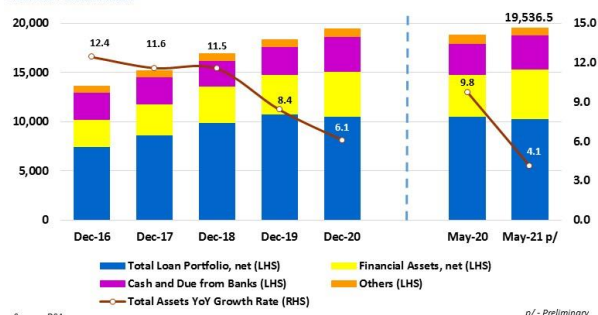


## Banking Sector Developments

### *The Philippine banking system registered modest growth amid the COVID-19 pandemic*

- Total assets of the Philippine banking system (PBS) increased by 4.1 percent year-on-year (YoY), albeit with decelerated growth, to P19.5 trillion as of end-May 2021 (Figure 1).

Figure 1. Philippine Banking System  
Total Assets  
Amounts in Billion Pesos, Growth Rates in Percent  
As of End-Period Indicated

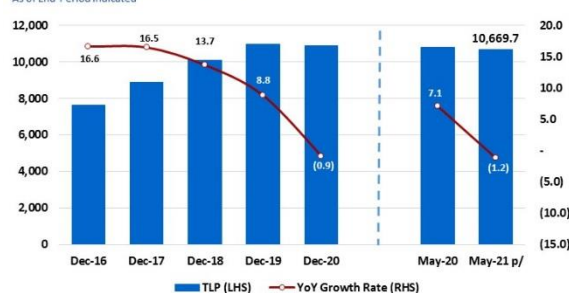


Source: DSA

p/ - Preliminary

- Asset expansion remained positive and was funded by deposit generation, bond issuances and capital infusion.
- By banking group, universal and commercial banks (U/KBs) had the biggest share of the total assets of the banking system at 92.6 percent (P18.1 trillion), followed by thrift banks (TBs) at 5.9 percent (P1.1 trillion) and rural and cooperative banks (RCBs) at 1.5 percent (P0.3 trillion).
- The tepid credit growth of the PBS is expected as the pandemic-induced recession in the real sector caught up and weighed on the financial sector. Gross total loan portfolio (TLP) went down by 1.2 percent YoY to P10.7 trillion as of end-May 2021, slower than the 7.1 percent growth rate posted in May 2020 (Figure 2). Meanwhile, bank credit-to-GDP (annualized, nominal) ratio stood at 59.8 percent as of end-March 2021.

Figure 2. Philippine Banking System  
Gross Total Loan Portfolio (TLP)  
Amounts in Billion Pesos, Growth Rates in Percent  
As of End-Period Indicated



- The BSP's accommodative policy stance has helped keep market interest rates low. It has been observed that the policy rate cuts implemented by the BSP have been passed on by banks to consumers through lower and declining loan interest rates.
- The overall mean weighted average interest rates (WAIR) on loans of U/KBs went down to 5.3 percent as of end-May 2021 from 8.2 percent as of end-March 2020 (start of quarantine period) and 5.7 percent as of end-September 2020. The overall median WAIR declined to 4.9 percent as of end-May 2021 from 5.8 percent as of end-March 2020 and 5.0 percent as of end-September 2020. In particular, a declining trend was generally observed in both mean and median WAIR of loans to private corporations and individuals, as well as microenterprise, small and medium enterprise, and agrarian reform and other agricultural loans (Table 1).

Table 1. Comparative Interest Rates\* by Type of Loans  
Ratios in Percent, For End-Periods Indicated

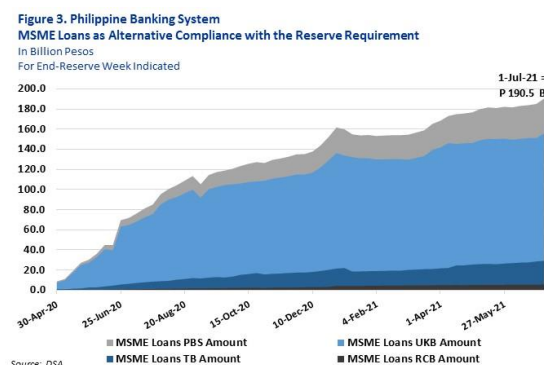
Type of Loans	End-March 2020		End-September 2020		End-May 2021	
	Mean WAIR	Median WAIR	Mean WAIR	Median WAIR	Mean WAIR	Median WAIR
Loans to Government	7.9	4.3	4.3	3.6	4.8	4.0
Loans to Private Corporations	7.2	5.4	5.1	4.8	4.6	4.5
Contracts to Sell	6.1	6.8	5.5	6.1	5.8	6.4
Agrarian Reform and Other	6.4	5.3	5.0	4.3	4.0	3.9
Agricultural Loans						
Small and Medium Enterprise Loans	7.9	6.4	5.9	6.2	5.9	5.9
Microenterprise Loans	10.9	8.4	8.4	7.9	7.8	6.4
Loans to Individuals	14.4	11.1	9.9	8.8	9.3	8.6
<b>Overall</b>	<b>8.2</b>	<b>5.8</b>	<b>5.7</b>	<b>5.0</b>	<b>5.3</b>	<b>4.9</b>

