significantly by 98.8 percent from US$8.3 billion (₱460.3 billion) in June 2023 to US$16.6 billion (₱971.6 billion) in June 2024.

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



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

As shown in *Figure 1*, banks maintained a diversified asset mix. Majority was in the form of investments in securities at 40.3 percent (US$28.4 billion), loans at 28.5 percent (US$20.1 billion), and cash and due from banks at 6.7 percent (US$4.7 billion) as of June 2024. Collectively, these accounts comprised 75.5 percent of FCDUs' total assets during the reference period, a decrease from the 85.3-percent share in June 2023.

*The **asset mix remains diversified** despite a notable rise in loans to RBUs.*

FCDUs' loans to RBU account, which form part of other assets, have been increasing since the easing of FCDU regulations in 2021.[4,5] The share of loans to RBUs rose from 13.5 percent (US$8.3 billion) in June 2023 to 23.5 percent (US$16.6 billion) of the total FCDU assets in June 2024. In terms of share to other assets[6], loans to RBUs reached 95.9 percent over the same period, higher than the 91.7 percent in June 2023.

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1 This amount is net of due from head office, branches, and agencies as well as due from FCDU and RBU.
2 All the discussed growth rates and reporting periods pertain to y-o-y and as of June 2024, respectively, unless otherwise stated. Similarly, discussions were based on the available data and information at the date of report preparation.
3 The pre-pandemic compounded annual growth rate was computed using December data from 2015-2019.
4 BSP Circular No. 1134 dated 28 December 2021 (Amendments to the Relevant Regulations on Foreign Currency Deposit System - Phase 2)
5 BSP Circular No. 1134 dated 28 December 2021 (Amendments to the Relevant Regulations on Foreign Currency Deposit System - Phase 2)
Noble, L.W.T. (2021, December 31). Central bank relaxes regulations on foreign currency deposit system, *Business World Online.* https://www.bworldonline.com/top-stories/2021/12/31/420937/central-bank-relaxes-regulations-on-foreign-currency-deposit-system/
6 The share of other assets to FCDU's total assets stood at 24.5 percent, 14.7 percent, and 8.8 percent in June 2024, June 2023, and June 2022, respectively.

The number of banks with FCDU and expanded FCDU (EFCDU) licenses increased to 77 in June 2024 from 76 in June 2023. Universal and commercial banks had the largest number of licenses at 44, of which two are FCDUs and 42 are EFCDUs. Meanwhile, there were 19 thrift banks, 11 rural and cooperative banks, and three digital banks with FCDU licenses.

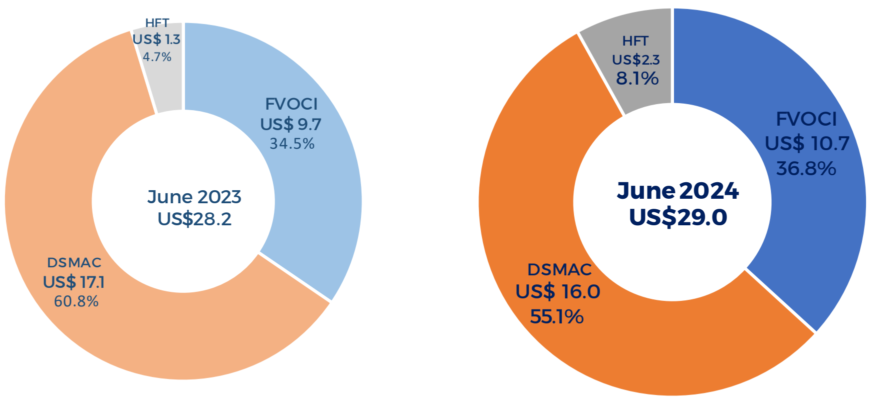
Banks shift to tradeable investments amid expectations of rate cuts.

Total investments went up by 2.9 percent (US$814.2 million) to US$29.0 billion (₱1.7 trillion) in June 2024, a reversal from the 0.1-percent decline a year ago. The expansion was largely driven by increases in financial assets held for trading (HFT) by 76.9 percent (US$1.0 billion) and financial assets measured at fair value through other comprehensive income (FVOCI) by 9.6 percent (US$932.5 million). Debt securities measured at amortized cost (DSMAC) continued to account for the largest share of FCDU's total investments at 55.1 percent (US$16.0 billion), followed by securities measured at FVOCI at 36.8 percent (US$10.7 billion). Financial securities HFT remained modest at 8.1 percent (US$2.3 billion).

Figure 2 presents the comparative share of investments per account classification as of June 2024 vis-à-vis June 2023.

Banks acquire more investments particularly tradeable debt securities.

Figure 2
FCDU Investments
June 2024 vs June 2023; in billion US dollar; share in percent

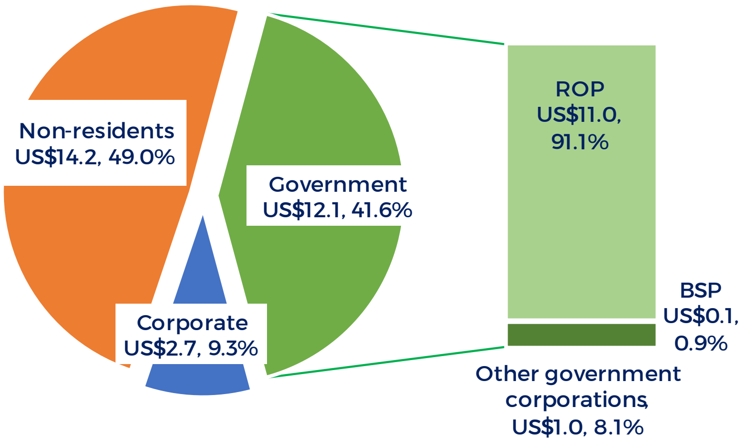


Source: DSA

The observed shift to tradeable investments particularly financial assets HFT, which are actively bought and sold for short-term gains, and financial assets measured at FVOCI, which allows for potential asset appreciation, aligns with banks' strategy to capitalize on higher bond prices from expectations of forthcoming policy rate cuts.

By counterparty, investments issued by non-residents[7] rose by 3.6 percent (US$0.5 billion, or ₱832.8 billion) to US$14.2 billion in June 2024, a reversal from the 3.5-percent decline a year ago. These investments accounted for 49.0 percent of the total investment portfolio, a marginal increase from the 48.7-percent share in June 2023. The rise in non-resident issued securities was driven by issuances from central banks and governments as the United States (US) Treasury expanded bond auctions in early 2024 to help cover the federal budget deficit[8].

Figure 3
FCDU Investments by Issuer/Counterparty
As of June 2024; in billion US dollar; share in percent



Source: DSA

Investments in securities issued by the Philippine government, mostly consisting of US dollar-denominated Republic of the Philippines (ROP) bonds, grew by 1.4 percent to US$12.1 billion (₱706.7 billion) in June 2024. This expansion was slower compared to the 9.4 percent in June 2023. As illustrated in *Figure 3*, Philippine government securities comprised 41.6 percent of the FCDUs investment portfolio, a decline from the 42.2-percent share in June 2023. Resident private corporations, which account for 9.3 percent (up from 9.1 percent in the previous year) of the FCDU investment portfolio, also increased by 6.0 percent to US$2.7 billion (₱158.7 billion). This was a reversal from the 17.5-percent decline in June 2023.

Lending activities decelerate amid market pressures.

Total loans[9, 10] declined by 2.4 percent to US$17.3 billion (₱1.0 trillion) in June 2024. This was a reversal from the 7.5-percent growth in the same period last year and the 10.9-percent pre-pandemic growth rate. The combination of tighter credit conditions[11], elevated interest

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7 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 consist of securities issued by central banks and central governments with a share of 57.3 percent (US$8.1 billion) and corporations with 27.5 percent (US$3.9 billion).

8 Financial Times (2024, February 01). *US Treasury to hold largest-ever bond auctions to plug budget deficit.* https://www.ft.com/content/df64622c-ecb0-46a9-8f26-84dac321d07f

9 This total includes loans and receivable-others as well as loans and receivables arising from repurchase agreements (RA), certificates of assignment/participation with recourse (CA/PR), and securities lending and borrowing (SLB) transactions.

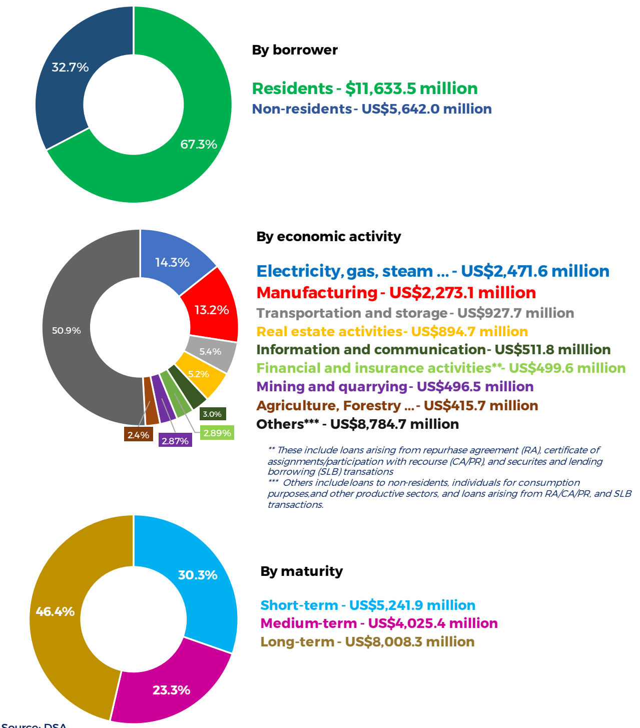
10 This total excludes interbank loans receivable (IBL) and loans to BSP.

11 The results of the Q2 2024 Senior Bank Loan Officers' Survey showed that lending standards for businesses generally reflected a net tightening mainly due to the deterioration of borrowers' profiles and the profitability of banks' portfolios.

rates, and reduced borrowing demand from some sectors dampened FCDUs' lending activities.

As shown in *Figure 4,* resident borrowers particularly from the productive sectors continued to tap banks for their financing requirements. As of June 2024, FCDUs' largest borrowers were from the electricity, gas, steam, and air-conditioning supply industry at 14.3 percent (US$2.5 billion). This was followed by manufacturing at 13.2 percent (US$2.3 billion), transportation and storage at 5.4 percent (US$927.7 million), real estate activities at 5.2 percent (US$894.7 million), and information and communication at 3.0 percent (US$511.8 million). Collectively, these sectors held a share of 41.0 percent (US$7.1 billion, ₱414.9 billion) of FCDUs' total loans.

Figure 4
FCDU Loans* by Borrower, Economic Activity, and Maturity
as of June 2024; in million US dollar; share in percent



Source: DSA

** FCDU loans exclude interbank loans receivable (IBL) and loan to BSP*

Loans to certain sectors experienced a decline amid the high interest rate environment. As of June 2024, loans to finance electricity, gas, steam, and air-conditioning supply, and financial and insurance activities, contracted sharply by 16.2 percent (US$476.2 million) and 47.1 percent (US$444.8 million), respectively. Nonetheless, the decline was tempered by double-digit growth in loans to the transportation and storage, real estate, and construction sectors by 84.7 percent (US$425.4 million), 38.7 percent (US$249.5 million), and 100.2 percent (US$103.3 million), respectively.

Nearly a third, or 37.1 percent, of FDCUs' total loans was granted to non-resident borrowers. This reflected 3.6-percent rise from US$5.4 billion in June 2023 to US$5.6 billion in June 2024.[13]

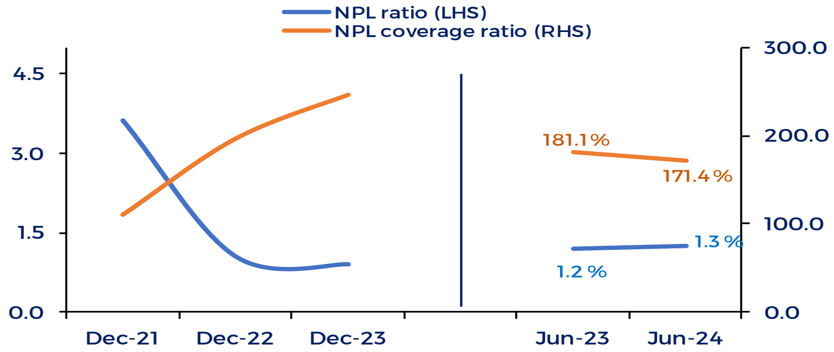
By tenor, loans with long-term maturity continued to account for nearly half of FCDUs' total loans at 46.4 percent (US$8.0 billion) as of June 2024. Meanwhile, the shares of medium- and short-term loans stood at 23.3 percent (US$4.0 billion) and 30.3 percent (US$5.2 billion), respectively. This structure underscores the sustained demand for financing large-scale projects, particularly in sectors showing robust growth such as power and energy, transportation, real estate, and construction.

[12] Loans to non-residents include loans arising from reverse repurchase transactions.

Banks sustain satisfactory loan quality, with a low NPL ratio and ample provisions.

Non-performing loan (NPL) ratio slightly increased from 1.2 percent in June 2023 to 1.3 percent in June 2024 (*Figure 5*). This was due to the combined effect of the 2.4-percent contraction (US$422.7 million) in loans and 1.9-percent growth (US$4.1 million) in NPLs.

