Supervisory Policy and Research Department

The Philippine Banking Sector Outlook Survey

Second Semester 2018

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Highlights of the Report

This version: 17 May 2019

The second conduct of the Banking Sector Outlook Survey (BSOS) discloses that banks are aware of the internal and external concerns affecting their business. The BSOS also reveal that banks are formulating strategies to address these concerns and will leverage on the use of financial technology (fintech) for strategic efficiencies.

Banks maintain their optimism on the country's economic prospects as majority of BSOS respondents project the domestic economy to grow between 6 percent and 7 percent within the next two years. Similarly, the outlook on the Philippine banking system remains stable as the banks' bullish projection on the economy and the banking system are expected to result in a double digit growth in assets, loans, deposits and net income.

The respondents recognize the importance of capital to protect the banks from unexpected losses. In fact, majority project capital adequacy ratio (CAR) at more than 16 percent, or significantly higher than domestic and global standards. Banks also intend to backstop their respective CAR with strong leverage ratios that will promote institutional stability. Specifically, 51.6 of the respondents project leverage ratios at more than 10 percent. Moreover, most banks are expected to maintain strong liquidity position measured by the Liquidity Coverage Ratio (LCR)/Minimum Liquidity Ratio (MLR), as applicable, to be able to thrive despite market volatilities.

In the presence of strong competition among banks, the respondents reveal that growth is expected to be achieved by developing new capabilities, by expanding market reach and by leveraging on client relationships. However, respondents underscore that certain BSP regulations present challenges, of which compliance requirements with the mandatory credits to Agri-agra and Micro, Small and Medium Enterprises (MSME) at the top of the list.

Enhancing the risk management system tops the list of the respondents as a necessary tool to strengthen the banks against external headwinds. Likewise, intensifying client relationships, upgrading of personnel capabilities, keeping a high level of liquid assets, and increasing capitalization are also deemed important by the respondents in order to protect their respective banks against external shocks.

In terms of organizational conduct and risk culture, the new section of BSOS reveals that most of the respondents are satisfied with the risk culture in their respective banks. The survey highlights the importance of inputs from audit, risk and compliance functions in the business decisions of the Board/Senior Management. The survey results also reveal that among the different aspects of business, majority of the respondents cite the following as covered by their respective Codes of Ethics: (a) whistleblowing and grievance escalation policies; (b) personnel recruitment and termination; and (c) customer dealings.

I. Introduction

The adoption of a cohesive and pro-active supervisory approach to address potential build-up of systemic risk is essential to achieve one of the BSP's Strategic Objective which calls for a sound, stable and resilient banking and financial system. The Banking Sector Outlook Survey (BSOS) serves as a complementary tool in validating the assessments of banking supervisors. The conduct of the BSOS aims to gather the sentiments of the Presidents/Chief Executive Officers/Country Managers of banks in the country within a two-year horizon.[1] The practice of conducting a periodic banking sector outlook survey (BSOS) has been observed in some countries. However, the Philippine BSOS is unique due to the following: (a) it is conducted by the central bank; (b) it gathers the sentiments/outlook of industry leaders; and (c) it forms part of the prudential surveillance and supervisory framework of the BSP. The maiden results of the BSOS was released in October 2018.

II. What is the Banking Sector Outlook Survey (BSOS)?

The BSOS serves as a measure of proactive and forward-looking approach to surveillance and financial supervision. Banking sector risks have been historically concentrated in traditional banking activities while the financial services industry has evolved in response to market-driven, technological, and legislative changes. These changes have allowed financial institutions (FIs) to expand product offerings, geographic diversity, and delivery systems. Moreover, these changes have also increased the complexity of the FIs' consolidated risk exposure. Such a complexity necessitates the BSP's proactive and forward-looking approach to consider the outlook/sentiments of industry leaders in the conduct of regulatory risk surveillance and formulation of supervisory framework.

The BSOS can complement the analysis of banks' business models moving forward. Reducing information asymmetries is crucial to supervisors for the prompt identification of vulnerabilities, closer monitoring of financial health and comprehensive management of financial strains as they emerge. Hence, the BSOS aims to provide the BSP with additional perspective on the evolution of banks' business models that can eventually help enhance prudential regulations and contribute to ensuring resilience of the banking system. Moreover, it intends to provide supervisory and market perspectives on emerging issues and trends for timely and relevant prudential reporting and related analysis. Lastly, it is also expected to promote financial innovations and developments in the banking sector.

[1] The Monetary Board Resolution No. 833 dated 17 May 2018 approved the conduct of BSOS.

Structure of the BSOS. The BSOS is composed of six sections as shown in Table 1 below:

Table 1. BSOS structure

Section	Description
Growth Outlook	▪ This section seeks to solicit respondents' outlook on the country's gross domestic product (GDP) growth and projections on the performance of the Philippine banking system.
Business Strategy	▪ This section seeks to understand the business model that the banks will adopt to implement their strategies over the next two years.
Operational Performance	▪ This section seeks to understand banks' operational approach to maintain growth, address operational challenges and enhance profitability moving forward.
Impact of Supervision/ Regulation on Bank Performance	▪ This section seeks to solicit sentiments on the concerns posed by BSP regulations to banks' operations, as well as seek opinion in areas of regulation/supervision that the BSP needs to strengthen to promote the safety and soundness of the banking system.
Risk Assessment	▪ This section seeks to identify the risks that banks are most wary of and the existing mitigants for identified risks.
Organizational Conduct and Risk Culture	▪ This section seeks to categorize banks' internal assessments of the level and maturity of risk culture and risk governance frameworks.

A New Section on Organizational Conduct and Risk Culture. For the second semester of 2018, a new section was introduced to have an insight on the banks' organizational conduct and the level of risk culture. Specifically, respondents were asked of the level and maturity of risk culture as well as the strength of risk governance standards in their respective banks. Moreover, this section also include questions on the top three strengths of the banks' risk governance framework as well as the different aspects of business covered by the banks' Code of Ethics.

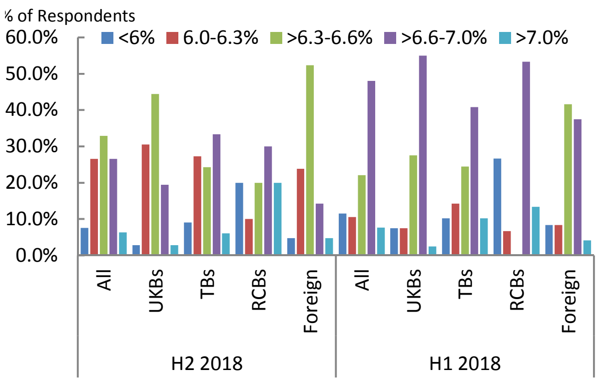
The BSOS Methodology. The conduct of BSOS for the second semester of 2018 covers all universal/commercial (U/KBs) and thrift banks (TBs) and the top 20 rural/cooperative banks (R/CBs) in terms of total loan portfolio. The survey questionnaire includes 20 questions (Annex A) and transmitted to the Presidents/Chief Executive Officers/Country Managers of banks. The overall survey response rate for the second semester declined to 69.0 percent from the previous semester's 96.6 percent. These banks which responded to the survey accounted for 91.4 percent of the total assets of the banking system.

III. Results of the Banking Sector Outlook Survey as of Second Semester of 2018

Despite global uncertainties and market volatilities, banks maintain their optimism on the country's economic prospects during the second semester of 2018 as 86.1 percent of BSOS respondents project the domestic economy to grow between 6 percent and 7 percent within the next two years, compared to 80.8 percent in the previous semester. It is noteworthy that projections are fairly distributed across three ranges of growth for the second semester, with the 6.3 percent to 6.6 percent growth as the most significant. By contrast, real GDP growth forecast for the first semester of 2018 was strongly tilted towards a 6.6 percent to 7.0 percent growth (Figure 1).

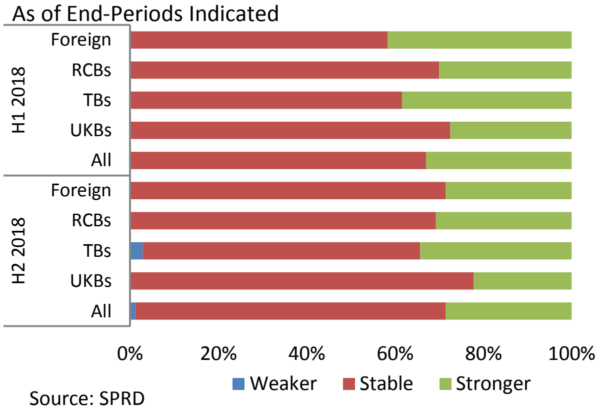
The semestral projections are influenced by the U/KBs' forecast, with 55.0 percent of the U/KBs projecting GDP growth at 6.6 percent to 7.0 percent in the first semester of 2018. The second semester survey noted a shift with 44.4 percent of the U/KBs projecting GDP growth between 6.3 percent and 6.6 percent (Figure 1). Meanwhile, the TBs' and the R/CBs' strong projection of 6.6 percent to 7.0 percent growth during the first semester eased, but retained the majority forecast during the second semester of 2018. More than half of the foreign banks projected growth of between 6.3 percent and 6.7 percent in the second semester.