\* Refers to Weighted Average Interest Rates (WAIR) on loans of U/KBs; excludes outlier data of several banks  
Source: DSA

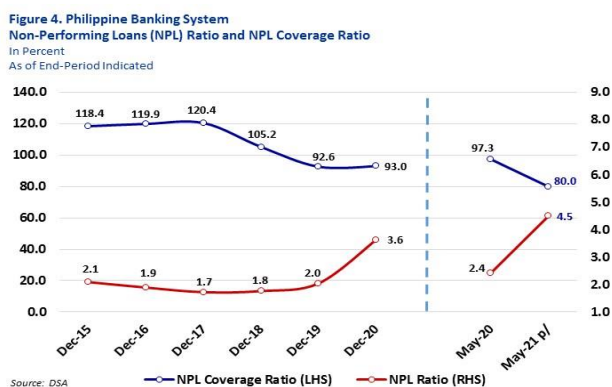
- The BSP's menu of regulatory relief measures aims to support the recovery of the vulnerable sectors such as micro, small and medium enterprises (MSMEs) and large enterprises (LEs) that have been affected by the COVID-19 pandemic.
- Toward this end, the BSP allowed banks to use loans to MSMEs and LEs that are not affiliated with conglomerates as alternative compliance

with the reserve requirements against deposit liabilities and deposit substitutes.

- For the reserve week ending 1 July 2021, the banking system allocated an average of P190.5 billion loans to MSMEs for compliance with the reserve requirements. This is a substantial increase from the P8.7 billion in MSME loans reported in April 2020. This also represents 13.0 percent of total required reserves (Figure 3).



- Meanwhile, loans of banks to LEs used as alternative compliance with the reserve requirements amounted to P33.3 billion or 2.3 percent of total required reserves for the reserve week ending 1 July 2021.
- The quality of the PBS' loan portfolio was manageable amid the COVID-19 pandemic. As of end-May 2021, the banking system's non-performing loan (NPL) ratio stood at 4.5 percent, higher than the 2.4 percent ratio recorded the same period last year (Figure 4).



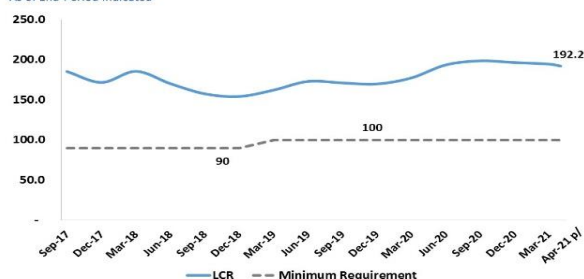
- Across banking groups, U/KBs' NPL ratio went up to 4.0 percent from last year's 2.0 percent ratio. The NPL ratios of TBs and RCBs increased to 8.5 percent and 14.4 percent from last year's 5.7 percent and 11.2 percent ratios, respectively.
- The increase in NPLs was matched by higher loan loss provisioning. Banks began recognizing

loan loss provisions since the start of 2020 to provide cushion in anticipation of the adverse impact of the pandemic on their loan portfolios. This resulted to a high NPL coverage ratio of 80.0 percent as of end-May 2021, albeit lower than the 97.3 percent ratio as of end-May 2020.