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



Source: DSA
RHS - right-hand side
LHS - left-hand side

Movements in the FX exchange rate and higher borrowing costs may have contributed to a more cautious borrowing environment, as businesses and individuals focused on managing debt servicing costs. In June 2024, NPLs to the real estate, manufacturing, and agriculture, forestry, and fishing sectors, rose by 4,800.3 percent (US$28.8 million), 47.5 percent (US$24.8 million), and 4.8 percent (US$4.2 million), respectively. The deterioration in the loans to the real estate sector was driven in part by higher borrowing costs, which further strained bank borrowers' paying capacity. The pronouncement of the Philippine Offshore Gaming Operators (POGOs) ban amid regulatory crackdowns can temporarily affect property values, rental rates, and operations of real estate businesses.

Meanwhile, non-performing loans of non-resident borrowers dropped from US$23.8 million in June 2023 to zero in June 2024. This tempered the overall rise in NPLs of FCDUs.

Overall, loan quality remained satisfactory despite the uptick in NPLs. This was supported by banks' prudential credit risk management, risk governance standards, and precautionary measures, including the beefing up of provisions. As of June 2024, the NPL coverage ratio of the industry stood at 171.4 percent.

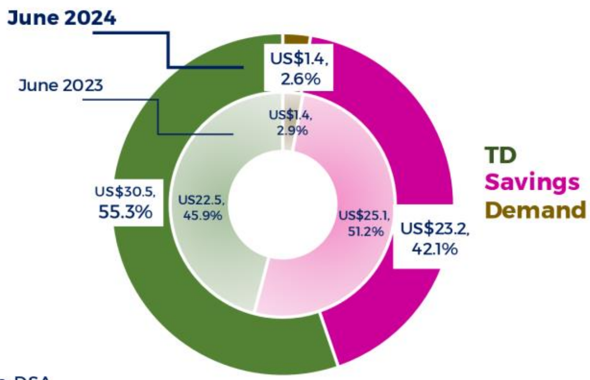
Banks continue to improve their credit risk management practices and maintain the quality of their portfolios.

Deposits reach an all-time high, fueled by TDs.

Total deposits hit a new record in June 2024, rising by 12.6 percent (US$6.2 billion) to reach US$55.2 billion (₱3.2 trillion). This exceeded the 5.1-percent increase in June 2023 and the 6.1-percent pre-pandemic growth rate. The expansion was mainly driven by a double-digit increase in time certificate of deposits (TDs), particularly from residents. As of June 2024, 97.6 percent (US$53.9 billion) of total deposits were sourced from resident individuals with a share of 53.1 percent (US$29.3 billion) and private corporations with 36.8 percent (US$20.3 billion). This deposit composition insulates the industry against potential funding withdrawals by common lenders in the global financial markets.

The deposit mix shifted notably towards TDs, which comprised more than half of total deposits at 55.3 percent (*Figure 6*), up from the 45.9-percent share in the previous year. TDs rose by 35.6 percent (US$8.0 billion) from US$22.5 billion in June 2023 to US$30.5 billion in June 2024 as investors sought to secure higher returns in anticipation of further monetary policy easing. Conversely, the proportion of savings and demand deposits dropped to 42.1 percent (US$23.2 billion), and 2.6 percent (US$1,4 billion), respectively. This deposit structure signals a growing preference toward higher-yielding deposits such as TD by depositors.

Figure 6
FCDU Deposits
June 2024 vs June 2023; in billion US dollar; share in percent



Source: DSA

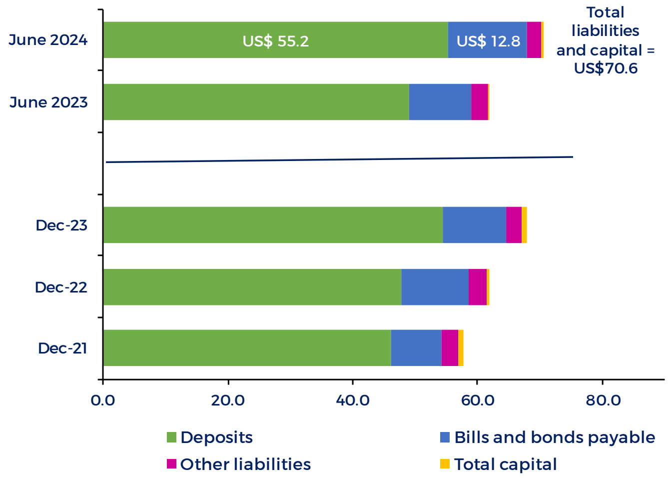
*TDs outpace savings deposits amid **depositors' preference toward higher-yielding investments.***

Other sources of borrowings remained modest with bills and bonds payable at 11.2 percent (US$7.9 billion) and 7.0 percent (US$4.9 billion), respectively, of total FCDU liabilities. Both bills and bonds payable, however, recorded substantial increases of 19.7 percent (US$1.3 billion) and 44.6 percent (US$1.5 billion), respectively, in June 2024.

Robust capitalization was also observed, with a 7.7-percent growth (US$25.09 million) in June 2024, primarily due to the 18.2-percent (US$98.5 million) reduction in unrealized losses booked under other comprehensive income. This improvement offset the 28.7-percent drop (US$144.7 million) in net income. Retained earnings likewise supported capital growth, increasing by 103.9 percent (US$71.0 million) and reversing the 35.4-percent (US$37.5 million) contraction in June 2023. This places banks' capital structure in a much healthier position to withstand economic downturns, absorb potential losses, and fuel future growth.

Figure 7 shows the composition of FCDU liabilities and capital as of June 2024 compared to June 2023 and prior years.

Figure 7
FCDU Liabilities and Capital
as of end-periods indicated; in billion US dollars



Source: DSA

Muted earnings due to high funding costs suppress overall performance.

Net profit dropped by 29.0 percent (US$145.7 million) to US$356.9 million (₱20.9 billion) for the period ending in June 2024, reversing the incremental growth of 0.9 percent in June 2023. This decline was largely on account of high funding costs particularly interest expense on TDs. The 8.6-percent increase in total interest income[13] lagged behind high borrowing costs, with interest expense on TDs[14] rising by 79.6 percent during the same period.

Subdued lending activity contributed to reduced profit for the period. As a result, the net interest margin narrowed from 2.1 percent in June 2023 to 1.6 percent in June 2024. The rise in non-interest earning assets (loans to RBUs) also impacted the FCDU profitability, with return on assets and cost-to-income ratio weakening to 1.2 percent and 16.4 percent, respectively, in June 2024 from 1.8 percent and 13.3 percent in June 2023.

Meanwhile, higher FX profits (up by 378.9 percent, or US$99.5 million), along with lower operating expenses[15], helped lift earnings. Fees and commission income also contributed to the increase in FCDUs' net profit, rising by 3.9 percent (US$1.9 million) from US$47.8 million in June 2023 to US$49.7 million in June 2024.

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13 Total interest income grew by 8.6 percent to US$1.2 billion (₱72.6 billion) for the period ending in June 2024, driven by banks' lending and investment activities. Interest income from loans (include IBL), DSMAC, and securities measured at FVOCI accounted for 48.6 percent (US$601.4 million, ₱35.2 billion), 23.9 percent (US$295.3 million, ₱17.3 billion), and 15.5 percent (US$192.3 million, ₱11.3 billion) of the total.

14 Total interest expense grew by 53.2 percent to US$872.5 million, for the six months ending in June 2024. Interest expense on TDs accounted for 59.8 percent of the total, rising up by 79.6 percent (US$231.3 million), followed by interest expense on bills payable at 20.6 percent (up by 34.3 percent, US$46.0 million).

15 Total operating expenses dropped by 4.1 percent (US$3.7 million) for the period ending in June 2024. Other administrative expenses comprised the largest portion at 67.1 percent (US$57.9 million), followed by compensation/fringe benefits at 16.7 percent (US$14.4 million) and fees and commission expenses at 8.1 percent (US$7.0 million).

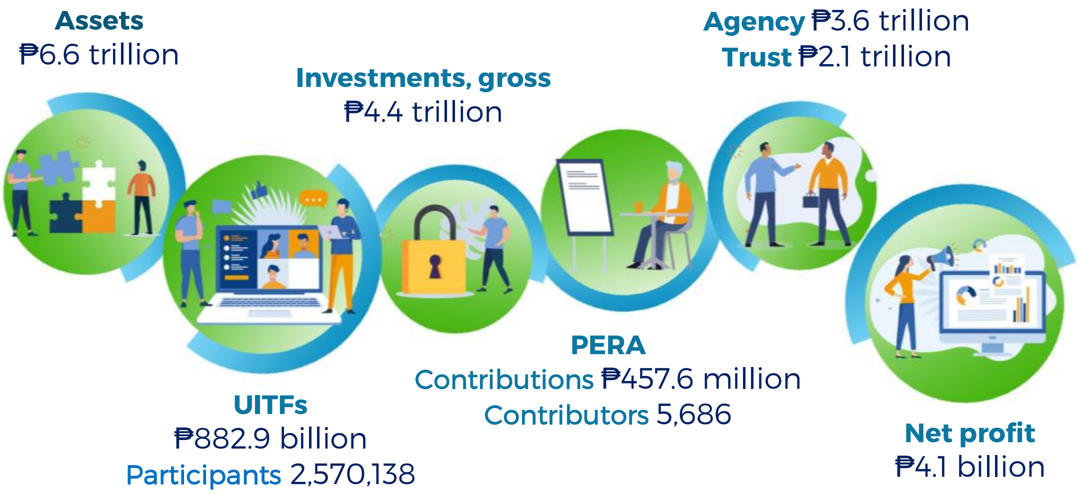
TRUST OPERATIONS

Sustained asset expansion indicates that **the industry continues to cater to the trust clients' growing demand**.

The industry's operations improved, with double-digit asset growth driven by agency accounts. These assets were highly liquid, particularly deposits in banks and investments in securities, and accounted for a quarter of the banking system's total assets. Alongside robust asset growth, the industry remains committed to innovating its products and services to cater to the changing preferences of its clients and expand its reach to onboard the tech-savvy generation.

Overall, the trust industry reported profitable operations, driven by strong revenues from fees and commissions which helped offset trust expenses.

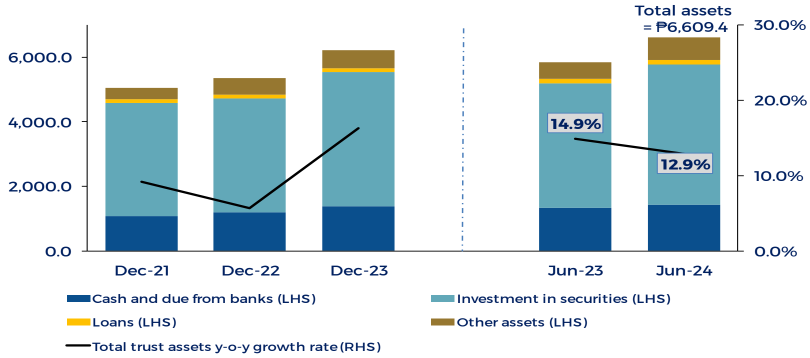
Meanwhile, the total Personal Equity and Retirement Account (PERA) contributions and the number of contributors continued to grow, although at a slower pace, as inflation and higher living costs influenced the savings and investment decisions of most Filipinos.



Double-digit growth in agency accounts continued to drive asset expansion.

Total assets reached ₱6.6 trillion in June 2024, with a growth rate of 12.9 percent year-on-year[1] (y-o-y). This is faster than the 10.4-percent pre-pandemic growth rate[2] but slower than the 14.9 percent growth rate in June 2023 (*Figure 1*). The 13.7-percent increase in placements in agency accounts drove the asset expansion. This trend is consistent with the positive growth outlook for assets under management as industry leaders anticipate monetary policy easing in the near term.[3]

Figure 1
Trust Asset Composition
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

Trust assets, which represented 25.2 percent of the banking system's total assets in June 2024, remained highly-liquid, with investments in securities[4] and cash and due from banks[5] comprising 65.9 percent (₱4.4 trillion) and 21.5 percent (₱1.4 trillion) of the industry's total assets, respectively. Meanwhile, loans, net of allowance for credit losses, continued to be minimal at 2.0 percent (₱134.9 billion).

*Sustained asset growth helped **the industry actively promote and innovate trust products and services** in the Philippine market.*

On the back of robust asset growth, the industry has been actively promoting and innovating trust products and services through its 29 trust entities[6] to meet the changing preferences of clients and leverage technology to onboard the tech-savvy generation.

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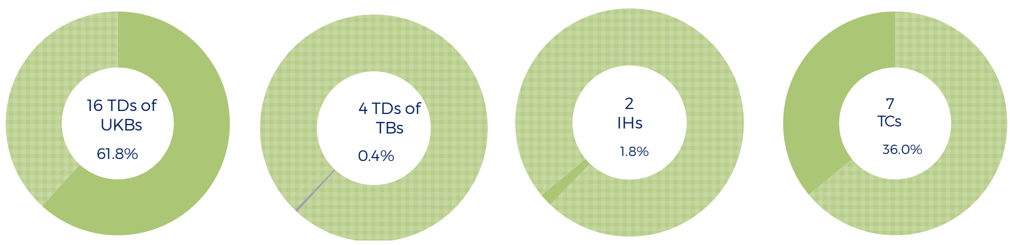
[1] All the discussed growth rates and reference period pertain to y-o-y, and as of June 2024, respectively. unless otherwise specified. Discussions were also based on the available data and information at the time of preparation.
[2] The pre-pandemic compounded annual growth rate (CAGR) is computed using December data from 2015-2019.
[3] Source: Trust Officers Association of the Philippines (TOAP)
[4] These were net of amortization and allowance for credit losses, as applicable, and accumulated gains/losses.
[5] These consisted of deposits in banks (₱1.4 trillion), as well as cash and due from BSP (₱425.4 million).
[6] These exclude six trust entities that were inactive (four trust departments [TDs] of universal and commercial banks [UKBs], one TD of thrift bank [TB], and one investment house [IH]).