Figure 1. Real GDP Forecast by Type of Bank
As of End-Periods Indicated



Source: SPRD

Figure 2. Distribution of Banking System Growth Outlook
As of End-Periods Indicated

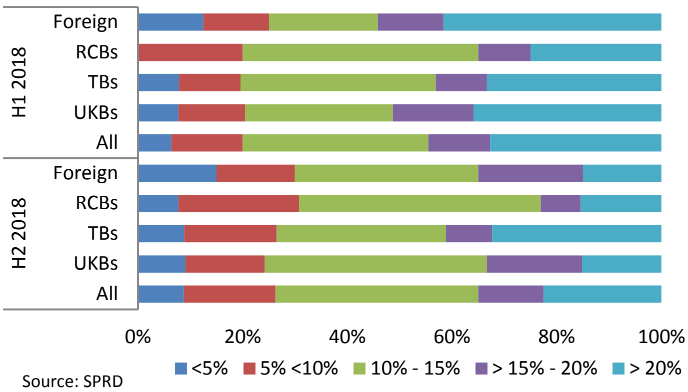


Source: SPRD

The banks' bullish economic outlook translates to continued confidence by 70.2 percent of the respondents on the banking system remaining stable (Figure 2). Meanwhile, 28.6 percent of the industry leaders project stronger banks.

The projected economic growth and stability of the banking system influenced 73.8 percent of the survey respondents to forecast double-digit growth in the banks' assets (Figure 3), led by three out of four U/KB respondents. This is lower though, compared to the 80.0 projection of double-digit asset growth during the first semester of 2018. The growth in assets is expected to be driven by credit

Figure 3. Distribution of Asset Growth Projections
As of End-Periods Indicated

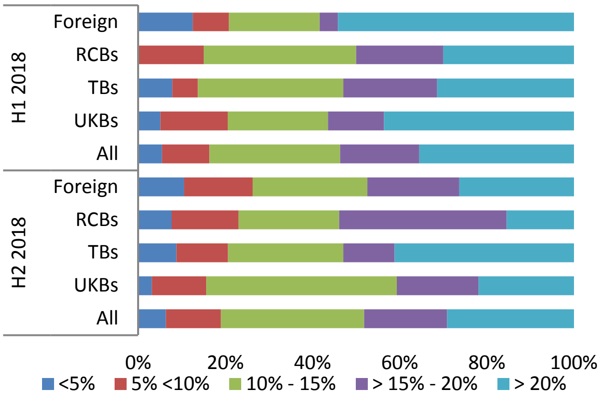


Source: SPRD

expansion as 81.0 percent of the banks project a double-digit growth in their loan portfolio during the BSOS for the second semester of 2018. The optimism is led by U/KBs, 84.4 percent of which project double-digit loan growth (Figure 4), higher than the 79.5 percent of U/KB respondents with the same sentiment during the first semester. It is interesting to note that 32.4 percent and 41.2 percent of the TBs project asset and loan growth, respectively, at more than 20.0 percent, the most optimistic as to the magnitude of asset and loan growth.

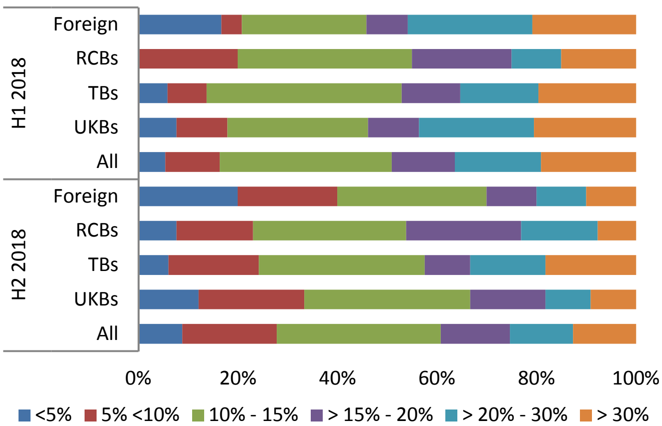
Based on results, deposits are expected to fuel asset expansion as 72.2 percent of the respondents project double-digit deposit growth (Figure 5). The BSOS revealed that more than three quarters of the smaller banks are aiming for double-digit growth in their deposit liabilities, with only two-thirds of the U/KBs targeting the same. Foreign banks are more conservative, but likewise bullish, with 60.0 percent projecting a double-digit increase in deposits. By contrast, 83.6 percent of the respondents during the maiden conduct of the BSOS forecast double-digit growth in deposits.

Figure 4. Distribution of Loan Growth Projections
As of End-Periods Indicated



Source: SPRD

Figure 5. Distribution of Deposit Growth Projections
As of End-Periods Indicated

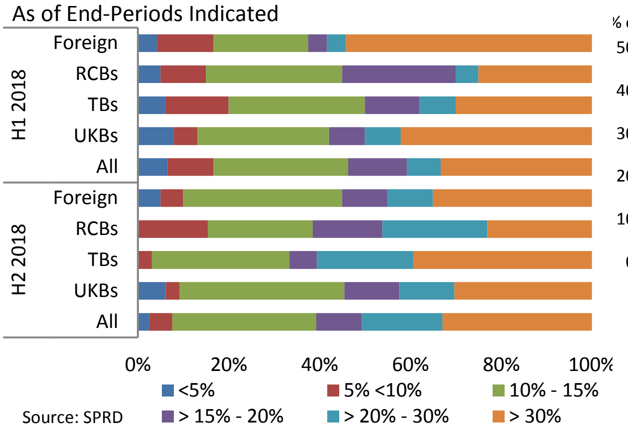


Source: SPRD

The banks' bullish projections likewise elicited buoyant expectations on returns as 92.4 percent of the respondents for the second semester of 2018 forecast double digit net income growth for the next two years compared to 83.3 percent of the respondents during the first semester that projected the same (Figure 6). The TBs are the most optimistic with 97.0 percent projection of double-digit net income growth. Among the U/KBs, 36.4 percent expect net income growth between 10.0 percent and 15.0 percent, while 30.3 percent project net profit to grow more than 30.0 percent. The U/KBs' net income projections are significantly influenced by new foreign bank entrants that are still setting the foundation for their strong domestic presence.

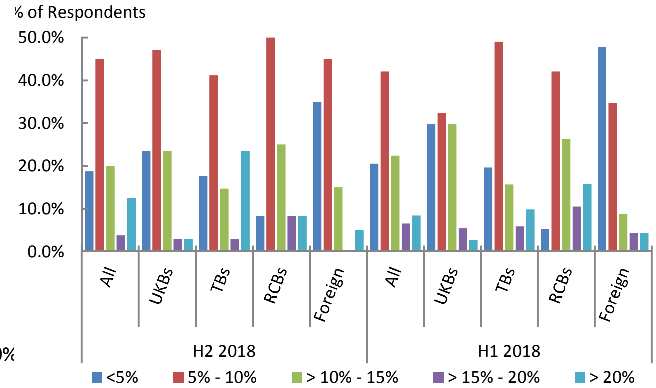
The projected net income growth is expected to bring return on equity (ROE) between 5 percent and 10 percent by most respondents among banking groups (Figure 7). However, 35.0 percent of the foreign banks project ROE at less than 5.0 percent. This may be attributed to a different business model, i.e., to facilitate their respective parent bank's and clients' global transactions within the domestic market.

Figure 6. Distribution of Net Income Growth Projections
As of End-Periods Indicated



Source: SPRD

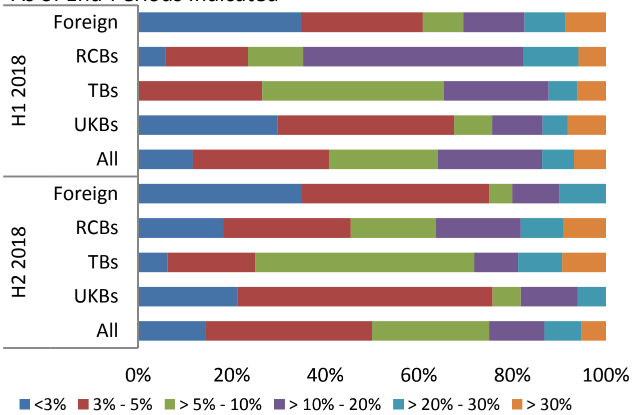
Figure 7. Projected ROE by Type of Bank
As of End-Periods Indicated