As shown in *Figure 2*, these trust entities consist of 20 trust departments (TDs) of banks[7], which hold 62.2 percent (₱4.1 trillion) of the industry's total assets, and nine non-bank financial institutions (NBFIs). Of these NBFIs, there are seven trust corporations (TCs) and two investment houses (IHs), which comprise 36.0 percent (₱2.4 trillion) and 1.8 percent (₱118.1 billion) of the industry's total assets.

Figure 2
Asset Share of Trust Entities to Total Trust Assets
as of June 2024; in billion PH pesos; share in percent



Source: DSA

Total trust assets = ₱6,609.4

Government securities propelled the growth of investments.

Amid a high interest rate environment, the trust industry grew its portfolio of investments in government securities. This growth can be attributed with the continued preference of most trust clients in government securities, and their cautious investment stance to manage risk.

In June 2024, the industry's investment portfolio, which was mainly residents' issuances[8] and debt securities[9], grew by double-digit rates to ₱4.4 trillion, up by 12.9 percent or ₱499.2 billion. This growth rate exceeds the 9.0-percent growth rates posted in June 2023 and the 13.1-percent pre-pandemic growth rate. This was on account of the 28.3-percent (₱359.7 billion) increase in investments in government securities[10], which have been steadily growing for the past years. Despite this trend, the industry's investment mix remained largely from private corporations' issuances at 47.3 percent (₱2.1 trillion), although declining from 52.0 percent (₱2.0 trillion) in June 2023. In contrast,

***The industry remains optimistic**, expecting growth opportunities with the global easing of policy rate stance.*

7 These comprised 16 UKBs and four TBs.

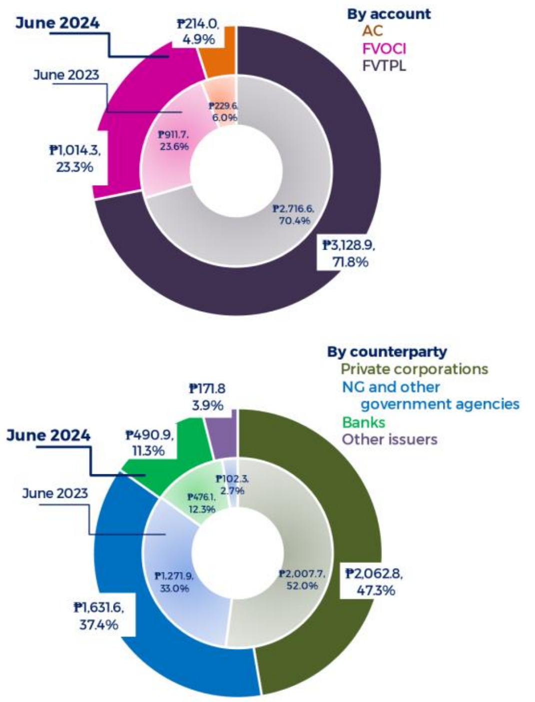
8 The share of investments issued by residents stood at 88.8 percent (₱3.9 trillion) in June 2024, declining from 90.6 percent (₱3.5 trillion) in June 2023. These comprised securities issued by the Philippine national government (NG) and other government agencies, banks, and private corporations.

9 Investments in debt securities, which grew by 14.0 percent to ₱3.0 trillion, accounted for the majority of the industry's investments at 68.4 percent in June 2024. Meanwhile, investments in equity securities stood at 31.6 percent (₱1.4 trillion), up by 10.6 percent over the same period.

10 Investment in government securities accounted for 37.4 percent, 33.0 percent, and 31.2 percent, respectively, of the industry's total investments in June 2024, June 2023, and June 2022. In June 2024, investments in government securities rose by 28.3 percent, surpassing the 15.4 percent growth recorded in June 2023.

the share of government securities, which include securities issued by the national government (NG) and other government agencies, rose to 37.4 percent (₱1.6 trillion) in June 2024 from 33.0 percent (₱1.3 trillion) in June 2023. The details are presented in *Figure 3*.

Figure 3
Trust Investments by Account and Counterparty
June 2024 vs June 2023; in billion PH pesos; share in percent



Source: DSA

Meanwhile, as to classification of investments (*Figure 3*), 71.8 percent (₱3.1 trillion) was in securities measured at fair value through profit or loss (FVTPL), while the remaining 23.3 percent (₱1.0 trillion) and 4.9 percent (₱214.0 billion) were in securities measured at fair value through other comprehensive income (FVOCI) and securities measured at amortized cost (AC), respectively. The larger proportion of FVTPL securities was mostly unit investment trust funds (UITFs) and retirement funds that require a valuation of their assets at fair value.[11] Despite this, the share of FVTPL securities has been declining in recent years due to increasing UITF redemptions.[12] In contrast, FVOCI securities have been increasing, given trust clients' preference for liquid investments and high returns.[13]

Trust clients prefer liquid and high-yielding investments.

[11] Source: TOAP
[12] The share of FVTPL securities stood at 71.8 percent, 70.4 percent, and 76.0 percent, respectively, in June 2024, June 2023, and June 2022.
[13] The share of FVOCI securities stood at 23.3 percent, 23.6 percent, and 20.2 percent, respectively, in June 2024, June 2023, and June 2022.

Agency accounts sustained double-digit growth and drove the expansion of trust accountabilities.

Total accountabilities grew by 12.9 percent and reached ₱6.6 trillion in June 2024, following the sustained increase in placements in agency accounts. This growth, however, slowed down from 14.9 percent in June 2023, as increasing competition from brokerage houses, treasury departments of banks, and fintech players, both domestic and foreign, posed challenges to the industry's operations[14]. As such, trust entities have been continuously improving and innovating their products and services to better cater to their clients' changing preferences and financial needs to remain competitive in the market.[15]

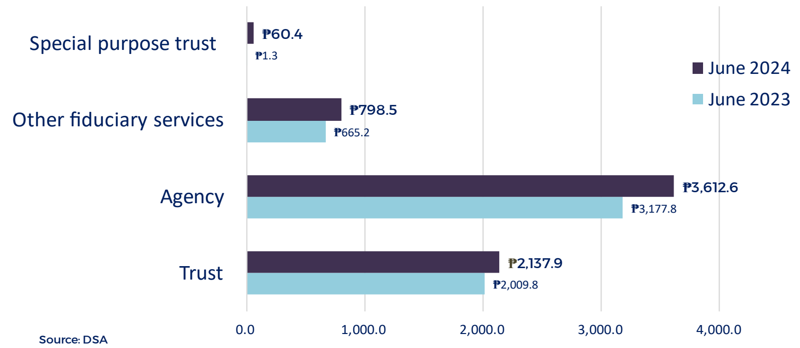
Notwithstanding this, industry leaders see growth opportunities in Filipinos' increased interest in investing and the availability of seamless digital investment platforms that provide more flexibility, especially for tech-savvy investors.

Industry leaders recognize the need to step up their digital readiness to attract a younger generation of investors.

As of June 2024, agency accounts continued to account for the largest portion of total accountabilities at 54.7 percent (₱3.6 trillion), growing by 13.7 percent (₱434.8 billion) from ₱3.2 trillion in June 2023. Trust accounts, meanwhile, held a 32.3-percent share, growing by 6.4 percent (₱128.2 billion) trillion from ₱2.0 trillion in June 2023 to ₱2.1 trillion in June 2024. One of the factors that contributed to the growth in trust accounts was the impact of a BSP policy[16,17] requiring e-money issuers that maintain sizeable e-money balances to hold a certain percentage of their unencumbered liquid assets in a trust account.[18] *Figure 4* provides a comparative presentation of the industry's accountabilities.

14 Source: TOAP
15 Source: TOAP
16 BSP Circular No. 1166 dated 07 February 2023 (Amendments to the Regulations on Electronic Money (E-money) and the operations of Electronic Money Issuers [EMIs] in the Philippines).
17 Business World Online (2023, February 09). *BSP sets liquidity, capital requirements for e-money issuers*. https://www.bworldonline.com/banking-finance/2023/02/09/503846/bsp-sets-liquidity-capital-requirements-for-e-money-issuers/
18 Source: TOAP

Figure 4
Trust Accountabilities
June 2024 vs June 2023; in billion PH pesos



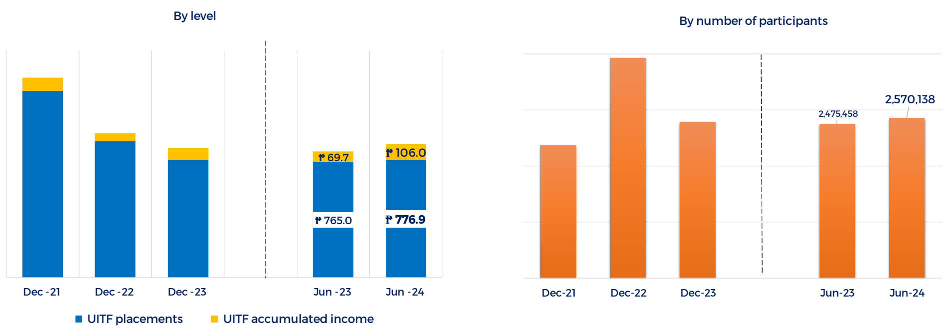
Source: DSA

Growth in UITFs remained muted, with a declining share to total trust accountabilities.

UITFs reached ₱882.9 billion in June 2024, up by 5.8 percent (₱48.2 billion), which is an improvement from the 31.9-percent contraction in June 2023. Despite the reported growth, the share of UITFs to the industry's total trust accountabilities continued to decline, dropping to 13.4 percent from 14.3 percent in June 2023 and 24.1 percent in June 2022. The declining share can be attributed to the continuing impact of the high interest rate environment, drawing investors to low-risk, short-tenor, and high-yielding investments.[19]

Along with the reduced share of UITFs, the number of financial institutions with a UITF license also dropped to 24 in June 2024 from 25 in June 2023. These financial institutions comprised 13 TDs of UKBs, holding the largest portion of UITFs at 55.1 percent (₱486.8 billion), eight NBFIs (44.8 percent, or ₱395.4 billion) and three TDs of thrift banks (TBs, 0.1 percent, or ₱0.7 billion). Most of the UITF assets were invested in FVTPL[20] securities at 82.2 percent (₱726.2 billion), followed by deposits in banks at 17.4 percent (₱153.2 billion).

Figure 5
Trust UITFs Level and Number of Participants
as of end -periods indicated; in billion PH pesos; number in absolute value



Source: DSA

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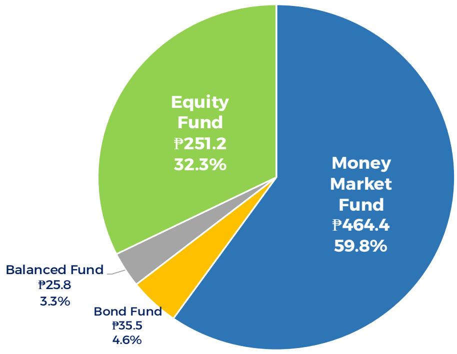
19 Source: TOAP

20 Majority of financial assets booked at FVTPL were debt securities issued by the BSP (33.6 percent, or ₱243.9 billion) and the NG (23.2 percent, or ₱168.5 billion), as well as equity securities issued by resident private corporations (18.4 percent, or ₱133.7 billion).

In terms of participation, both UITF placements and the number of UITF participants barely moved, recording minimal growth of 1.6 percent[21] (₱11.9 billion) and 3.8 percent (94,680 participants), respectively, to reach ₱776.9 billion and 2,570,138 in June 2024 (*Figure 5*). In contrast, the accumulated income, which recorded growth in almost all fund types, rose substantially by 57.5 percent (₱37.2 billion) to ₱106.0 billion, improving the UITFs overall performance.[22] With the anticipated policy rate cuts, the industry expects a boost in UITFs as trust clients may shift their investments from time deposits to long-term fixed-income securities, or even to a riskier equity security for higher returns.[23]

Figure 6
Trust UITF Principal per Fund Type
as of June 2024; in billion PH pesos; share in percent



By type of UITFs, money market funds continued to be the preferred UITF product of most trust clients. As of June 2024, the share of money market funds accounted for 59.8 percent (₱464.4 billion), with 1,279,830 participants, surpassing June 2023's 58.4 percent. As for the other UITF types, the shares of equity funds, bond funds, and balanced funds stood at 32.3 percent (₱251.2 billion, with 863,132 participants), 4.6 percent (₱35.5 billion, with 397,969 participants), and 3.3 percent (₱25.8 billion, with 29,207 participants), respectively.[24] *Figure 6* shows the distribution of UITF principal per fund type as of June 2024.

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21 The UITF placements in equity funds and money market funds expanded by 15.6 percent to ₱251.2 billion and 4.0 percent to ₱464.7 billion, respectively, in June 2024. These increases are a turnaround from the 16.4-percent and 48.0-percent decline recorded in June 2023. In contrast, the UITF placements in bond funds and balanced funds declined by 10.4 percent and 0.1 percent, respectively, in June 2024.

22 The marked-to-market UITF portfolio is impacted by changes in interest rates and foreign exchange rates, affecting the net asset value per unit across different types of UITFs. Gains from investments in securities of equity and money market funds largely contributed to the uptick in the total accumulated income of the trust industry.

23 Source: TOAP

24 The percentage shares of bond funds and balanced funds in June 2024 were lower than the previous year's 5.2 percent and 3.4 percent, respectively. In contrast, equity funds surpassed the 28.4 percent share in June 2023.

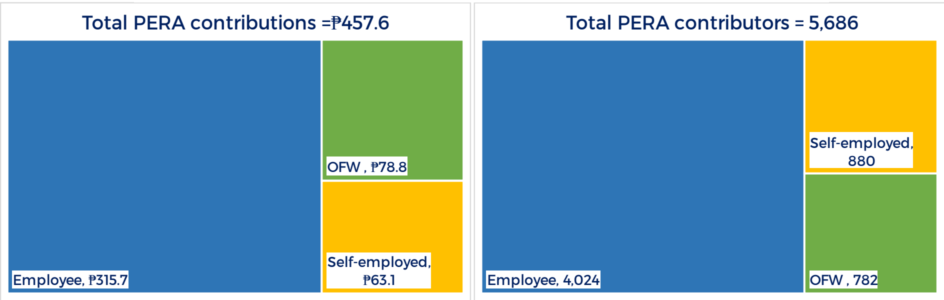
Growth of PERA investments moderated.

In June 2024, the total contributions for Personal Equity and Retirement Account (PERA) reached ₱457.6 million, up by 24.4 percent (₱89.6 million). The number of contributors for PERA also grew by 5.3 percent (284 contributors) reaching 5,686 contributors. Both growth rates however, slowed down from the recorded 30.0 percent (total PERA contributions) and 15.9 percent (number of PERA contributors) in June 2023. Inflationary pressures and higher living costs contributed to the sluggish movement in PERA investments, with Filipinos prioritizing needs over savings and investments. This translated to a reduced allocation of their disposable income to long-term retirement investments such as PERA.[25]

Inflation pressure and higher living costs affected the savings and investment decisions of Filipinos.

As shown in *Figure 7*, most PERA contributions remained largely from employed individuals, with total contributions of ₱315.7 million (69.0 percent) and 4,024 contributors (70.8 percent) as of June 2024. Self-employed individuals and overseas Filipino workers (OFWs) comprised the remaining share, with total contributions of ₱63.1 million (880 contributors) and ₱78.8 million (782 contributors), respectively, over the same period.

Figure 7
Trust PERA Contributions and Number of Contributors
as of June 2024; in million PH pesos



Source: BSP PERA Technical Working Group

Amid the slower take up, the BSP continuously promotes PERA through active financial literacy programs and campaigns. The Bank also partners with other financial institutions and government agencies to expand the PERA ecosystem and enhance its accessibility through digital platforms. Moreover, the BSP is featuring PERA as a pilot use case for open finance. This reinforces the BSP's strong commitment to providing platforms to promote retirement savings and long-term financial security for Filipinos[26].

[25] Source: PERA-Technical Working Group (TWG)
[26] Source: BSP PERA Technical Working Group

Profitable operations continued, supported by strong growth in fees and commissions from trust and agency accounts.

For the period ending in June 2024, the trust industry recorded a net profit of ₱4.1 billion, recovering with a 12.3-percent (₱444.7 million) growth from the 4.5-percent contraction in June 2023. This improvement was mainly from the 14.1-percent (₱1.0 billion) increase in fees and commissions from assets under management, enabling trust entities to partly offset the rise in their trust expenses. The industry's efficiency ratio[27], however, weakened to 55.9 percent in June 2024 from 53.7 percent recorded in June 2023 due to faster growth of trust expenses (up by 22.8 percent, or ₱954.7 million) compared to trust income (up by 18.0 percent, or ₱1.4 billion). The double-digit growth in fees and commissions was largely from trust and agency accounts[28] while trust expenses were driven by employee wages and benefits, and taxes and licenses[29].

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

[28] The upsurge in fees and commissions from trust accounts (17.4 percent, or ₱642.6 million) and agency accounts (7.8 percent, or ₱250.9 million) largely contributed to the double-digit growth in the industry's total fees and commissions in June 2024. Meanwhile, fees and commissions from other fiduciary services (19.3 percent, or ₱67.1 million), advisory/consultancy accounts (228.2 percent, or ₱66.5 million), and special purpose trust (20.0 percent, or ₱0.3 million) reported growth in the same period.

[29] Employee wages and benefits, and taxes, and licenses stood at ₱2.0 billion and ₱873.5 million, respectively, rising by 18.8 percent (₱314.3 million) and 45.8 percent (₱274.4 million) for the period ending in June 2024.

POLICY REFORM AGENDA

The Bangko Sentral ng Pilipinas (BSP)'s long history of financial reforms contributed to the continued soundness and resilience of the Philippine banking system.

The BSP is continually enhancing its regulatory and supervisory frameworks amid the developments in the financial system. It aims to promote an inclusive and safe financial environment where prudent innovations flourish and sustainability is mainstreamed. In relation to this, the BSP's strategic priorities aimed at promoting institutional stability, digitalization, and inclusive sustainable finance. These three (3) areas are mutually reinforcing. A stable financial system contributes to economic growth. Digitalization helps in making the financial system more efficient, effective, and inclusive. Meanwhile, practicing sustainability allows the benefits from a stable financial system to be enjoyed, by present and future generations, thereby contributing to meaningful growth of the economy.

The BSP's Policy Reforms

In the first half of 2024, the BSP issued policies in line with its strategic agenda. First, the stability of the banking system remains rooted on strong corporate governance and sound risk management.

The BSP heightened its requirements for banks to manage risks related to money laundering, terrorist financing, and proliferation financing (ML/TF/PF). In April 2024,

The BSP ramps up its efforts, with stricter AML regulations to ensure the integrity of the financial system.

enhanced regulations on Targeted Financial Sanctions[1] (TFS) were issued to strengthen existing measures on TFS implementation and risk-based supervision (*Box Article 1)*. Under this regulation, banks are obligated 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 United Nations (UN) Security Council resolutions or applicable laws and regulations. Supervised entities, including banks, are also required to submit an electronic report to the BSP within 24 hours of discovering any significant ML/TF/PF risk event. A guidance paper[2] was released in June 2024 providing illustrative examples to enhance policies, systems, processes, and controls for beneficial ownership identification and verification. These initiatives aim to uphold the integrity of the financial system, preventing the banking system from being used as a vehicle for ML/TF/PF.

The BSP amended the derivatives licensing framework[3] in May 2024, expanding the list of derivatives activities classified as generally authorized derivatives activity or GADA (*Box Article 2*). This amendment considers any financial derivative that is traded as GADA in an organized market, which would not require any license from the BSP. This will promote stability in the financial markets as it provides the menu of instrument that market participants could use to hedge their exposures.

Calibrated cyber resilience efforts combat cybersecurity threats amid rapid digital advancements.

Second, on digitalization, the BSP continues to be mindful that alongside the digital transformation, information technology risks and cybersecurity threats may undermine the integrity of the financial system. In response, the BSP has been pursuing cyber-resilience initiatives to preserve public trust and confidence and boost consumer protection. The recently launched 2024-2029 Financial Services Cyber Resilience Plan[4] (FSCRP) outlines the BSP's high-level goals and strategies for maintaining the integrity and security of the country's financial ecosystem. The passage of Republic Act (RA) No. 12010, or the Anti-Financial Account Scamming Act[5] (AFASA) was instrumental in the implementation of the

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1 BSP Circular No. 1193 dated 29 April 2024 (Amendments to Section 911/911-Q of the Manual of Regulations for Banks (MORB)/Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) - Money Laundering (ML)/Terrorist Financing (TF)/Proliferation Financing (PF) Risk Reporting and Notification Requirements)

2 BSP Memorandum No. M-2024-021 dated 20 June 2024 (Guidance Paper on Beneficial Ownership Due Diligence)

3 BSP Circular No. 1194 dated 29 May 2024 (Amendments to Derivatives Regulations of Banks, Quasi-Banks, and Trust Entities).

4 The BSP launched the Financial Services Cyber Resilience Plan (FSCRP) on 06 August 2024. The FSCRP serves as a comprehensive roadmap and primary framework aimed at enhancing the resilience of the financial services sector against cyber threats. It also outlines high-level goals and strategies essential for maintaining the integrity and security of the country's financial ecosystem.

5 RA No. 12010 or the AFASA was signed into law on 20 July 2024 and took effect on 11 August 2024. https://www.officialgazette.gov.ph/2024/07/20/republic-act-no-12010/

FSCRP. The AFASA aims to promote awareness of the proper use of financial accounts and to protect the public from cybercriminals and criminal syndicates who target financial accounts or lure account owners into becoming accessories or perpetrators of fraudulent activities. under Section 23 of the AFASA, a BSP Technical Working Group (TWG) was created to draft the AFASA implementing rules and regulations (IRR), in coordination with concerned agencies and upon consultation with relevant stakeholders. The issuance of the IRR is expected before the end of 2024.

The launch of taxonomy guidelines** to accelerate financing for eligible projects and activities **supports the country's commitment and SDGs.

Third, the BSP is committed to supporting the country's climate commitment and sustainable development goals (SDGs).

To complement the regulatory framework and incentives that support financing of eligible and sustainable projects and activities, the BSP has issued the Philippine Sustainable Finance Taxonomy Guidelines[6] (*Box Article 3*). The issuance of the taxonomy marks an important step in the Philippine's sustainability journey, providing supervised entities with high-level guidance in determining whether an economic activity is environmentally and socially sustainable and making informed investment or financing decisions.

Moreover, the BSP achieved another milestone with the opening of the first Islamic banking unit (IBU) and issuance of another IBU license to a commercial bank in the second half of 2024 (*Box Article 4*). This development reflects increased participation of domestic and foreign banks in Islamic banking, advancing the national government's financial inclusion agenda.

These policy initiatives prepare banks to take on a bigger role in supporting the growth of the domestic economy, serve their clients, and ultimately contribute to the improvement in the financial future of every Filipino.

Policy direction for 2024 and beyond

The BSP's strategic priority areas will continue to guide the prudential measures that would help equip banks and other supervised financial institutions to rise and navigate the challenges posed by an evolving banking landscape.

[6] BSP Circular No. 1187 dated 21 February 2024 (Philippine Sustainable Finance Taxonomy Guidelines).

The BSP will continue to enhance its corporate governance and risk management standards to safeguard institutional stability and resilience. These initiatives complement the existing supervisory frameworks, which consider the supervised entities' business model, risk profile and significant activities. The BSP will issue operational resilience standards for supervised banks in the fourth quarter of 2024 and continue its preparation for the National Risk Assessment on ML/TF. The BSP will also strengthen its macroprudential oversight and enhance the stress testing exercise to complement these reforms.

***The BSP leverages technology to digitalize its financial supervision processes** to gain better and timelier insights.*

Similarly, the BSP will continue to play a proactive part in providing a conducive environment for innovations and digital transformation of the financial system.[7] Parallel to this, the BSP will issue regulations on digital financial marketplace[8] , enabling banks and other qualified BSP-regulated/supervised entities to form strategic and meaningful partnerships with other financial service providers. This will allow them to offer a range of select financial products and services through a one-stop-shop digital platform. The BSP will also explore use cases of artificial intelligence for financial services. Meanwhile, the digitalization of supervisory processes is a top priority for the BSP in 2024, This will allow BSP to gain deeper and on-time insights to support evidence-based assessments of the financial system's inherent risks.

Finally, on the inclusive sustainability agenda, the BSP will strengthen the sustainability-related information architecture to promote transparency and comparability. The BSP will amend its regulations to enhance the sustainability disclosure requirements in line with the adoption of the International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards.

The taxonomy and disclosure requirements are important policy tools that establish safeguards to prevent greenwashing.

In partnership with the industry, the BSP will develop climate risk stress testing guidelines to improve the management of climate and environment-related risks. The BSP will also explore measures to promote the development of innovative sustainable finance solutions that are responsive to the country's financing needs for climate change adaptation and just

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[7] The BSP approved the lifting of the moratorium on the grant of new digital banking licenses in July 2024,, which will start on 01 January 2025. The BSP will allow a maximum of 10 digital banks (DGBs) to operate in the country. Since the issuance of the Digital Banking Framework in December 2020, six DGBs have been operating in the Philippines. With the lifting of the moratorium, an additional four licensees can be accommodated, coming from either new or converting banks. The decision aligns with the BSP's mandate of ensuring financial system stability complemented by greater financial inclusion and digital transformation.

[8] Anchored on implementing the Open Finance Framework, the BSP anticipates the emergence of new business models and arrangements that will further drive innovation and bring more value to customers. The adoption of a digital marketplace banking model will be underpinned by a sound governance and risk management system, including an effective information sharing arrangement to ensure that attendant risks are adequately managed, and consumer interests are protected.

transition. Relative to this, the BSP is finalizing the Guidelines for Sustainability-Themed Unit Investment Trust Funds (UITFs) by trust entities.