Source: SPRD

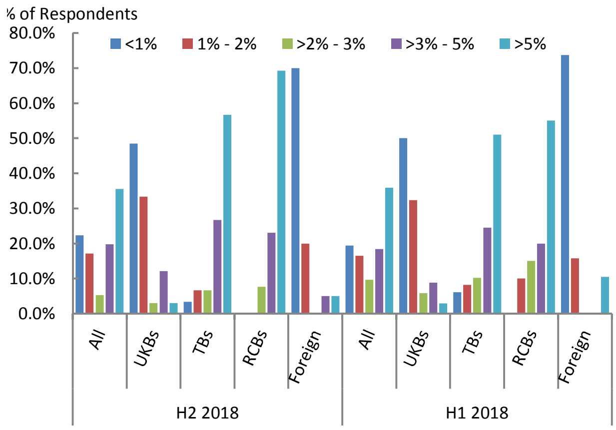
During the first semester of 2018, respondents' projection of net interest margin (NIM) was somewhat fragmented with three NIM ranges (3 to 5 percent NIM with 29.1 percent, >5 to 10 percent NIM with 23.3 percent and >10 to 20 percent NIM with 22.3 percent) garnering 74.8 percent of the replies. Competitive pressures may have squeezed the projections during the second semester, with 35.5 percent of the respondents (driven by 54.5 percent of the U/KBs) projecting NIM at 3 to 5 percent while a quarter of the banks projecting NIM at more than 5 to 10 percent (Figure 8). TBs, with their niche markets, largely (46.9 percent) forecast NIM at 5 percent to 10 percent. R/CB's NIM projections are somewhat dispersed, with the biggest group (27.3 percent) projecting NIM at 3 to 5 percent. Foreign banks, a significant number of which are new entrants or reliant on other income sources (i.e., underwriting, trading, and commissions) generally project lower NIM.

Figure 8. Distribution of Net Interest Margin Projections
As of End-Periods Indicated



Source: SPRD

Figure 9. Projected NPL Ratio by Type of Bank
As of End-Periods Indicated



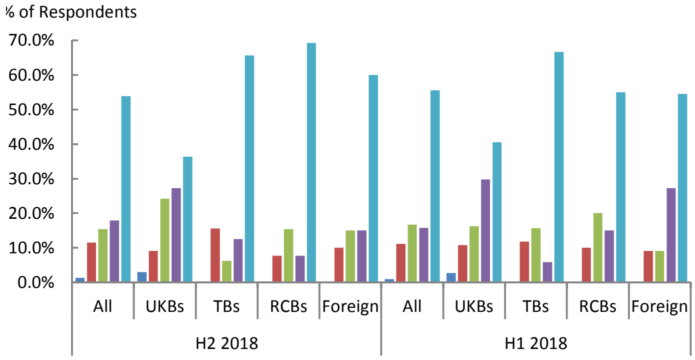
Source: SPRD

Most (81.8 percent) of the bigger banks with more sophisticated credit risk management systems project non-performing loans (NPL) at two percent or less of their loan portfolio. This outlook is shared by foreign banks. By contrast, most of the smaller banks with simpler credit risk management systems project their NPL ratios above three percent (Figure 9). The outlook is relatively stable for the first and second conducts of the BSOS.

Cognizant of the importance of capital to protect the banks from unexpected losses, the banking system has been maintaining risk-based capital at levels higher than domestic and global standards, and intends to do so for the next two years. In fact, majority of the respondents for the first and second semesters of 2018 project their capital adequacy ratios (CAR) at more than 16.0 percent (Figure 10). The U/KBs, with the most optimistic projection of loan growth, which translates to higher credit risk weighted assets, are more subdued, with only more than a third of the U/KB respondents projecting CAR at more than 16.0 percent.

Figure 10. Projected CAR by Type of Bank

As of End-Periods Indicated

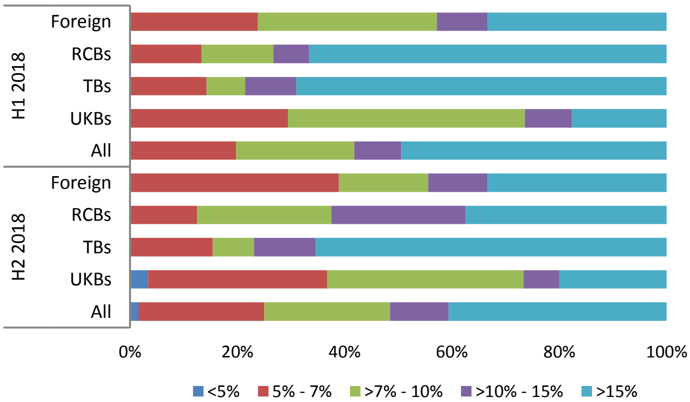


Source: SPRD

The banks aptly project a backstop to their respective CAR with adequate leverage ratios. This is designed to constrain the potential build-up of leverage in the institution and promote stability. More than half (51.6 percent) of the respondents project leverage ratios at more than 10 percent (Figure 11), which is double the regulatory requirement, albeit lower than the previous semester's 58.2 percent. Among banks, U/KBs will employ more liabilities for their business with 70.0 percent of the U/KBs projecting leverage from 5 percent and 10 percent. Meanwhile, 65.4 percent of TBs project leverage at more than 15 percent whereas R/CBs are more dispersed in their projections with the largest group of 37.5 percent projecting leverage at more than 15 percent.

Figure 11. Distribution of Leverage Ratio Projections

As of End-Periods Indicated

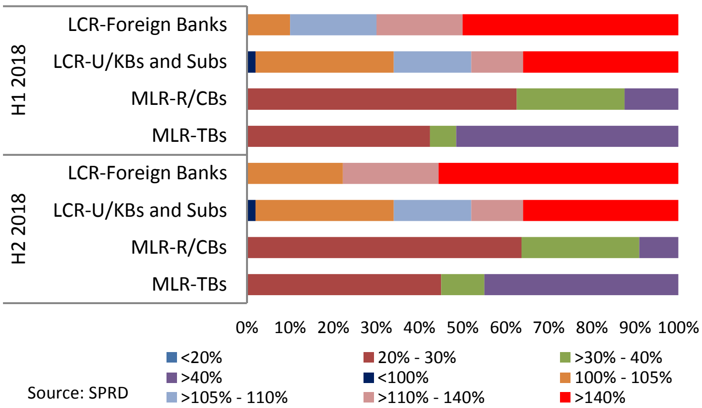


Source: SPRD

The banks' liquidity position has been healthy and is projected to be maintained to be able to thrive despite market volatilities. Likewise, the build-up of liquidity enables the banks to take advantage of business opportunities presented by the growing economy and the country's infrastructure. In particular, 43.9 percent of the U/KBs and their subsidiary banks project LCR at more than 140 percent (Figure 12). Foreign banks seem to have the same

Figure 12. Distribution of LCR/MLR Projections

As of End-Periods Indicated



Source: SPRD

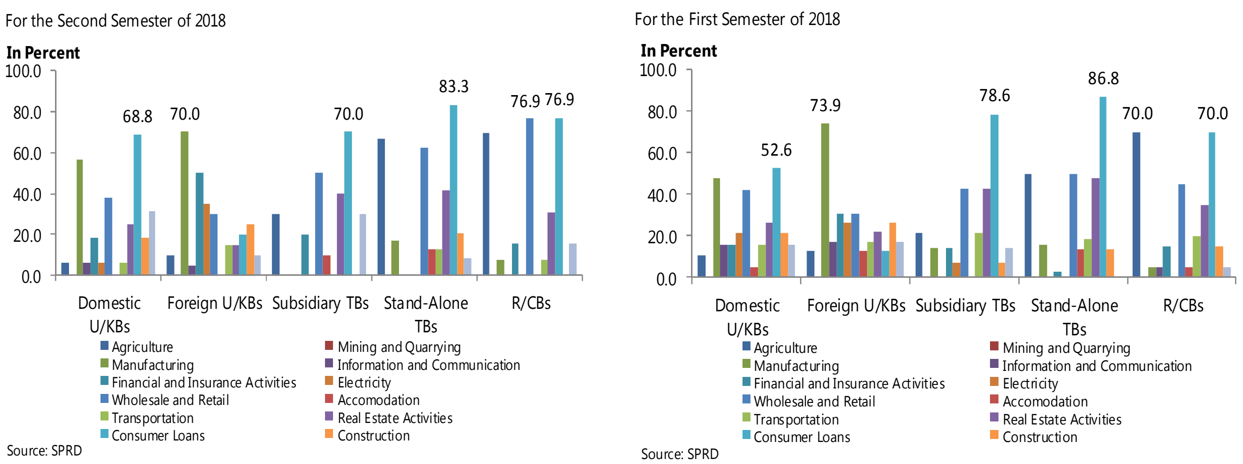
sentiment with projection of LCR at more than 140 percent increasing from 50.0 percent of the respondents to 55.6 percent.

Meanwhile, the stand-alone TBs' projected MLR is relatively stable with 55.0 percent of the respondents projecting MLR at more than 30 percent, from 57.6 percent of the respondents in the previous semester. The R/CBs' liquidity outlook is likewise stable with 63.6 percent of respondents projecting MLR at 20 percent to 30 percent from 62.5 percent of the respondents in the first semester of 2018.

In terms of products or services, majority of the heads of banks mention that corporate and retail banking will remain as their top most priority. Under corporate banking, the respondents identify Micro, Small and Medium Enterprise (MSME) lending, other corporate loans, and real estate loans as primary services for the second semester of 2018. Meanwhile, real estate loans, salary loans and motor vehicle loans remain as the priority products under retail banking.

By type of bank, the respondents disclose that majority of domestic U/KBs will focus on corporate banking, retail banking, cross-selling, trade financing and trust products while foreign U/KBs will mainly concentrate on corporate banking, trade financing and treasury operations. Meanwhile, retail loans remain as the main priority of TBs and R/CBs, which indicates that these banks remain committed to their niche market.

Figure 13. Bank lending by economic sector



The focus of bank lending by economic sector in the next two years for the first and second semesters of 2018 is shown in Figure 13. About 68.8 percent of respondents from domestic U/KBs disclose that consumer loans is the primary focus of lending for the next two years. This figure was higher than the 52.6 percent reported in the first semester of 2018. Moreover, 70.0 percent of respondents from foreign U/KBs prefer to lend mostly to the manufacturing sector. Both subsidiary TBs and stand-alone TBs mention that consumer loans will have the largest share in their lending portfolio in the next two years. Specifically, about 83.3 percent of stand-alone TBs underscore that the concentration of their lending are consumer loans. Moreover , wholesale and retail trade and consumers loans are projected to be the top two credit markets in the R/CBs' loan portfolio for the second semester of 2018. Based on latest available data, banks' lending activities are mainly channeled to real estate activities, wholesale and retail trade, and manufacturing sector. Added focus on consumer lending indicates banks' objective to further diversify their loan portfolio.

Business Strategy. Overall, the respondents reveal that the top three strategic priorities of the bank executives surveyed are to grow the bank, optimize the available technology, and protect the bank. Majority of the respondents believe that there is a need to grow the bank by expanding client base, by deepening customer relationships, and by developing new products. In line with the emerging market trends and evolving client needs, the rapid pace of digital technology is considerably reshaping the financial services landscape. Thus, 44 out of 83 respondents disclose that they will prioritize the optimization of available technology through digital operations and customer service and will leverage on financial technology for strategic efficiency in the next two years. Lastly, respondents underscore the need to protect the bank as one of their strategic priorities by managing reputational and operational risks, enhancing data and cybersecurity, upholding consumer protection, as well as boosting capital and liquidity ratios. The top three strategic priorities by banking group for the two semesters are shown in Table 2.

Table 2. Top Three Strategic Priorities per Type of Bank

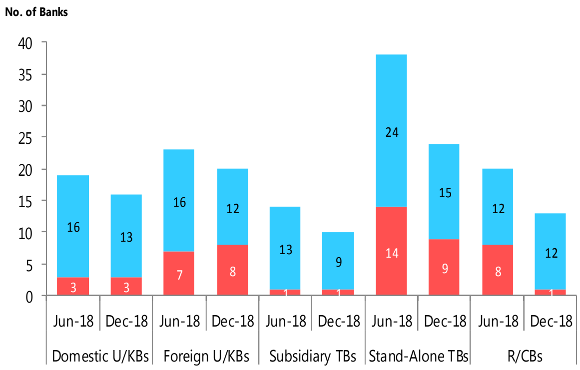
Type of Bank/ Period	U/KBs	TBs	R/CBs
Second Semester 2018	Grow the business	Grow the business	Grow the business
	Optimize technology	Optimize technology	Protect operations
	Protect operations	Reinforce the bank	Optimize technology
First Semester 2018	Grow the business	Grow the business	Grow the business
	Optimize technology	Protect operations	Protect operations
	Reinforce the bank	Optimize technology	Optimize technology

Source: SPRD

Meanwhile, most of the respondents disclose that the top three business directions are to become: (a) domestic bank engaged in target retail and business customers; (b) regional champion specializing in the Philippine market; and (c) global bank providing specialized products and services to global clients. These top three business directions are similar with the response during the first semester of 2018. By type of bank, majority of domestic U/KBs, subsidiary and stand-alone TBs, and R/CBs reveal that their top strategic business direction is to become a domestic bank engaged in target retail and business customers while foreign U/KBs' foremost strategic business direction is to be a global bank which provides specialized products and services to global clients.

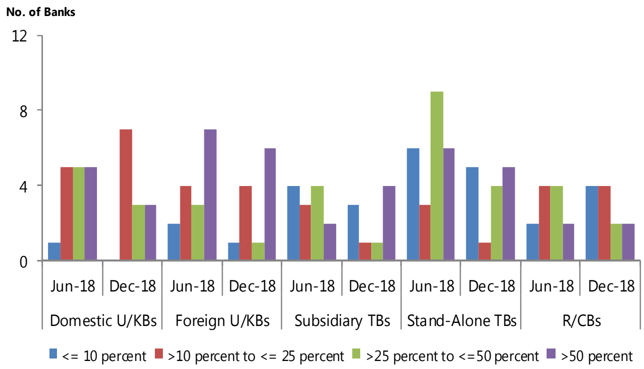
The banking industry supports the use of technology-enabled solutions and exhibits strong interest in participating in the digital finance ecosystem as shown in Figure 14. The survey results for the first and second semester of 2018 reveal that 71.1 percent and 73.5 percent of banks, respectively, have plans to use technology in the banking transactions. For the second semester of 2018, seven out of 13 or 53.8 percent of respondents from domestic U/KBs that have plans to use technology, reveal that more than 10 percent to 25 percent of their banking transactions will be conducted through the use of digital technology in the next two years (Figure 15). Moreover, six out of 12 respondents from foreign U/KBs state that more than 50 percent of their banking transactions will utilize digital means.[2]

Figure 14. Number of banks that uses mobile phones and other electronic means
As of End-Periods Indicated



Source: SPRD

Figure 15. Percentage of bank transactions that will use technology
As of End-Periods Indicated



Source: SPRD

Operational Performance. While the regional banking integration slowly unfolds, banks are facing new aspects of competition and may benefit from a good competitive strategy. In the survey, banks are asked how they will maintain growth in an era of intense competition, heightened customer expectation and non-traditional market entrants. The top three plans to maintain growth in the presence of intense competition and other factors for the first and second semester of 2018 are shown in Figure 16. The results of the survey for the two semesters also show that majority of the banks use technology and operating models to address operational performance, internal controls, risk management, business continuity, compliance, customer experience, and client-based expansion.

Meanwhile, majority of the respondents believe that efficient operations are important to sustain profitability. Likewise, the respondents view that hiring and retaining of key talents, pursuing organic growth, and leveraging on technology are equally important to maintain banks' profitability amid regulatory and market pressures.

[2] Seven out of 16 respondents from foreign U/KBs for the first semester of 2018 indicate that more than 50 percent of their banking transactions will be conducted through the use of digital means.

Figure 16. Top 3 plans to maintain growth in the presence of intense competition and other factors

Source: SPRD

Impact of Supervision on Bank Performance. Banks are also asked to enumerate five areas which they find challenging in terms of compliance to evaluate the impact of BSP regulations. Except for R/CBs, compliance with mandatory credits to Agri-agra and Micro, Small and Medium Enterprises (MSME) remain as the most challenging as banks' business models may not be suited on lending to the agri-agra and MSME sectors. Result of the second semester 2018 survey shows that 77.1 percent of the respondents still find difficulty in complying with Agri-Agra Law (Republic Act No. 10000). As of end-December 2018, the banking system's 13.1 percent compliance ratio for other agricultural credit, for instance, was slightly below the 15.0 percent statutory credit requirement under the Agri-Agra Law. Moreover, compliance ratio for agrarian reform credit which stood at 1.2 percent is way below the required 10 percent.

Moreover, 41.0 percent of respondents reveal that compliance with the regulations on anti-money laundering remains a challenge. In the same manner, most of the respondents also view that IT risk management, credit risk management and reportorial requirements as challenging areas in terms of compliance with the BSP's existing rules and regulations.

Table 3 presents the five most challenging areas by type of bank. All the banking group respondents mention that compliance with mandatory credits to agri-agra (25 percent) and MSME (10 percent) as the most challenging area in terms of compliance except for R/CBs, which cite difficulty in complying with credit risk management standards. Notably, there is a shift in the ranking of the most challenging areas by some banking groups. For instance, liquidity risk management ranks number 2 for the subsidiary TBs in the second semester of 2018, from number 5 in the previous semester. Meanwhile, the list of regulations or areas of supervision that the BSP needs to strengthen from the view point of the respondents is presented in Annex B.