***Continued policy reforms and sustained cooperation and collaboration with BSP partners** to foster a resilient, dynamic, and inclusive financial system.*

The BSP will continue to pursue progressive prudential policy reforms to strengthen corporate and risk governance, uphold financial integrity and operational resilience in supervised financial institutions, promote responsible innovation, and mainstream inclusive and sustainable finance. The BSP will also work closely with industry partners, stakeholders, and key government agencies to advocate for necessary legislations.[9] The aim is to create a resilient, dynamic, and inclusive financial system that supports sustainable economic growth and development in the country.

[9] The BSP and other lead government agencies strongly supports the passage of the Bank Deposit Secrecy Law.

Box Article 1

Sustained Risk-Based Targeted Financial Sanctions Supervision

The Philippines is pursuing strategic initiatives to strengthen the implementation of targeted financial sanctions (TFS) toward maintaining the integrity of the country's financial system.

In recent years, laws were enacted to strengthen the implementation of TFS on terrorism, terrorist financing (TF), proliferation of weapons of mass destruction (WMD), and proliferation financing (PF). These include Republic Act (RA) No. 11479, or the Anti-Terrorism Act of 2020, and RA No. 11521, which amends the Anti-Money Laundering Act of 2001. These laws, along with implementing regulations, such as the 2021 Anti-Money Laundering Council (AMLC) Sanctions Guidelines, provide the legal anchor for the implementation of TFS.

Under these laws and regulations, TFS means both asset freezing and prohibitions to prevent funds or other assets from being made available, directly, or indirectly, for the benefit of designated persons and entities.

In the *International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation*[1], the Financial Action Task Force (FATF) has cited TFS requirements in its recommendations and identified "immediate outcomes".

FATF Recommendation 6 emphasizes that countries should implement TFS regimes in compliance with the relevant United Nations Security Council Resolutions (UNSCRs) and their successor resolutions on preventing and suppressing terrorism and terrorist financing.

Meanwhile, FATF Recommendation 7 states that countries should implement TFS to comply with UNSCRs related to the prevention, suppression, and disruption of proliferation and financing of WMD.

Immediate Outcome 10 cites measures to prevent terrorists, terrorist organizations, and terrorist financiers from raising, moving, and using funds; and from abusing the non-profit organization sector.

Lastly, Immediate Outcome 11 prevents persons and entities involved in the proliferation of WMD from raising, moving, and using funds, consistent with the relevant UNSCRs. Countries are assessed in terms of their technical compliance and effectiveness in implementing TFS.

[1] Financial Action Task Force (2012) International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation, FATF, Paris, France. https://www.fatf-gafi.org/content/dam/fatf-gafi/recommendations/FATF%20Recommendations%202012.pdf.coredownload.inline.pdf

On the supervisory front, the BSP has undertaken TFS-focused reforms to enhance the effectiveness of TFS implementation. These reforms include (a) enhancing TFS-related regulations and issuing of guidance papers to provide clear expectations on TFS implementation; (b) conducting sectoral and institutional risk assessments on TFS risk areas; (c) embedding TFS in the ongoing supervisory engagements, such as risk-based examinations, thematic reviews, and risk surveillance activities; (d) organizing capacity-building and literacy programs on anti-money laundering/countering terrorism and proliferation financing (AML/CTPF) for BSP-supervised financial institutions (BSFIs) and BSP supervisors; and (e) engaging BSFIs and counterpart regulators on timely exchange of risk information and alignment of action plans on TFS.

A critical component of TFS supervision is sustaining the BSFIs' understanding of TFS. For this purpose, BSP issued Circular No. 1182 dated 10 November 2023[2] to articulate key supervisory expectations on TFS implementation. The circular highlights the BSFI's obligation to freeze without delay all properties or funds of designated persons and prohibit their access to financial services or their funds.

Key supervisory expectations on TFS implementation:

freeze without delay

prohibit access to financial services/funds

At a minimum, the BSFIs are expected to implement TFS-related measures such as (a) adoption of sanctions policies and procedures; (b) maintenance of sanctions database; (c) conduct of sanctions screening; (d) adoption of name screening policies and procedures; and (e) implementation of de-listing and unfreezing orders from the AMLC and the United Nations Security Council or any of its committees.

The BSP also issued Guidance Papers (GPs) on TFS Implementation[3] highlighting best practices, scope for improvement, and major challenges on TFS implementation. The GPs also identified emerging typologies and red flag indicators related to terrorism, TF and PF, and the implementation of TFS. BSFIs are expected to use the GPs in strengthening their AML/CTPF controls to effectively implement TFS. Further, frequently asked questions on TFS[4] were also released to clarify specific areas of concern in the implementation of TFS for guidance of the BSFIs.

The positive outcomes of these activities are demonstrated in the overall improvement in the TFS framework of BSFIs, as manifested in their TFS risk assessment, policies and procedures, sanctions screening mechanisms, and training programs, among others. To sustain this momentum, the BSP recognizes the need for the central bank and its supervised institutions to continue enhancing these TFS-focused activities, along with building and maintaining critical infrastructures, skills, and resources.

[2] BSP Circular No. 1182, Series of 2023 (2023, Nov 03) (Phil.), https://www.bsp.gov.ph/Regulations/Issuances/2023/1182.pdf
[3] BSP Memoranda Nos. M-2021-015 (2021, March 16) (Phil.), - Guidance Papers on Managing TF and PF Risks and Implementation of TFS (MAAB - Guidance Papers on TF, PF and TFS (bsp.gov.ph); M-2022-0398 (2022 Sept 05) (Phil.), - 2022 Guidance Paper on Targeted Financial Sanctions (TFS) Implementation (2021 March 04) (Phil) (MAAB - 2022 Guidance Paper_dgsigned.pdf (bsp.gov.ph)
[4] BSP Memorandum No. M-2022-007(2022, Feb 02) (Phil.),; Memo to All BSFIs - FAQs on TFS_03Feb22 (bsp.gov.ph)

Box Article 2

The BSP: Supporting Capital Market Development by Facilitating Growth in the Domestic Derivatives Market

In line with the strategic objective of deepening the capital markets, the Bangko Sentral ng Pilipinas (BSP) continues to reshape its regulatory framework to support the growth of the derivatives market. Recent amendments provide BSP-supervised financial institutions (BSFIs) with greater flexibility to manage their risks and offer their clients a wider set of suitable investment opportunities.

The existing regulatory framework was introduced in 2008. Since the implementation of enhancements beginning in June 2021, there has been a marked increase in the derivatives activities of BSFIs. As of 30 June 2024, the total notional amount of stand-alone derivatives of universal and commercial banks had almost doubled from 31 March 2021, growing from ₱3.43 trillion to ₱6.65 trillion. The notional amount of embedded derivatives has likewise grown nearly 2.5 times over the same timeframe, from ₱5.65 billion to ₱13.80 billion.

The BSP's regulatory framework for derivatives

The BSP's regulatory framework for derivatives is based on the principle that a BSFI may engage in particular derivatives products, provided that the BSFI (a) can effectively manage the risk arising from the product and (b) has capital commensurate with the risk exposure arising from the product. Derivatives activities, the risks of which BSFIs are generally assumed to be capable of handling, are labeled as generally authorized derivatives activities or "GADA." BSFIs may engage in these activities without prior approval from the BSP. The regulations also define whether a BSFI can engage in GADA as a dealer, an end-user, or a broker.[1]

For more complex derivatives, a BSFI must be able to demonstrate that it has the necessary risk management framework and governance arrangements to address the related risk exposures. The BSFI's capability to manage the derivatives activity is assessed by the BSP through a licensing process, whereby the BSFI applies for additional derivatives authority from the BSP. The BSFI must be duly licensed for the particular derivatives product before it can transact in the product.

The additional derivatives authority that may be granted to a BSFI can be categorized into four types: type 1 is an expanded dealer authority; type 2 is a limited dealer authority; type 3 is a limited end-user authority; and type 4 is a limited broker authority. These represent the varying capacities in which BSFIs can engage in a derivatives product. BSFIs may simultaneously hold type 2, type 3, and type 4 authorities since these represent different capacities for specific instruments. However, a bank holding a type 1 authority does not need to secure other authorities, as this already encompasses derivatives transactions in all capacities. A BSFI is only granted a type 1 authority if it can demonstrate the strength of its governance arrangements and risk management framework for derivatives, enabling the BSFI to appropriately handle the exposures arising from a wide range of derivatives instruments.

[1] A dealer may originate and distribute certain types of derivatives, while an end-user may engage in derivatives for the purpose of hedging its own risk. Meanwhile, a broker facilitates derivatives transactions between dealers and market/institutional counterparties or sophisticated individual clients.

The BSP's licensing framework for derivatives has been amended in recent years with the issuance of Circulars No. 1119 and 1194, dated 07 June 2021 and 24 May 2024, respectively. The amendments have broadened the list of derivatives activities classified as GADA and streamlined the licensing process. (See *Table 1*: Generally authorized derivatives activities as of 13 June 2024.)

Expanding GADA

The amendments follow the principle that if a derivatives product will not require substantially different risk management techniques from the current list of products that the BSFI is allowed to engage in, the BSFI does not need to seek the BSP's prior approval of the product. The resulting list of products considered as GADA is as follows:

- deliverable foreign exchange (FX) forwards, FX swaps, currency swaps, interest rate swaps, forward rate agreements, and interest rate and currency futures, regardless of tenor, for universal and commercial banks (UKBs) acting as dealers;
- non-deliverable forwards (NDFs) for UKBs acting as dealers, the inclusion of which takes into consideration the existence of prudential safeguards on NDF exposures;
- financial derivatives traded in an organized market where the UKB is recognized as a dealing participant or member; and
- structured products (SPs) that are denominated in PHP but settled in USD for UKBs in an end-user capacity, subject to the instruments' booking in the regular banking unit (RBU).

The limit in investments in SPs and credit-linked notes (CLNs) of trust departments of UKBs was also adjusted from 50.0 percent of the assets of individual accounts to 20.0 percent of the total assets managed by the trust department. This provides more flexibility for trust clients to engage in these instruments as they wish.

Streamlining the licensing process

Under the previous regulatory regime, BSFIs that wanted to engage in derivatives products not covered by their existing authorities were required to apply to the BSP for an additional license. The licensing process involves, among others, a thorough review of the BSFI's risk management framework and governance practices concerning the derivatives products being applied for.

Recognizing that expectations regarding governance and risk management may not vary substantially across a subset of derivatives products, the BSP has also introduced a notification process for derivatives. BSFIs that previously had to undergo the licensing process repeatedly while seeking to engage in variants and structures of derivatives products already covered by an existing license are now only required to notify the BSP before engaging in the said variant/structure.[2] (see *Table 2*: Activities requiring notification as of 13 June 2024)

This revised approach has resulted in a substantial decrease in cases of BSFIs having to undergo the full derivatives licensing process. Since its introduction in 2021 and further expansion in 2024, the notification process has been employed 11 times by different BSFIs.

Future direction for derivatives regulations

Further amendments to the derivatives regulations are yet to come. In addition to an anticipated liberalization in FX derivatives regulations, there will also be amendments to the trust regulations that will allow unit investment trust funds to use financial derivatives more broadly.

[2] A variant refers to an instrument resulting from a change in features of the authorized product in which the BSFI is allowed to transact. Such changes in features typically involved a change in (i) the timing and amount of cash flows, (ii) the commencement of the contract, or (iii) the basis of payments. A structure, on the other hand, is a combination of (i) two or more separate stand-alone derivatives contracts, or (ii) stand-alone derivatives contract/s and a plain vanilla cash instrument.

This policy direction aims to support increased transactions in the derivatives market and provide more avenues for market participants to hedge their other financial transactions. The goal is that all of this will lead to a deeper and more vibrant Philippine capital market.