Table 3. Most Challenging Areas in Terms of Compliance

Rank	Domestic U/KBs	Foreign U/KBs	Subsidiary TBs	Stand-alone TBs	R/CBs
1	Mandatory credits to agri-agra and MSME	Mandatory credits to agri-agra and MSME	Mandatory credits to agri-agra and MSME	Mandatory credits to agri-agra and MSME	Credit risk management
2	Anti-money laundering	Single Borrowers' Limit	Liquidity risk management	Credit risk management	IT risk management
3	IT risk management	Reportorial requirements	Basel III liquidity requirements	IT risk management	Operational risk management
4	Basel III liquidity requirements	Anti-money laundering	Philippine Financial Reporting Standards 9	Reportorial requirements	Liquidity risk management
5	Reportorial requirements/ Related Party Transaction Requirements	Basel III liquidity requirements	Others*	Corporate governance requirements	Mandatory credits to agri-agra and MSME

*Include Basel III capital requirements, Internal Capital Adequacy Assessment Process, related party transaction requirements, credit risk management, other areas of risk management, and anti-money laundering.
Source: SPRD

Increase in Ranking from BSOS First Semester 2018

Decrease in Ranking from BSOS First Semester 2018

Risk Assessment. Table 4 presents the top five risks to the banks' operation. The four types of risks common to U/KBs, TBs and R/CBs are institutional risk, financial market risk, macroeconomic risk and technology risk. Meanwhile, both U/KBs and TBs identify global and/or domestic geopolitical risk as risk to their operation. Domestic U/KBs and foreign U/KBs consider cybersecurity threat and regulatory/compliance risk as the main risk under institutional risks, respectively. Moreover, majority of stand-alone TBs and R/CBs consider asset quality/credit risk as the leading risk under institutional risks.

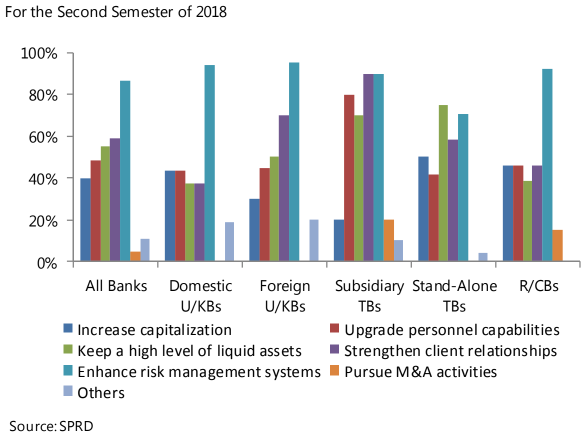
Meanwhile, enhancing the risk management system tops the list of the respondents as a necessary tool to strengthen the banks against external headwinds for the two semesters of 2018 (Figure 17). Likewise, strengthening client relationships, upgrading of personnel capabilities, keeping a high level of liquid assets, and increasing capitalization are also deemed important by the respondents in order to protect their respective banks against external shocks.

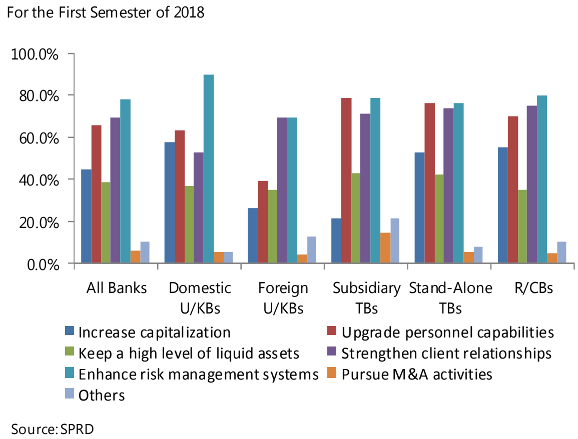
Table 4. Top Five Risks to Banks' Operation

Second Semester 2018			First Semester 2018		
UKBs	TBs	RCBs	UKBs	TBs	RCBs
Institutional Risk	Institutional Risk	Institutional Risk	Institutional Risk	Institutional Risk	Institutional Risk
Financial Market Risk	Financial Market Risk	Financial Market Risk	Financial Market Risk	Financial Market Risk	Financial Market Risk
Macroeconomic Risk	Macroeconomic Risk	Technology Risk	Macroeconomic Risk	Macroeconomic Risk	Over-regulation
Technology Risk	Technology Risk	Over-regulation	Technology Risk	Technology Risk	Technology Risk
Global and/or domestic geopolitical Risk	Global and/or domestic geopolitical Risk	Macroeconomic Risk	Global and/or domestic geopolitical Risk	Over-regulation	Macroeconomic Risk

Source: SPRD

Figure 17. Strengthening banks against external headwinds

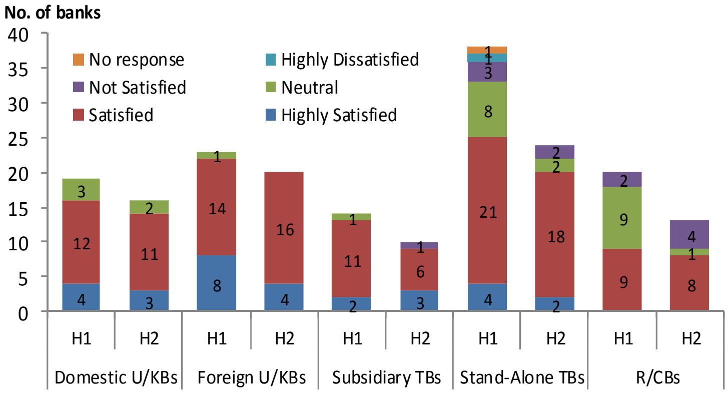




Organizational Conduct and Risk Culture. The survey discloses the extent of satisfaction in terms of the level and maturity of banks' risk culture, as well as the strength of risk governance standards. In general, majority of the respondents reveal that they are satisfied with the risk culture in their respective banks as presented in Figure 18. For the second semester of 2018, 16 out of 20 respondents from foreign U/KBs disclose that they are satisfied with their risk culture. Moreover, one respondent from subsidiary TBs is not satisfied with the bank's risk culture.

The banking environment has been constantly affected by changes in technology, competition, and the evolving regulations and international standards. As new risks emerge due to these factors, it is essential that banks protect their depositors, investors and institutions from these undue risks. These have been reaffirmed in the results of the survey.

Figure 18. Banks' Risk Culture
As of End-Periods Indicated



Source: SPRD

In order to mitigate risks, the respondents view the importance of: (a) board of director and senior management oversight; (b) appropriate risk appetite for the bank's business, resources and capital; and (c) strong risk culture and values within bank. Table 5 shows the top three areas that the banks need to strengthen in the next two years. In particular, 32 out 83 respondents or 38.6 percent mention the need for a highly effective models/system for risk management as one of the areas for improvement.

Table 5. Three areas that the banks need to strengthen in the next 2 years

SECOND SEMESTER 2018		FIRST SEMESTER 2018	
All Banks	**Percent Share**	**All Banks**	**Percent Share**
Highly effective models/system for risk management, risk data aggregation and risk reporting	38.6%	Highly effective models/system for risk management, risk data aggregation and risk reporting	36.0%
Comprehensive risk management policies	31.3%	Highly effective control functions - risk management, compliance and internal audit	32.5%
Strong risk culture and values within the Bank	27.7%	Comprehensive risk management policies	28.9%
Domestic U/KBs		**Domestic U/KBs**	
Strong risk culture and values within the Bank	43.8%	Highly effective models/system for risk management, risk data aggregation and risk reporting	63.2%
Highly effective models/system for risk management, risk data aggregation and risk reporting	31.3%	Strong risk culture and values within the Bank	31.6%
Highly effective control functions-risk management, compliance and internal audit	25.0%	Highly effective control functions-risk management, compliance and internal audit	31.6%
Foreign U/KBs		**Foreign U/KBs**	
Highly effective models/system for risk management, risk data aggregation and risk reporting		Highly effective models/system for risk management, risk data aggregation and risk reporting	43.5%
Comprehensive risk management policies	35.0%	Appropriate risk appetite for the bank's business, resources, and capital	26.1%
Appropriate group structure that promotes checks and balances, as well as consistency of policies, practices and strategies	30.0%	Highly effective control functions - risk management, compliance and internal audit	21.7%
Subsidiary TBs		**Subsidiary TBs**	
Highly effective models/system for risk management, risk data aggregation and risk reporting	80.0%	Highly effective models/system for risk management, risk data aggregation and risk reporting	64.3%
Highly effective control functions - risk management, compliance and internal audit	50.0%	Highly effective control functions - risk management, compliance and internal audit	35.7%
Appropriate risk appetite for the bank's business, resources, and capital	20.0%	Transparency of internal procedures	35.7%
Stand-alone TBs		**Stand-alone TBs**	
Highly effective control functions - risk management, compliance and internal audit	54.2%	Highly effective control functions - risk management, compliance and internal audit	44.7%
Comprehensive risk management policies	45.8%	Comprehensive risk management policies	44.7%
Appropriate risk appetite for the Bank's business, resources, and capital	33.3%	Appropriate risk appetite for the Bank's business, resources, and capital	31.6%
R/CBs		**R/CBs**	
Highly effective control functions - risk management, compliance and internal audit	38.5%	Highly effective control functions - risk management, compliance and internal audit	60.0%
Strong risk culture and values within the Bank	38.5%	Strong risk culture and values within the Bank	50.0%
Highly effective models/system for risk management, risk data aggregation and risk reporting	38.5%	Appropriate risk appetite for the Bank's business, resources, and capital	40.0%
Comprehensive risk management policies	38.5%	Comprehensive risk management policies	40.0%

Source: SPRD

Meanwhile, two new questions under the section on organizational conduct were added in the survey questionnaire for the second semester of 2018. In particular, the survey results show that inputs from audit, risk and compliance functions are always considered in the board/senior management business decisions and strategies. Likewise, about 97.6 percent of the respondents mention that their employees are bound by a code of ethics/conduct in which majority was formulated by the bank. The survey results also reveal that among the different aspects of business, majority of the respondents cite the following as covered by their respective Codes of Ethics: (a) whistleblowing and grievance escalation policies; (b) personnel recruitment and termination; and (c) customer dealings.