Table 1: Generally authorized derivatives activities as of 13 June 2024

UKBs

As Dealer	As End-user	As Broker
1. deliverable foreign exchange (FX) forwards and FX swaps 2. non-deliverable FX forwards and FX swaps 3. currency swaps 4. interest rate swaps and forward rate agreements 5. interest rate and currency futures; and 6. any financial derivative traded in an organized market where the UKB is recognized as a dealing participant or member	1. Any derivatives transaction for hedging its own risks 2. Position-taking for its own account in financial instruments enumerated under "Dealer" 3. Taking long positions in naked FX options 4. Investing for own account in principal-protected FX-denominated SPs with revenue streams linked to interest rate indices, interest rate instruments, listed equity shares or indices, FX rates, credit rating or index, or gold with contractual maturity of up to five (5) years and plain vanilla single-name CLNs where the reference asset is an obligation issued or guaranteed by the Republic of the Philippines (ROP) 5. Global peso notes booked under RBU 6. Transactions involving warrants issued under the ROP's "Paired Warrants Program"	Facilitating derivatives transactions between dealers and market and/or institutional counterparties and/or sophisticated individual end-users

Digital Banks, Thrift Banks (TBs), Rural Banks (RBs) and Cooperative Banks (CBs)

As End-user

1. derivatives transactions with BSP-authorized dealers and brokers solely for hedging purposes
2. transactions involving warrants issued under the ROP's "Paired Warrants Program"

Trust Department of UKBs

As Institutional Counterparty on behalf of its trustor/principal/s, as may be authorized by such trustor/principal/s

1. any financial derivatives instrument solely for hedging purposes
2. deliverable FX forwards, FX swaps, and currency swaps
3. interest rate swaps, forward rate agreements, and analogous financial futures
4. principal-protected FX-denominated SPs with revenue streams linked to interest rate indices, interest rate instruments, listed equity shares or indices, FX rates, credit rating or index, or gold with contractual maturity of up to five (5) years
5. plain vanilla single-name CLN where the reference asset is an obligation issued or guaranteed by the ROP

Table 2: Activities requiring notification as of 13 June 2024

1. any variant of a stand-alone derivative for which a (a) UKB is allowed to transact in as part of its generally authorized derivatives activities (GADA) as dealer; (b) bank has an existing type 2 or type 3 additional derivatives authority; (c) trust department of a UKB is allowed to transact as part of its GADA; or (d) trust department has an existing type 3 additional derivatives authority
2. a structure or combination of (i) two or more separate stand-alone derivatives contracts or (ii) stand-alone derivatives contract/s and a plain vanilla cash instrument where the instruments are offered or distributed together and where (all of) the derivative(s) is (are) either part of a (a) UKB that is allowed to transact in as part of its GADA as dealer; (b) bank's existing type 2 or type 3 additional derivatives authority; (c) trust department's GADA; or (d) trust department's existing type 3 additional derivatives authority
3. a structured product n where the embedded derivative/s differ(s) from that of the product approved under a (a) bank's existing type 2 or type 3 additional derivatives authority or (b) trust department's existing type 3 additional derivatives authority

Box Article 3

Philippine Sustainable Finance Taxonomy Guidelines: A Tool for Sustainable Finance Growth

As an emerging economy vulnerable to the negative effects of climate change, the Philippines prioritizes adaptation and resilience-building in designing its climate change actions and strategies. Climate change mitigation is also prioritized, considering its environmental co-benefits and contribution to green economic transformation.[1]

The nationally determined contribution and National Adaptation Plan

The Philippines, through its nationally determined contribution (NDC), commits to reducing and avoiding greenhouse gas emissions by 75 percent. Of this total, 2.71 percent are unconditional commitments, while 72.29 percent are conditional on international support for the energy, transport, waste, industry, and agriculture sectors. The National Adaptation Plan (NAP) aims to reduce the country's vulnerability to climate change by bolstering adaptive capacity, fostering resilience, and integrating adaptation into relevant policies and programs, particularly in the following areas [2]:

- agriculture, fisheries, and food security
- cultural heritage, population displacement, and migration
- water resources
- land use and human settlements
- health
- livelihoods and industries
- ecosystems and biodiversity
- energy, transport, and communications

Funding the implementation

Implementing the NDC and NAP requires substantial funding. The World Bank estimates a total of US$168 billion in financing opportunities to achieve the country's climate goals.[3] This is equivalent to an annual investment of US$17 billion from 2020 to 2030.

The private sector plays a crucial role in narrowing this gap. Since 2017, Philippine banks have actively issued thematic green, social, sustainability, and blue bonds to contribute to these financing needs.

[1] Climate Change Commission & Department of Environment and Natural Resources. (2023). *Implementation plan for the Republic of the Philippines' nationally determined contribution 2020-2030.* https://www.climate.gov.ph/public/Knowledge/ThePhilippines'NDCImplementationPlan072024.pdf

[2] Climate Change Commission & Department of Environment and Natural Resources. (2023). *National Adaptation Plan of the Philippines 2023–2050.* https://unfccc.int/sites/default/files/resource/NAP_Philippines_2024.pdf

[3] The World Bank Group. (2022). *Philippines: Country climate and development report.* https://hdl.handle.net/10986/38280

The sustainable finance taxonomy

The sustainable finance taxonomy is a useful tool for directing capital from various sources—such as banks, financial institutions, multilateral development organizations, bond issuers, and other finance providers—toward activities that promote sustainability objectives.

A sustainable finance taxonomy is a classification system for identifying activities, assets, and project categories that deliver on key climate, green, social, or sustainable objectives according to established thresholds and targets.[4] With its highly evolving nature, the taxonomy is often an iterative instrument that responds to technological and scientific knowledge changes.

By providing definitions and guidance on what constitutes "sustainable," a sustainable finance taxonomy serves as a useful reference for:

- identifying activities that contribute to taxonomy objectives or organizational sustainability initiatives;
- allocating and orienting capital;
- making investment or asset selection decisions;
- creating, structuring, tracking, and labeling taxonomy-eligible products and activities;
- developing regulatory guidance on risk management and sustainability disclosures; or
- supporting national sustainability initiatives.

The Philippine Sustainable Finance Taxonomy Guidelines

To ensure an enabling environment for the promotion and growth of the sustainable finance market in the country, the Bangko Sentral ng Pilipinas (BSP), the Securities and Exchange Commission (SEC), and the Insurance Commission (IC), under the Financial Sector Forum, developed the Philippine Sustainable Finance Taxonomy Guidelines (SFTG).

The SFTG operationalizes one of the recommendations from the Philippine Sustainable Finance Roadmap, particularly the development of a sustainable finance taxonomy. It also expands the Philippine Sustainable Finance Guiding Principles, which provide high-level guidance for identifying economic activities that support sustainable development, with a focus on addressing the impacts of climate change.

The highlights of the SFTG are as follows:

- adopts a principles-based approach, which employs decision trees and guide questions to assess economic activities;
- leverages the country's NDC and NAP for focus sectors or areas;
- aligns with the Foundation Framework of the Association of Southeast Asian Nations (ASEAN) Taxonomy for Sustainable Finance;
- focuses initially on climate change mitigation and adaptation as environmental objectives (EOs);
- requires economic activities to meet the ASEAN Taxonomy's essential criteria of:
    - Do No Significant Harm (DNSH),
    - Remedial Measures to Transition (RMT), and
    - Minimum Social Safeguards (MSS);

[4] ICMA. (2021). Overview and Recommendations for Sustainable Finance Taxonomies. https://www.icmagroup.org/assets/documents/Sustainable-finance/ICMA-Overview-and-Recommendations-for-Sustainable-Finance-Taxonomies-May-2021-180521.pdf

- explores a simplified approach for assessing the activities of micro, small, and medium-sized enterprises; and
- uses a "traffic light" system to classify economic activities as:

Green – activity makes a substantial contribution to climate change mitigation or adaptation and meets the prescribed essential criteria,

Amber – activity is transitioning to address potential or actual significant harm to another EO or just transitioning to a low-carbon or climate-resilient strategy, or

Red – activity does not align with SFTG parameters, particularly the DNSH and MSS criteria, but may still be eligible for unlabeled financing.

The SFTG will be regularly reviewed and updated to reflect the latest developments in sustainable finance and incorporate new government policies and sustainability targets. These include additional EOs, such as biodiversity and circular economy, and the potential adoption of technical screening criteria.

Issuance of Circular No. 1187

The BSP issued Circular No. 1187, or the "Philippine Sustainable Finance Taxonomy Guidelines," on 21 February 2024. The circular provides an observation period that allows banks to deepen their understanding of and familiarity with the SFTG prior to its effectivity. Moving forward, banks may use the SFTG in their credit-granting activities, investment decisions, and design of sustainable finance products and services, among others.

To aid in the implementation of the SFTG, the BSP will develop additional use cases for climate change adaptation financing and guidance on the integration of the taxonomy into the banks' credit risk cycle and related reporting tools. The information gathered will also provide valuable inputs for expanding the SFTG's usability in supervising climate and environmental risks.

Box Article 4

The Business Model of Islamic Banking Units in the Philippines

The Bangko Sentral ng Pilipinas recognizes the need for a critical mass of Islamic banking players capable of providing a wide range of competitive and innovative Islamic banking products and services to viably operate alongside conventional banking counterparts. To achieve this, the prudential approach calls for flexibility in licensing new Islamic banking players by allowing the establishment of both full-fledged Islamic banks (IBs) and Islamic banking units (IBUs) of any type of conventional bank.

The flexibility and progressiveness of BSP's approach are evident in its allowing a conventional bank to engage in Islamic banking operations through a division, department, office, or branch called the IBU or IB window. It should be noted that while an IBU is essentially a part of a conventional bank, it is clothed with all the powers and authorities of an IB under Section 101 of the Manual of Regulations for Banks (MORB). Under the existing regulation, IBU/IB is authorized to directly enter into Islamic contracts involving exposures to different industries, as long as these industries are non-haram. This includes contracts consisting of sales transactions, partnerships, agency, and other financing arrangements with profit-sharing features. This authority is in addition to the general powers of a UB that are consistent with the principles of *Shari'ah*.[1] With prior Monetary Board (MB) approval, IBs and IBUs can issue investment participation certificates, *sukuk*, and other *Shari'ah*-compliant funding instruments to be used in Islamic banking operations or capital needs.

To ensure a level playing field for IBs, IBUs, and conventional banks, the BSP adopted a single regulatory approach wherein IBs and IBUs are covered by the same regulations as conventional banks, as applicable, with due consideration of the principles of *Shari'ah*. This follows a flexible and progressive approach to supervision.

[1] Powers of IB and IBUs are provided under Section 6 of RA No. 11439.

In 2024, two conventional banks[2] formally launched their Islamic banking operations by establishing an IBU with different business models and approaches.

The first IBU licensed by the MB adopted an IBU business model with a dedicated Islamic banking branch and an incentive to increase its Islamic banking branches as needed. The dedicated Islamic banking branch was strategically located in Cotabato City as part of the bank's expanded financial inclusion agenda and its mission to eradicate poverty in the country.

The IBU is gradually transitioning the conventional bank's existing microfinance portfolio into a wide array of Islamic financing products after clearance from its own *Shari'ah* Advisory Council. This approach aims to expand the onboarding of people from Muslim-dominated regions into the Islamic banking system. The IBU is seamlessly launching basic Islamic products and services, including *wadi'ah* deposit accounts, term investment deposits, micro-agricultural financing, and micro-enterprise financing, among others.

Meanwhile, the most recently licensed IBU adopts an approach aimed at ensuring increased touchpoints with clients by utilizing economies of scale and deploying Islamic banking-designated desks across its existing conventional branches and branch-lite units. The IBU leverages the expertise and infrastructure of its parent foreign Islamic bank to ensure a quick but prudential rollout of Islamic banking products and services that have passed the Shari'ah compliance review by the parent bank. The roadmap of the IBU was strategically set to start by building its Islamic deposits before offering to the market the Islamic financing products and services offered by the parent bank, with relevant customization to cater to the domestic market. The unique approach of integrating Islamic banking into its conventional operations is expected to expand Islamic banking operations with cost-saving measures to cater to a variety of customer preferences and needs. This promotes financial inclusivity and sustainable economic development in communities it serves. The IBU targets its Islamic banking operations in selected cities and municipalities across the country.

It is anticipated that incoming Islamic banking players will explore other IBU business models appropriate to respond to market demand, given the untapped potential of Islamic banking and finance in promoting inclusive growth. At the minimum, the IBUs enhance prospects for conventional banks to venture and provide *Shari'ah*-compliant products and services in a flexible and prudential manner, which can onboard more Filipinos into the formal financial system of the country.

[2] Card Bank, Inc. (A Microfinance - Oriented Rural Bank) [CRDMF] and Maybank Philippines, Incorporated (MBPI).