IV. Conclusion

The National Accounts of the Philippines show that the financial intermediation expanded by 9.8 percent in the first quarter of 2019, higher than the 7.8 percent growth recorded a year ago and the real Gross Domestic Product growth of 5.6 percent. The banking institutions had the largest contribution among the sub-industries under financial intermediation and recorded the fastest increase of 11.6 percent.[3] Following the significant improvement in the year-on-year growth of financial intermediation, the bullish outlook on the economy and the financial system imply that banks will continue to be the primary source of credit for the economy. Thus, the BSP will continue to promote and maintain a stable and efficient banking system that is globally competitive, dynamic and responsive to the demands of the domestic economy through the (a) support of responsible fintech innovation; (b) enhancement of banks' governance and risk management standards to promote stronger risk culture; and c) comprehensive supervision of supervised entities.

Philippine banks are seen to remain stable and resilient amid rapid credit expansion. The BSP expects that banks will be able to sustain loan growth in view of favorable economic growth outlook and programmed increase in public and private spending. Increased risks from credit expansion will be mitigated by high level of risk-based capital. Liquidity will remain as a key strength of Philippine banks with stable funding from customer deposits. Prudential liquidity requirements such as liquidity coverage ratio (LCR) and Minimum Liquidity Ratio (MLR), as applicable, are expected to remain above the BSP's regulatory threshold and enable banks to thrive despite market volatilities. Moreover, stable long-term funding is expected to grow in view of the BSP's and other regulators' initiative towards capital market development. The expanding lending operations of banks will also drive the improvements in their profits. Nonetheless, operating cost may continue to rise as banks use additional resources to expand customer base, implement system upgrades, and pursue product innovations. Adoption of technology is expected to provide a more efficient operations of banks.

Meanwhile, a number of policy reforms to strengthen risk governance in the financial industry will be adopted to facilitate forward-looking assessment of the business models of BSP supervised financial institutions (BSFIs) and quality of their governance. These include reforms such as amendments to the framework for Domestic Systemically Important Banks (D-SIBs), model risk management, reputational risk, investment management activities, interest rate risk

[3] Philippine Statistical Authority. National Accounts of the Philippines, First Quarter 2016 to First Quarter 2019 (Base Year:2000), May 2019. https://psa.gov.ph/sites/default/files/Q1%202019%20NAP_Publication.pdf.

on the banking books, and capital market development. Likewise, the BSP together with the other financial regulators agreed to participate in the joint IMF-World Bank Financial Sector Assessment Program (FSAP). The FSAP mission will generally assess the country's compliance with internationally-recognized standards considering the reforms implemented in the Philippine financial system since the last mission in 2009. The results of the FSAP mission will provide meaningful inputs in building a strategic financial sector development roadmap and lend credibility to the country's overall financial stability.

In the same vein, the consecutive upgrades of the S&P Global Ratings Banking Industry Country Risk Assessment (BICRA) of the Philippines contribute to the positive outlook of the industry. In 2018, the S&P upgraded the BICRA on the country to Group '6' from Group '7' due to the banking sector's improved credit fundamentals, in particular, the establishment of credit bureaus and improvement in the underwriting practices of the consumer loans segment. In 2019, the BICRA was further upgraded to Group '5' in view of the improvement of the institutional framework of the country's banking system brought by the passage of Republic Act (R.A.) No. 11211, which amended R.A. No. 7653, The New Central Bank Act.

The National Payment Systems Act[4] (NPSA) or R.A. No. 11127 and the Philippine Identification System Act[5] (PhilSys) or R.A. No. 11055 are some of the legislative reforms that the BSP supported and are deemed important in enabling access to financial services. Thus, leveraging on the implementation of these new laws, the BSP is now in a stronger position to pursue its mandates and advocacy towards broad-based and inclusive growth. Along with digital transformation, the BSP will also increase its efforts towards the deepening of financial consumer protection and education. In 2018, the BSP shifted the approach to financial education from on the ground delivery of learning sessions to forging strategic partnerships.[6] Learning tools were also developed, taking into consideration the profile and learning needs of audiences, as well as institutional set-ups/training delivery mechanisms of our partners.

Use of technology will continue to define the future landscape of the Philippine banking system. Fintech or technology-driven innovations in financial services, has become a leading driving force in reshaping the landscape of the Philippine financial system. Fintech refers to the integration of finance and technology in a manner that drives the transformation or disruption of the traditional processes in financial services delivery. Meanwhile, a number of banks have already capitalized on electronic solutions or Fintech to reach a greater scale. This move is in line with the BSP's implementation of PESONet and Instapay under the National Retail Payment System (NRPS) framework. The participation and compliance of the BSP-supervised financial institutions (BSFIs) to the NRPS requirements have been encouraging. Moreover, the BSP expects greater participation by stand-alone TBs, as well as R/CBs once their investments in technology are completed.

[4] The NPSA provides a comprehensive legal and regulatory framework which supports the twin objectives of maintaining a payment system that is necessary to control systemic risk and providing an environment conducive to the sustainable growth of the economy.

[5] The PhilSys, among others, aims to provide a valid proof of identity for all citizens and resident aliens as a means of simplifying public and private transactions.

[6] The BSP has ongoing partnerships with the Department of Education (DepEd), Overseas Workers Welfare Administration (OWWA), the Philippine Army (PA), and soon with the Armed Forces of the Philippines (AFP) and the Civil Service Commission (CSC) on financial education.

Recent initiatives were implemented which allows the use of technology to streamline the conduct of banking activities and ensuring that technology-related risks, including anti-money laundering (AML) and other concerns with respect to fintech, are properly addressed and/or are mitigated. In 2019, the BSP issued the guidelines on streamlining of licensing requirements for BSFIs that intend to offer electronic payment and financial services (EPFS).[7] The enhancement of technology and cyber-risk reporting and notification requirement was also issued in 2018.[8] This allows the BSP to have ready access to accurate, timely and actionable information regarding BSFIs' technology risk profiles as well as the evolving cyber-threat environment. Moreover, the Financial Technology Sub-Sector (FTSS) under the Financial Supervision Sector was created in 2018 which focuses on fintech related matters. Two units comprise the FTSS, the Payment System Oversight Department and the Technology Risk and Innovation Supervision Department.[9] The former is the BSP's dedicated unit for the formal oversight of the national payment system (NPS) while the latter conducts IT supervision and examination of banks and non-bank financial institutions.

Governance and risk management will be enhanced to promote risk culture. In strengthening risk governance, the BSP is guided by the concept of proportionality towards achieving (a) enhanced risk management systems, and (b) sound capital and liquidity position of supervised financial institutions. A study is being conducted by the BSP to strengthen organizational conduct and culture among banks.

Enhanced risk management systems. In an effort to further strengthen corporate governance and promote effective risk management across BSFIs, the BSP has instituted various strategic policy reforms. These reforms aim to seam the gap with international standards and to provide overarching principles and expectations. A number of initiatives were implemented that raised the bar on risk management, particularly in the areas of liquidity, information technology and cyber security.

Sound capital and liquidity position. The BSP has made significant strides in adopting the Basel III reform package. Aside from the minimum capital requirements, the BSP has also embarked on a four-phased program to further streghthen the liquidity position of the banking system. The first phase covers the enhancement of the liquidity risk management guidelines.[10] The second phase is on the amendment to the LCR and the introduction of a minimum liquidity ratio (MLR)[11] requirement for stand-alone TBs, R/CBs and quasi-banks (QBs). Meanwhile, the LCR framework was later expanded to include U/KBs' subsidiary banks. The third phase covers the adoption of the Standards on Net Stable Funding Ratio (NSFR) of 100 percent starting 01 January 2019 (extended to 01 January 2020) aimed at promoting longer-term resilience by requiring banks to fund their activities with more stable sources of funding over a one-year period.[12]. The fourth phase will cover the intraday liquidity reporting guidelines (upcoming) which will enable the banking supervisors to improve the monitoring of bank's management

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7 Under Circular No. 1033 dated 22 February 2019.
8 Under Circular No. 1019 dated 31 October 2018.
9 Formerly the Core Information Technology (IT) Specialist Group.
10 Circular No. 981 dated 3 November 2017 – Guidelines on Liquidity Risk Management
11 Circular No. 996 dated 08 February 2018 which requires stand-alone TBs, R/CBs and QBs a separate MLR of 20 percent by 1 January 2019. The MLR is a percentage of a covered institution's eligible stock of liquid assets to its qualifying liabilities.
12 Circular No. 1007 dated 6 June 2018.

of intraday liquidity risk and its ability to meet payment and settlement obligations on a timely basis under both normal and stressed conditions.