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			end-June			
	2021	2022	2023	2023	2024	2023	2024
On-Balance Sheet							
Total Assets [1]	**20,828.1**	**23,047.7**	**25,165.9**	**23,295.4**	**26,194.5**	**9.1%**	**12.4%**
Cash and due from banks	3,571.5	3,271.7	2,918.9	2,870.9	2,748.3	0.6%	(4.3%)
Investments, gross	5,497.9	6,470.0	7,082.4	6,878.1	7,610.8	9.4%	10.7%
Financial Assets, gross (net of amortization)	5,221.0	6,207.5	6,786.4	6,602.7	7,305.5	9.2%	10.6%
Securities measured at fair value through profit or loss	255.3	207.81	272.9	372.8	539.8	8.3%	44.8%
Securities measured at fair value through other comprehensive income	2,337.5	2,194.78	2,495.8	2,265.9	2,761.5	(2.8%)	21.9%
Securities measured at amortized cost	2,628.2	3,804.91	4,017.7	3,964.0	4,004.2	17.5%	1.0%
Accumulated market gains/(losses)	(4.5)	(122.8)	(49.1)	(89.5)	(68.2)	(7.9%)	(23.8%)
Allowance for credit losses	20.7	17.7	14.7	17.8	14.5	(14.1%)	(18.5%)
Financial Assets, net	5,195.9	6,066.9	6,722.6	6,495.5	7,222.8	9.5%	11.2%
Equity investments in subsidiaries, associates and joint ventures, net	276.9	262.5	296.0	275.4	305.3	14.1%	10.8%
Investments, net	5,472.8	6,329.4	7,018.6	6,770.9	7,528.1	9.7%	11.2%
Loans, gross	11,391.1	12,625.1	13,859.9	12,743.4	14,319.5	8.8%	12.4%
Allowance for credit losses	396.8	426.7	456.9	445.1	479.5	8.8%	7.7%
Loans, net	10,994.3	12,198.4	13,403.0	12,298.3	13,840.0	8.8%	12.5%
Real and other properties acquired, net	95.9	104.3	106.5	102.3	109.4	2.6%	6.9%
Other assets, net	693.6	1,143.9	1,718.8	1,252.9	1,968.7	36.7%	57.1%
Total Liabilities	18,254.2	20,341.3	22,097.0	20,434.1	23,031.0	8.9%	12.7%
Financial liabilities held for trading	43.7	72.9	57.0	65.0	80.2	(33.4%)	23.4%
Deposits liabilities	16,241.1	17,770.4	19,032.7	17,824.4	19,517.5	8.1%	9.5%
Peso liabilities	13,857.9	15,065.4	15,974.8	15,079.8	16,218.5	8.5%	7.6%
Foreign currency	2,383.2	2,704.9	3,057.8	2,744.6	3,299.0	5.7%	20.2%
Due to banks/others	181.9	114.4	164.3	145.9	172.1	51.9%	18.0%
Bills payable	496.9	666.0	780.2	669.4	937.6	39.0%	40.1%
Bonds payable	613.8	578.2	496.3	487.5	544.9	(24.3%)	11.8%
Unsecured subordinated debt	22.6	19.3	8.1	19.3	8.1	(14.5%)	(57.9%)
Redeemable preferred shares	0.2	0.3	0.3	0.3	0.3	(0.7%)	3.9%
Derivatives with negative fair value held for hedging	0.3	4.4	8.1	4.7	3.6	255,968.5%	(24.3%)
Other liabilities	653.5	1,115.6	1,549.9	1,217.6	1,766.6	30.1%	45.1%
Total Capital Accounts [2]	2,574.0	2,706.4	3,068.9	2,861.2	3,163.5	11.0%	10.6%
Total Off-Balance Sheet Accounts	12,171.3	13,344.5	15,461.5	14,901.4	18,230.4	0.0%	22.3%
Income Statement							
Total operating income	869.4	1,014.5	1,137.8	552.4	610.3	17.2%	10.5%
Net interest income	661.8	754.7	915.6	437.8	505.8	23.6%	15.5%
Non-interest income	207.6	259.9	222.3	114.6	104.5	(2.1%)	(8.8%)
Non-interest expenses	512.4	562.4	645.1	309.7	341.2	16.0%	10.2%
(Losses)/recoveries on financial assets	(97.7)	(88.6)	(84.2)	(35.1)	(44.9)	(6.7%)	27.9%
Net profit before share in the profit/(loss) of unconsolidated subsidiaries, associates and joint ventures	259.3	363.5	408.5	207.6	224.2	24.5%	8.0%
Share in the profit/(loss) of unconsolidated subsidiaries, associates and joint ventures	20.7	23.8	27.3	14.1	14.3	25.0%	1.3%
Total profit/(loss) before tax and before minority interest	280.1	387.4	435.7	221.7	238.5	24.5%	7.6%
Income tax expense	55.3	77.3	79.2	38.9	48.2	11.5%	23.9%
Total profit/(loss) after tax and before minority interest	224.8	310.1	356.5	182.8	190.3	27.7%	4.1%
Minority interest in profit/(loss) of subsidiaries	-	-	-	-	-		
Net profit/(loss) after tax and minority interest	224.8	310.1	356.5	182.8	190.3	27.7%	4.1%

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

Appendix 2
The Philippine Banking System: Selected Performance Indicators
as of end-periods indicated; ratio in percent

	end-December			end-June	
	2021	2022	2023	2023	2024
Asset Quality					
Restructured loans to total loan portfolio (TLP)	3.1%	2.6%	2.2%	2.5%	2.1%
Allowance for credit losses (ACL) to TLP	3.5%	3.4%	3.3%	3.5%	3.3%
Non-performing loan (NPL) ratio	4.0%	3.2%	3.2%	3.4%	3.5%
NPL ratio (net of interbank loans receivables)	4.1%	3.2%	3.3%	3.5%	3.6%
NPL coverage ratio	87.7%	107.0%	101.7%	101.7%	95.4%
Non-performing asset (NPA) ratio	2.7%	2.2%	2.3%	2.4%	2.4%
NPA coverage ratio	75.3%	87.9%	85.1%	85.2%	81.1%
Profitability					
Earning asset yield [1]	4.1%	4.4%	5.8%	5.3%	6.2%
Funding cost [2]	0.7%	0.9%	1.9%	1.5%	2.1%
Interest spread [3]	3.4%	3.5%	3.9%	3.8%	4.0%
Net interest margin (NIM) [4]	3.5%	3.6%	4.1%	4.0%	4.3%
Non-interest income to total operating income [5]	23.9%	25.6%	19.5%	23.4%	17.7%
Cost-to-income ratio [6]	58.7%	55.2%	56.7%	55.1%	56.6%
Return on assets (RoA) [7]	1.1%	1.4%	1.5%	1.6%	1.5%
Return on equity (RoE) [7]	9.0%	11.7%	12.3%	12.9%	12.1%
Capital Adequacy					
Total capital accounts[8] to total assets	12.4%	11.7%	12.2%	12.3%	12.1%
Capital adequacy ratio (CAR, solo) [9, 10]	16.5%	15.4%	16.4%	16.3%	15.9%
Common equity tier 1 (CET1) ratio	15.3%	14.3%	15.3%	15.2%	14.8%
Capital conservation buffer	9.3%	8.3%	9.3%	9.2%	8.8%
Tier 1 ratio	15.5%	14.5%	15.5%	15.4%	15.0%
CAR (consolidated) [9, 10]	17.1%	16.1%	16.9%	16.9%	16.4%
CET1 ratio	15.9%	15.0%	15.8%	15.8%	15.3%
Capital conservation buffer	9.9%	9.0%	9.8%	9.8%	9.3%
Tier 1 ratio	16.1%	15.2%	16.0%	16.0%	15.5%
Liquidity					
Cash and due from banks to deposits	22.0%	18.4%	15.3%	16.0%	14.1%
Liquid assets to deposits	54.0%	52.6%	50.7%	52.5%	51.1%
Loans, gross to deposits	70.1%	71.0%	72.8%	71.6%	73.4%

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.

Appendix 3

Philippine Banking System: Number of Offices and Regional Profile

as of end-periods indicated

	end-June 2024						
	Total	**Universal Banks**	**Commercial Banks**	**Thrift Banks**	**Rural Banks**	**Cooperative Banks**	**Digital Banks**
Total	**13,367**	**6,980**	**190**	**2,610**	**3,397**	**184**	**6**
Head Offices	**478**	**22**	**22**	**42**	**364**	**22**	**6**
Branches/Other Offices	**12,889**	**6,958**	**168**	**2,568**	**3,033**	**162**	-
Regular Branch	9,911	6,678	150	1,636	1,315	132	-
Branch-Lite Unit	2,788	245	18	917	1,578	30	-
Microfinance-Oriented Branch	154	-	-	15	139	-	-
Representative Office	17	17	-	-	-	-	-
Remittance Desk Office	14	14	-	-	-	-	-
Marketing Office	2	2	-	-	-	-	-
Limited Purpose Branch	1	1	-	-	-	-	-
Sub-Branch	1	1	-	-	-	-	-
Islamic Branch	1		-	-	1	-	-

		end-June 2023	end-June 2024		
		Total	**Total**	**Head Offices**	**Branches/ Other Offices**
Total		**13,335**	**13,367**	**478**	**12,889**
Nationwide		**13,283**	**13,316**	**478**	**12,838**
National Capital Region (NCR)		**3,808**	**3,756**	**79**	**3,677**
Luzon		**5,600**	**5,612**	**258**	**5,354**
Region I	- Ilocos	682	672	28	644
Region II	- Cagayan Valley	493	487	26	461
Region III	- Central Luzon	1,380	1,392	68	1,324
Region IV-A	- CALABARZON	1,919	1,916	84	1,832
Region IV-B	- MIMAROPA	322	327	19	308
Region V	- Bicol	595	603	18	585
Cordillera Administrative Region		209	215	15	200
Visayas		**2,019**	**2,057**	**80**	**1,977**
Region VI	- Western Visayas	788	811	39	772
Region VII	- Central Visayas	922	928	29	899
Region VIII	- Eastern Visayas	309	318	12	306
Mindanao		**1,856**	**1,891**	**61**	**1,830**
Region IX	- Zamboanga Peninsula	280	283	14	269
Region X	- Northern Mindanao	459	468	21	447
Region XI	- Davao Region	516	524	12	512
Region XII	- SOCCSKSARGEN [1/]	305	313	9	304
CARAGA		254	258	5	253
BARMM		42	45		45
Overseas		**52**	**51**	-	**51**
Asia-Pacific		20	19	-	19
Europe		5	5	-	5
North America		5	5	-	5
Middle East		22	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

Philippine Banking System: Number of BSP-supervised Financial Institutions (BSFIs) with Authority to Provide EPFS

as of end-June 2024

	No. of BSFIs with Authority to Provide Electronic Payment and Financial Services (EPFS)	ATM Card	Credit Card	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	27	1	7	-	-	14	8	18
Rural and cooperative banks	62	31	-	5	4	-	7	1	19
Digital banks	6	3	-	-	-	-	1	1	6
Banks	138	85	17	29	8	5	47	46	66
EMIs	43	-	-	43	32	-	3	1	32
Others	15	1	1	1	-	-	7	-	10
Total	196	86	18	73	40	5	57	47	108

	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	4	27	2	1	6	-	-	20
Rural and cooperative banks	-	30	-	-	8	-	-	18
Digital banks	-	3	1	-	1	-	-	6
Banks	14	85	13	2	32	8	1	66
EMIs	-	-	1	-	2	1	5	21
Others	-	1		-	-	-	1	-
Total	14	86	14	2	34	9	7	87

	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	19	10	1	5	4	4	2	-
Rural and cooperative banks	40	9	3	8	4	23	7	-
Digital banks	6	3	4	4	6	-	4	1
Banks	105	36	20	30	29	27	23	5
EMIs	10	15	9	3	26	-	-	1
Others	-	-	-	-	4	-	1	-
Total	115	51	29	33	59	27	24	6

Source: Bangko Sentral ng Pilipinas

Appendix 5

Philippine Financial System: Number of Offices of Financial Institutions (FIs) under BSP Supervision/Regulation

as of end-periods indicated

Type of FI	end-June 2023 Total	end-June 2023 Head Offices	end-June 2023 Other Offices	end-June 2024 Total	end-June 2024 Head Offices	end-June 2024 Other Offices
BSP Supervised/Regulated FIs [1]	**37,840**	**2,555**	**35,285**	**37,853**	**2,728**	**35,125**
I. Banks [2]	**13,335**	**490**	**12,845**	**13,367**	**478**	**12,889**
A. Universal and Commercial Banks	**7,205**	**45**	**7,160**	**7,170**	**44**	**7,126**
Universal Banks	**6,856**	**22**	**6,834**	**6,980**	**22**	**6,958**
Private domestic banks	6,003	13	5,990	6,125	13	6,112
Government banks	842	3	839	844	3	841
Foreign bank branches	11	6	5	11	6	5
Commercial Banks	**349**	**23**	**326**	**190**	**22**	**168**
Private domestic banks	232	3	229	69	2	67
Foreign bank subsidiaries	98	2	96	102	2	100
Foreign bank branches	19	18	1	19	18	1
B. Thrift Banks	**2,609**	**43**	**2,566**	**2,610**	**42**	**2,568**
Financial Institution-Linked Banks	**1,168**	**11**	**1,157**	**1,163**	**10**	**1,153**
Domestic bank-controlled	1,137	8	1,129	1,136	8	1,128
Foreign bank-controlled	31	3	28	27	2	25
Domestic NBFI-controlled	-	-	-	-	-	-
Foreign NBFI-controlled	-	-	-	-	-	-
Non-Linked	**1,441**	**32**	**1,409**	**1,447**	**32**	**1,415**
C. Rural and Cooperative Banks	**3,515**	**396**	**3,119**	**3,581**	**386**	**3,195**
Rural banks	2,440	369	2,071	2,494	359	2,135
Microfinance-oriented rural banks	900	5	895	903	5	898
Cooperative banks	175	22	153	184	22	162
D. Digital Banks	**6**	**6**	-	**6**	**6**	-
II. Non-bank Financial Institutions (NBFIs)	**24,504**	**2,064**	**22,440**	**24,485**	**2,249**	**22,236**
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 QBF function	1	1	-	1	1	-
B. Without Quasi-Banking Function	**24,485**	**2,059**	**22,426**	**24,466**	**2,244**	**22,222**
AAB - Forex corporation	1	1	-	1	1	-
Credit card companies	4	4	-	5	5	-
Credit granting entities	-	-	-	-	-	-
Electronic money issuers - others	116	43	73	118	43	75
Financing companies	149	21	128	140	20	120
Government non-bank financial institutions	2	2	-	2	2	-
Investment companies	1	1	-	1	1	-
Investment houses	12	11	1	12	11	1
Lending investors	1	1	-	1	1	-
Non-stock savings and loan associations	193	57	136	193	55	138
Operators of Payment System				198	198	
Pawnshops [3]	16,038	1,165	14,873	16,219	1,169	15,050
Money service businesses	7,950	735	7,215	7,556	718	6,838
Remittance agent (subsidiary of a bank)	-	-	-	1	1	-
Securities dealers/brokers	12	12	-	12	12	-
Trust corporations	6	6	-	7	7	-
III. Offshore Banking Unit (OBU)	**1**	**1**	-	**1**	**1**	-