Comprehensive supervision will continue. The increasing sophistication of financial products, interconnectedness among financial institutions, and the rapidly changing technology entail the BSP to continue the comprehensive supervision of BSFIs. Thus, to enhance the quality of policy decisions, the Financial Supervision Sector (FSS) of the BSP, conducts empirical research and proactive surveillance of the domestic, regional and global economies as well as updates in international standards to support supervisory policy initiatives and to foster an integrated policy response to risk.

The new BSP Charter or R.A. No. 11211 dated 14 February 2019, embodies a package of reforms that will further align its operations with global best practices, improve the BSP's corporate viability, and enhance its capacity for crafting proactive policies amid rising interlinkages in the financial markets and the broader economy. In particular, the new BSP Charter widens the coverage of institutions under the BSP supervision to include money service businesses, credit granting businesses and payment system operators. Since the BSP recognizes that non-banking activities can pose material risks to the safety and integrity of the financial system, thus, the inclusion of credit granting businesses is another step in strengthening the country's anti-money laundering (AML) regime. Under the new charter, these business entities will be required to have appropriate risk management system to identify, measure, monitor and manage money laundering and terrorist financing risks.

Meanwhile, the new BSP Charter also puts the payment and settlement systems (PSS) under the BSP regulation. The PSS are crucial for the smooth flow of financial transactions and to maintain public confidence in the financial system. Together with Republic Act No. 11127 or the "The National Payment Systems Act", the new charter provides the central bank with an enhanced legal and regulatory framework in providing a steadying hand to the financial system.

Moreover, collaboration with BSP stakeholders through conduct of regular dialogues will be strengthened. This includes the regular conduct of Bank Supervision Policy Committee (BSPC)[13] meetings with financial industry associations, cooperation with co-regulators under the Financial Sector Forum (FSF)[14] and Financial Stability Coordination Council (FSCC)[15], participation in forums organized by industry organizations, bilateral discussions and written queries with banks.

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[13] The BSPC is comprised of the heads of the Financial Supervision Sector (FSS) and its Subsectors, the Reserves Management Departments I and II, the Department of Economic Research, the Center for Monetary and Financial Policy and the Department of Economic Statistics. It is at the forefront of the BSP's initiatives to enhance strategic partnership with the financial community. Through the BSPC, the BSP is apprised of financial industry developments which ensure the continued relevance and responsiveness of supervisory policy. The platform is an interactive venue in informing the industry of the BSP's policy direction, supervisory approach and stakeholder expectations.

[14] The FSF is a voluntary cooperative endeavor of domestic financial regulators (i.e. the BSP, the Securities and Exchange Commission [SEC], the Insurance Commission [IC], and the Philippine Deposit Insurance Corporation [PDIC]) to provide an institutionalized framework for coordinating the supervision and regulation of the financial system, while preserving each agency's mandate.

[15] The FSCC is a voluntary interagency council composed of the Department of Finance (DOF), the SEC, the IC, the PDIC, the Bureau of the Treasury (BTr) and the BSP. The FSCC's main task is to identify, manage and mitigate the buildup of systemic risks consistent with the overall prudential objective of financial stability.

BANGKO SENTRAL NG PILIPINAS

SUPERVISORY POLICY AND RESEARCH DEPARTMENT

BANKING SECTOR OUTLOOK SURVEY
For the Semester Ended 31 December 2018

Respondent Details

Name of Bank ______________________
Type of Bank ______________________
Respondent ______________________
Designation/Title ______________________
Telephone Number ______________________
Email Address ______________________

Instructions:

1. Kindly accomplish the following survey questionnaire to the best of your knowledge.
2. Please provide the required response by either providing the figures/statements or checking (✓) the appropriate space.

I. Growth Outlook

1. What is your forecast average GDP growth for the next 2 years? ____________

2. What is your overall outlook for the Philippine banking system for the next 2 years?
   ______ Stronger ______ Stable ______ Weaker

3. What is the Bank's forecast growth/level for the following indicators for the next 2 years?
   Percentage growth of assets ______
   Percentage growth of loan portfolio ______
   Percentage growth of deposit liabilities ______
   Net income growth ______
   Net Interest Margin ______
   Return on Equity ______
   Non-Performing Loans to total loans in percent ______
   Capital Adequacy Ratio ______
   Leverage Ratio ______
   Liquidity Coverage Ratio / Minimum Liquidity Ratio, as applicable ______

4. What products/services will be the focus of the Bank for the next 2 years? Kindly check all applicable answers.
   ______ Corporate banking
   ______ MSME lending ______ Real estate lending
   ______ Green technology ______ Other corporate loans
   ______ Project financing
   Payment and settlement services, e.g., cash transfers, NRPS, please specify
   ______ ______________
   ______ Retail banking
   ______ Motor vehicle loans ______ Salary loans
   ______ Real estate loans ______ Credit cards

____________ ____________
____________ Other retail loans, please state ________________
____________ Payment and settlement services, e.g., e-money, NRPS, please specify ____________
______ Investment banking
______ Private banking
______ Trade financing
______ Trust products
______ Cross-selling
______ Treasury operations
______ Others. Please state ____

5. What are the top 3 industries that will be the focus of the Bank's lending in the next 2 years?
______ Agriculture, Forestry and Fishing
______ Mining and Quarrying
______ Manufacturing
______ Information and Communication
______ Financial and Insurance Activities
______ Electricity, Gas, Steam and Air-Conditioning Supply
______ Wholesale and Retail Trade, Repair of Motor Vehicles, Motorcycles
______ Accommodation and Food Service Activities
______ Others. Please state ____
________ Transportation and Storage
________ Real Estate Activities
________ Consumer Loans
________ Construction

II. Business Strategy

6. What are the top 2 strategic priorities of the Bank for the next 2 years?
______ **Reshape** the bank, i.e., restructure operations, develop partnerships with FinTech companies/other financial organizations
______ **Reinforce** the bank, i.e., meet compliance requirements - regulatory, reporting, tax, risk management
______ **Protect** the bank, i.e., manage reputational and operational risks, uphold consumer protection, enhance data/cybersecurity, boost capital, liquidity and leverage ratios
______ **Optimize** the bank, i.e., digitize operations and customer service, leverage on technology for strategic efficiency
______ **Grow** the bank, i.e., recruit/retain talents, invest in technology, develop new products, expand client base, pursue financial inclusion initiatives
______ Others. Please state ____

Kindly state the specific strategic priorities (e.g., Reshape – restructure operations; and Optimize – digitize operations) ______________________________

7. What is the Bank's strategic business direction in the next 2 years?
______ Domestic bank engaged in target retail and business customers
______ Regional champion specializing in the Philippine market
______ Global bank providing specialized products and services to global clients
______ Global super bank providing a full range of products and services to global clients
______ Others. Please state ____

Kindly state the specific strategic business direction (e.g., Domestic bank catering to the community, or Global bank champion of digital financial services or treasury products)

____

8. In 2 years, what percent of the total volume of your Bank's transactions will be conducted over the internet, mobile phones or other electronic means? _______________

III. Operational Performance

9. How do you maintain growth in an era of intense market competition, heightened customer expectation and non-traditional market entrants? Kindly check all applicable answers.
   ______ Developing new capabilities for products/services
   ______ Adoption of technology in many if not all aspects of the business
   ______ Cross-selling
   ______ Increasing fees on existing products
   ______ Expanding market reach, digitally or through new products/services
   ______ Expanding geographic market -
      ________ Other areas in the country   ________ South Asia and Middle East
      ________ ASEAN and Oceania   ________ Europe
      ________ North East Asia   ________ Americas
   ______ Leveraging on close client relationships to grow products/services
   ______ Others. Please state ________________________________

10. Do you currently use technology and operating models* to address the following?

	Yes	No
Margin pressure	______	______
Operational performance	______	______
Customer experience	______	______
Expansion of client base	______	______
Brand management	______	______
Compliance	______	______
Risk management	______	______
Internal controls	______	______
Business continuity	______	______
Others. Please list. ______________		
______________		
______________		

* How the bank runs its operations (e.g., decentralizing operations or introducing more cost efficient processes and technologies) or delivers value to customers (e.g., moving low-value transactions to self-service channels such as ATMs and online and/or mobile banking).