Source: Bangko Sentral ng Pilipinas

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

[2] Includes ROs abroad of domestic banks

[3] Excludes Pawnshops multi-functioning as MSBs

Appendix 6

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
end-June 2024					
Total Loanable Fund (TLF)	912.7	727.6	83.5	81.4	20.2
25% of TLF	228.2	181.9	20.9	20.4	5.1
Total compliance [1]	1,755.7	1,473.7	128.7	153.4	-
Percentage of TLF used for compliance	**192.4%**	**202.5%**	**154.1%**	**188.4%**	**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

Appendix 7

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

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

Financial Highlights	end-December			end-June	
	2021	2022	2023	2023	2024
Balance Sheet					
Total Assets [1]	**57,796.1**	**61,920.0**	**67,836.2**	**61,890.4**	**70,558.3**
Cash and due from banks	6,547.2	5,577.6	5,405.3	4,420.3	4,729.5
Financial assets, gross	28,302.2	28,557.3	28,237.8	28,160.4	28,974.5
Allowance for credit losses	43.7	47.7	52.6	48.9	45.8
Accumulated market gains/losses	62.7	(903.6)	(475.1)	(628.9)	(511.4)
Financial assets, net	28,321.2	27,606.0	27,710.0	27,482.7	28,417.3
Interbank loans receivable (IBL), net	6,132.3	4,464.9	3,900.5	3,577.4	3,220.2
Loans, gross (exclusive of IBL)	16,456.5	17,243.1	16,472.4	17,698.2	17,275.6
Allowance for probable losses [2]	657.3	357.7	367.5	384.9	371.4
Loans, net (exclusive of IBL)	15,799.2	16,885.5	16,104.9	17,313.4	16,904.2
ROPA, net	26.2	21.9	17.7	9.6	15.2
Other assets, net	970.0	7,364.2	14,697.8	9,087.0	17,271.9
Total Liabilities	**56,792.4**	**61,533.2**	**67,124.6**	**61,563.7**	**70,206.5**
Financial liabilities held for trading	87.9	111.1	115.3	133.5	166.1
Deposit liabilities	46,093.8	47,852.7	54,416.1	48,987.3	55,155.3
Due to other banks	698.9	741.5	538.4	596.0	546.0
Bills payable	3,210.8	5,654.3	7,437.3	6,591.7	7,890.3
Bonds payable, net	4,888.5	4,972.2	2,761.5	3,413.2	4,937.2
Other liabilities	517.1	385.2	493.5	498.1	555.1
Due to HO/Br./Agencies/FCDU/RBU, net [3]	1,295.4	1,816.3	1,362.5	1,343.9	956.4
Total Capital Accounts	**1,003.7**	**386.8**	**711.6**	**326.7**	**351.8**
Income Statement					
Total operating income	1,277.4	1,141.5	1,188.0	636.0	481.1
Net interest income [5]	825.5	981.9	1,037.3	569.0	364.6
Non-interest income	451.9	159.6	150.6	67.1	116.5
Non-interest expenses	185.4	165.4	173.5	89.9	86.3
Losses/recoveries on financial assets	(240.2)	139.7	(28.4)	(19.3)	(9.2)
Net Profit or Loss	**807.9**	**1,074.9**	**931.4**	**502.6**	**356.9**
Year-on-Year Growth					
Total Assets	**(1.2%)**	**7.1%**	**9.6%**	**6.2%**	**14.0%**
Cash and due from banks	(4.6%)	(14.8%)	(3.1%)	(21.8%)	7.0%
Financial assets, gross	(1.1%)	0.9%	(1.1%)	(0.1%)	2.9%
Loans, gross (exclusive of IBL)	(6.7%)	4.8%	(4.5%)	7.5%	(2.4%)
Total Liabilities	**(0.1%)**	**8.3%**	**9.1%**	**6.1%**	**14.0%**
Financial liabilities held for trading	(39.0%)	26.4%	3.8%	57.1%	24.4%
Deposit liabilities	2.3%	3.8%	13.7%	5.1%	12.6%
Due to other banks	(2.0%)	6.1%	(27.4%)	(28.3%)	(8.4%)
Bills payable	(19.8%)	76.1%	31.5%	73.9%	19.7%
Other liabilities	37.2%	(25.5%)	28.1%	12.0%	11.5%
Total Capital Accounts	**(39.3%)**	**(61.5%)**	**84.0%**	**35.5%**	**7.7%**
Total operating income	(16.5%)	(10.6%)	4.1%	17.2%	(24.4%)
Net interest income [5]	(7.3%)	18.9%	5.7%	31.8%	(35.9%)
Non-interest income	(29.3%)	(64.7%)	(5.6%)	(39.6%)	73.7%
Non-interest expenses	(1.8%)	(10.8%)	5.0%	(1.7%)	(4.1%)
Net Profit/(Loss)	**(31.4%)**	**33.0%**	**(13.3%)**	**0.9%**	**(29.0%)**

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

Appendix 8

FCDU Operations: Selected Performance Indicators

as of end-periods indicated; ratios in percent

	end-December			end-June	
	2021	2022	2023	2023	2024
Liquidity					
Liquid assets to deposits [1] (excl. of ROPs)	55.2%	47.2%	40.4%	43.7%	40.8%
Liquid assets to deposits [1] (incl. of ROPs)	75.6%	69.3%	60.9%	65.1%	60.1%
Loans, gross to deposits	49.0%	45.4%	37.4%	43.4%	37.2%
Asset Quality					
Non-performing loans (NPL) ratio [2]	3.6%	1.1%	0.9%	1.2%	1.3%
NPL coverage ratio [2]	109.9%	196.4%	246.2%	181.1%	171.4%
Non-performing assets (NPA) to gross assets [2]	1.1%	0.3%	0.3%	0.4%	0.3%
NPA coverage ratio [2]	103.7%	165.9%	202.0%	157.2%	151.7%
Profitability					
Cost-to-income ratio	14.5%	14.5%	14.6%	13.3%	16.4%
Return on assets	1.4%	1.8%	1.4%	1.8%	1.2%
Net interest margin	1.4%	1.7%	1.9%	2.1%	1.6%

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)

Appendix 9

Trust Operations (Philippine Banks and Non-bank Financial Institutions): Financial Highlights and Growth Rates

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

Financial Highlights	end-December			end-June	
	2021	2022	2023	2023	2024
Total Assets	**5,058.2**	**5,345.9**	**6,215.1**	**5,854.1**	**6,609.4**
Cash and due from banks	0.3	0.4	0.4	0.5	0.4
Deposits in banks, gross	1,086.2	1,181.0	1,389.3	1,332.6	1,422.6
Allowance for credit losses	-	-	0.7	0.6	0.3
Deposits in banks, net	1,086.2	1,181.0	1,388.6	1,332.0	1,422.3
Financial assets, gross (net of amortization)	3,461.2	3,559.7	4,150.2	3,863.5	4,360.0
Accumulated market gains/losses	31.7	(28.1)	(3.7)	(5.1)	(5.5)
Allowance for credit losses	0.2	0.5	0.3	0.2	0.3
Financial assets, net	3,492.6	3,531.2	4,146.1	3,858.1	4,354.2
Loans, gross	118.6	134.2	137.4	137.4	140.5
Allowance for probable losses	7.5	6.4	9.0	7.7	5.7
Loans, net	111.1	127.8	128.4	129.7	134.9
Equity investments, gross	5.5	5.4	0.0	0.0	2.9
Allowance for probable losses	2.5	2.5	-	-	-
Equity investments, net	3.0	2.9	0.0	0.0	2.9
Real and other properties acquired, net	0.1	0.2	0.3	0.3	0.3
Other assets	365.0	502.4	551.3	533.6	694.4
Total Accountabilities	**5,058.2**	**5,345.9**	**6,215.1**	**5,854.1**	**6,609.4**
Wealth/asset/fund management accounts (Trust)	2,395.2	2,043.4	2,040.2	2,009.8	2,137.9
Unit investment trust fund (UITF)	1,305.3	940.7	841.2	819.2	865.9
Employee benefit	460.1	465.9	523.1	506.7	540.0
Pre-need	127.9	125.3	133.9	129.9	138.8
Other institutional trust accounts	45.1	49.0	54.2	51.7	91.3
Personal trust	420.7	399.9	398.5	425.2	400.9
Personal retirement fund	0.1	0.1	0.1	0.1	0.1
Other individual trust accounts	36.0	62.5	89.3	77.0	100.9
Wealth/asset/fund management accounts (Agency)	2,207.0	2,708.6	3,465.9	3,177.8	3,612.6
Employee benefit	56.3	59.0	61.9	58.4	64.6
Pre-need	0.7	0.7	0.6	0.6	0.6
Other institutional agency accounts	1,189.5	1,405.5	1,797.8	1,616.5	1,806.0
Personal retirement fund	0.0	0.0	0.0	0.0	0.0
Other individual agency accounts	960.5	1,243.3	1,605.7	1,502.3	1,741.4
Other fiduciary services	455.3	593.2	652.3	665.2	798.5
UITF	13.6	14.5	15.3	15.5	17.0
Court trusts	2.4	1.2	0.1	0.1	0.1
Corporate fiduciary trust	47.7	44.1	63.3	58.4	65.1
Escrow	47.8	45.2	65.1	49.9	75.0
Custodianship	303.0	438.5	449.6	492.2	581.1
Safekeeping	0.0	0.0	0.2	0.2	0.2
Others	40.8	49.6	58.6	48.9	59.9
Advisory/consultancy	0.0	0.0	0.0	0.0	0.0
Special purpose trust	0.6	0.8	56.6	1.3	60.4
Year-on-Year Growth					
Total Assets	**9.2%**	**5.7%**	**16.3%**	**14.9%**	**12.9%**
Cash and due from banks	(2.9%)	13.9%	8.1%	38.4%	(9.5%)
Deposits in banks, gross	2.6%	8.7%	17.6%	39.4%	6.8%
Financial assets, gross (net of amortization)	12.0%	2.8%	16.6%	8.8%	12.9%
Loans, gross	18.6%	13.1%	2.3%	9.9%	2.3%
Equity investments, gross	(31.8%)	(2.4%)	(100.0%)	(100.0%)	595,582.7%
ROPA, net	(17.0%)	245.5%	25.5%	184.8%	13.0%
Other assets	9.1%	37.6%	9.7%	11.6%	30.1%
Total Accountabilities	**9.2%**	**5.7%**	**16.3%**	**14.9%**	**12.9%**
Wealth/asset/fund management accounts (Trust)	6.8%	(14.7%)	(0.2%)	(11.0%)	6.4%
UITF	10.6%	(27.9%)	(10.6%)	(32.5%)	5.7%
Employee benefit	4.4%	1.2%	12.3%	13.1%	6.6%
Pre-need	2.4%	(2.1%)	6.9%	6.3%	6.8%
Other institutional trust accounts	13.8%	8.8%	10.6%	17.3%	76.7%
Personal trust	(2.7%)	(4.9%)	(0.3%)	13.2%	(5.7%)
Personal retirement fund	0.1%	(30.9%)	(22.7%)	(5.9%)	(11.6%)
Other individual trust accounts	41.8%	73.6%	42.8%	44.0%	31.1%
Wealth/asset/fund management accounts (Agency)	12.6%	22.7%	28.0%	39.7%	13.7%
Employee benefit	(2.9%)	4.9%	4.9%	3.7%	10.5%
Pre-need	(2.1%)	(3.7%)	(19.9%)	(4.0%)	(6.3%)
Other institutional agency accounts	17.4%	18.2%	27.9%	29.5%	11.7%
Personal retirement fund	(0.1%)	(8.1%)	147.4%	(11.4%)	162.1%
Other individual agency accounts	8.2%	29.4%	29.1%	54.9%	15.9%
Other fiduciary services	6.0%	30.3%	10.0%	18.5%	20.0%
Advisory/consultancy	2.6%	0.0%	(5.1%)	(5.1%)	0.0%
Special purpose trust	(38.5%)	26.3%	6,884.7%	114.9%	4,441.9%

Source: Bangko Sentral ng Pilipinas

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

0.0 denotes below ₱0.05 billion

Appendix 10

Trust Operations (Philippine Banks and Non-bank Financial Institutions): Selected Performance Indicators

as of end-periods indicated; ratio in percent

	end-December			end-June	
	2021	**2022**	**2023**	**2023**	**2024**
Asset Quality					
Non-performing loans (NPL) ratio	0.5%	1.7%	2.0%	1.9%	1.9%
NPL coverage ratio	1244.2%	285.4%	327.3%	294.4%	211.3%
Non-performing assets (NPA) to gross assets	0.01%	0.05%	0.05%	0.05%	0.05%
NPA coverage ratio	1068.5%	255.7%	292.1%	265.5%	189.0%
Liquidity					
Cash and due from banks to total accountabilities	0.01%	0.01%	0.01%	0.01%	0.01%
Liquid assets to total accountabilities	68.4%	66.6%	66.8%	66.0%	66.0%
Loans, gross to total accountabilities	2.3%	2.5%	2.2%	2.3%	2.1%

Source: Bangko Sentral ng Pilipinas

Note: "0.0%" denotes below 0.05%

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