11. How do you maintain profitability amid regulatory and market pressures? Kindly check all applicable answers.
   ______ Restructuring internal organization, including outsourcing non-core business activities
   ______ Pursuing organic growth
   ______ Pursuing merger and acquisition (M&A) strategies
   ______ Hiring/retaining key talents
   ______ Maintaining efficient operations
   ______ Leveraging on technology to cut costs
   ______ Others. Please state ________________________________

IV. Impact of Supervision/Regulation to the Bank

12. Among the BSP regulations, what are five areas that present the most challenge in terms of compliance? Please select and describe the concern. Use additional sheet if necessary
   ______ Basel III capital requirements
   ______ Basel III liquidity requirements
   ______ Internal Capital Adequacy Assessment Process

______ Corporate governance requirements
______ Related party transaction requirements
______ DOSRI requirements and limits
______ Single Borrowers' Limit
______ Mandatory credits to agri-agra and MSME
______ Credit risk management
______ Operational risk management
______ IT risk management
______ Liquidity risk management
______ Other areas of risk management (e.g., stress testing, risk governance)
______ Anti-money laundering and combating the financing of terrorism requirements
______ Licensing requirements for electronic banking services and operations
______ Licensing requirements for trust and other fiduciary business activities/products
______ Licensing requirements for derivatives transactions
______ Licensing requirements for cross-selling
______ Foreign exchange transactions requirements and limits
______ Philippine Financial Reporting Standards 9
______ Reportorial requirements
______ Financial Consumer Protection Framework
______ Others. Please state ____

13. What area/s of regulation/supervision should the BSP strengthen to promote the sustained stability of the banking system?

____

____

V. Risk Assessment

14. What are the top 5 risks to the Bank's operations?
______ Global risks, e.g., global growth, sovereign risk/contagion, external funding, others
______ Macroeconomic risks, e.g., domestic growth, inflation, fiscal deficit, etc.
______ Global and/or domestic geopolitical risks
______ Possible downturn in the real estate market
______ Over-regulation
______ Technology risk
______ Financial market risks, specify:
________ Interest rate risk
________ FX risk
________ Liquidity risk
________ Hot money flows
______ Institutional risks, specify:
________ Asset quality/Credit risk
________ Money laundering risk
________ Regulatory / compliance risk
________ Reputational risk
________ Market competition
________ Hiring/retention of talents
________ Cybersecurity threats
______ General risks, i.e., terrorism, climate change
______ Others. Please state ____

15. How do you strengthen the Bank against external headwinds?
______ Increase capitalization
______ Keep a high level of liquid assets
______ Enhance risk management systems
________ Upgrade personnel capabilities
________ Strengthen client relationships
________ Pursue M&A activities
______ Others. Please state ____

VI. Organizational Conduct and Risk Culture

16. Are you satisfied with the level and maturity of "risk culture", as well as the strength of risk governance standards in your Bank?

    ______ Highly dissatisfied ______ Not satisfied ______ Neutral
    ______ Satisfied ______ Highly satisfied

17. What are the top 3 strengths of the Bank's risk governance framework?

    ______ Board of director and senior management oversight
    ______ Fitness and propriety of directors and officers
    ______ Comprehensive risk management policies
    ______ Strong risk culture and values within the Bank
    ______ Highly effective control functions - risk management, compliance and internal audit
    ______ Highly effective models/system for risk management, risk data aggregation and risk reporting
    ______ Highly effective policies and procedures on whistleblowing
    ______ Appropriate risk appetite for the Bank's business, resources, and capital
    ______ Appropriate group structure that promotes checks and balances, as well as consistency of policies, practices and strategies
    ______ Transparency of internal procedures, i.e., hiring, performance evaluation, compensation and promotion of personnel, related party transactions, etc.
    ______ Others. Please describe. ______________________________

18. Among the factors cited in item 17, kindly list 3 areas that the Bank would need to strengthen for the next 2 years.

    a. ______________________________
    b. ______________________________
    c. ______________________________

19. Are inputs from audit, risk and/or compliance functions considered in board/senior management business decisions/strategies?

	Risk	Audit	Compliance
Never			
Sometimes			
Always			

20. Are employees of the Bank bound by a Code of Ethics/Conduct in the workplace?

    ______ Yes ______ No

    If yes, kindly specify the source of the Code of Ethics, i.e., formulated by the Bank, adopted from industry association, etc. ______________________________

    If yes, kindly check aspects of business covered by the Code of Ethics/Conduct

    ______ Product development ______ Personnel recruitment and termination
    ______ Marketing ______ Renumeration andincentives
    ______ Profit targets ______ Staff promotion
    ______ Adoption of business models ______ Staff rotation
    ______ Shareholder returns ______ Whistleblowing and grievance escalation policies
    ______ Staff development ______ Risk-taking and controls
    ______ Customer dealings ______ Change management
    ______ Review of the Bank's brand and reputational standing
    ______ Senior management accountability and governance

______ Staff assessment of senior management performance
______ Appointment of independent director and management control functions

If no, kindly specify internal documents/guidelines/practice that serves as balance to promote appropriate behavior in the workplace. ________________________________

Area/s of regulation/supervision that the BSP should strengthen to promote the sustained stability of the banking system

Domestic UKBs
AMLA
IT risk management
A more considerate leeway for AML compliance of banks, particularly on IT-dependent deliverables
Allow use of internal models for capital and risk management especially operating risk
Capital requirement
Continue and review foreign exchange regulations
Corporate Governance
Cyber Security /Strengthen supervision on IT/IT Security/Cyberthreats/Fintech licensing
Governance on blockchain and the token economy
Grants and subsidies for Banks that promotes innovation, research and development (similar to that provided by developed countries like Singa
More directional role in policy setting
Provide metrics on the development, maturity, stregthening the risk culture and values
Re-evaluation of agri agra
Regulations covering operations FinTech Companies, money service banks, and cryptocurrencies are needed as these are not covered by
Regulations on sustainability reporting, for more transparency and alignment with global reporting standards.
Review appropriateness of certain regulations such as RBU and FCDU

Foreign U/KBs
Adopt a more liberal approach to the foreign exchange market and allow two way trading in the fixed income market to allow for true price
Advancement in cybersecurity capabilities
Align banking laws and regulations with global market practices
AMLA; Simplification of AML KYC requirements including the creation of a market KYV utility
BSP should promote price stability in a highly competitive environment
BSP to continue introduce new rules or regulations on foreign exchange transaction in the country
Conduct of risked based regulations and prioritization of key areas for banks under supervision
Conduct regular dialogue with industry practitioners to provide venue to raisespecific issues or concerns i.e. IOD meetings with the custodians
Consider accepting electronic documents instead of requiring documents/certifications with wet signature. For example, SWIFT confirmations for Authority to Disclose and issuance of Certificate of Inward Remittance
Constant refresh of relevant guidance/ regulation versus evolving market
Continue strengthen corporate governance and risk management and monitoring of real estate exposures
Enhance regulatory reporting system
IT regulations
Liquidity risk management
Promote fintech and regtech; Prudential measures to protect the consumers availing financial services of unregulated entities/ FINTECH companies; Consider strengthening monitoring process over FINTECH activities as well as encourage more automation and digitalization
Review and adopt international best practice on the independence of the Trustee/Custodian, the Fund Manager and the Fund Administrator/
Review the prohibition of non-resident funds from placement in the ODF/TDF
Security/data protection and creation of secured, reliable and effecient system for bank's use e.g. Credit Information System, Real Estate Mortga
Streamlining of regulatory reporting requirements
Update the derivatives regulations such as Agri-agra and MSME requirements

Subsidiary TBs
Review of Agri-Agra Regulations
Availability of shared credit information across BSP-supervised institutions
Compliance with AMLA
Consistency in the drive towards financial inclusion, specifically, looking into the new liquidity provisions
Constant refresh of relevant guidance/regulation vs evolving market – e.g. mandatory sectoral lending
Corporate governance standard
Cyber security
Enforcement of the industry's standardized documents (ULAMA)
ICAAP
Reduction in the reserve requirment gap between TBs and KBs
Review the prohibition of non-resident funds from placement in the ODF/TDF
Sound risk management sytem

Stand-alone TBs
AMLA requirements
BSP should supervise large financial lenders who operate under shadow banking
Capital adequacy requirement
Credit risk management
Hire people with experiece in operating banks especially the examiners so that they will understand that one size doesn't fit to all
IT Risk Management
Liquidity risk management
Regulations pertaining to microfinance; insurance on agri loans; interoperability of banks
Regulatory compliance
Relaxation of imposition of penalty for non-compliance with the RA 10000 (Agri-agra)
Risk management

R/CBs
Basel III capital requirements
BSP should consider the capabilities and readiness of RBs in terms of strategies and systems related to financial inclusion.eg. NRPS (RBs will need core banking system readily capable of application program interface to cater the derivatives of the BSP
Capitalization
Corporate governance and risk management
Credit risk management
Financial Inclusion
IT risk management/cyber security management
Related party transaction requirements
Liquidity Risk Management
Strengthen the support on the rural banking sector
Proportionality in terms of regulations and examination

BANKING SECTOR OUTLOOK SURVEY

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