- Across banking groups, U/KBs posted a high NPL coverage ratio of 85.4 percent. Meanwhile, the expected credit losses of TBs and RCBs remained well-covered with NPL coverage ratios of 55.1 percent and 58.3 percent, respectively.
- The banking system's funding mainly came from deposits at 77.4 percent (P15.1 trillion), capital at 12.8 percent (P2.5 trillion) and bonds payable at 3.6 percent (P0.7 trillion).
- Total deposit liabilities of the banking system increased by 5.7 percent YoY to P 15.1 trillion as of end-May 2021.
- By banking group, U/KBs had the largest share of deposit liabilities at 92.6 percent (P14.0 trillion), followed by TBs at 6.0 percent (P0.9 trillion) and RCBs at 1.4 percent (P0.2 trillion) as of end-May 2021.
- The U/KB industry posted a YoY deposit growth of 5.7 percent during the period. Meanwhile, deposits of the TB and RCB industries went up by 4.9 percent and 14.1 percent YoY, respectively, during the same period.
- Bonds payable grew by 12.2 percent YoY to P0.7 trillion as of end-May 2021.
- The capital adequacy ratios (CARs) of the U/KB industry on solo and consolidated bases are well-above the minimum thresholds set by the BSP at 10 percent and the Bank for International Settlements (BIS) at 8 percent. As of end-March 2021, the CARs of the U/KB industry stood at 16.8 percent and 17.4 percent on solo and consolidated bases, respectively.
- The U/KB industry's Basel III Leverage Ratio (BLR) as of end-March 2021 stood at 9.5 percent on solo basis and 10.1 percent on consolidated basis, well-above the BSP and international thresholds of 5.0 percent and 3.0 percent, respectively. The BLR relates the level of a bank's Tier 1 capital as against its total on-book and off-book exposure.
- The U/KB industry's solo liquidity coverage ratio (LCR) stood at 192.2 percent as of end-April 2021, above the regulatory minimum of 100 percent

(Figure 5). The high LCRs of U/KBs indicate banks' ability to fund requirements during short-term liquidity shocks.

Figure 5. Universal and Commercial Banks Liquidity Coverage Ratio (LCR) In Percent As of End-Period Indicated



Source: DSA

p/l - Preliminary

- As of end-March 2021, the minimum liquidity ratios (MLRs) of stand-alone TBs, rural banks (RBs) and cooperative banks (CBs) stood at 33.8 percent, 58.9 percent and 38.7 percent, respectively, surpassing the minimum requirement.<sup>1</sup>
- As of end-March 2021, U/KBs' net stable funding ratio (NSFR) stood at 145.1 percent and 145.4 percent on solo and consolidated bases, respectively, well-above the BSP regulatory threshold of 100 percent. These figures indicate availability of more stable funding to serve bank customers in the medium term.
- The banking system remained on positive bottom line but net profit declined by 5.7 percent YoY to P52.5 billion for the quarter-ended March 2021.
- The Provision for Credit Losses on Loans and Other Financial Assets amounting to P23.2 billion for the quarter-ended March 2021 brought down the banking system's net profit for the said period.
- Meanwhile, annualized net profit declined by 34.4 percent YoY to P152.1 billion for the period-ended March 2021.
- Return on assets (ROA) registered at 0.8 percent for the period-ended March 2021, lower than the 1.3 percent ratio recorded for March 2020. Return on equity (ROE) weakened to 6.4 percent from the previous year's 10.4 percent.
- Net interest margin (NIM) slightly went down to 3.7 percent for the period-ended March 2021 from the previous year's 3.8 percent.
- The cost-to-income ratio stood at 55.4 percent for the period-ended March 2021 and has been

maintained below 65 percent for the past six years.

- Banks' physical network continued to expand. The number of bank offices expanded to 13,108 as of end-May 2021 on account of new other offices added to the overall network. This network is composed of 524 head offices (HOs) and 12,584 other offices.
- Results of the Banking Sector Outlook Survey (BSOS) for the First Semester of 2021 showed that the outlook on the PBS remains stable with expectations of double-digit growth in assets, loans, investments, deposits, and net income for the next two years. Majority of the respondent banks continue to expect their NPL ratio to exceed five percent while more banks intend to report higher NPL coverage ratio of more than 50.0 percent to 100.0 percent. The PBS also intends to maintain capital and liquidity buffers at levels higher than domestic and global standards.

## Non-Bank Sector Developments

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

- As of end-December 2020, the total number of NBQBs stood at 7, composed of two (2) investment houses (IH), four (4) Financing Companies (FC), and one (1) other NBQB. In terms of network, NBQBs have a total of 7 head offices and 127 other offices.
- NBQBs posted a decline in total assets to P193.0 billion as of end-December 2020. The industry, however, remained profitable as it posted a net income of P0.7 billion for the year-ended December 2020 albeit at a lower level than in 2019.

### Non-Stock Savings and Loans Associations (NSSLAs)

- As of end-December 2020, there are 63 NSSLAs with 137 branches operating in the Philippines. The industry posted a 6.5 percent increase in total assets to P260.8 billion as of end-September 2020, mainly due to the 3.6 percent YoY increase in gross loans.
- Capital accounts, which remain a major funding source for NSSLAs, rose by 7.9 percent YoY to P173.9 billion as of end-September 2020. Deposit liabilities expanded by 25.7 percent YoY to

<sup>1</sup> As a relief measure, the BSP reduced the MLR from 20 percent to 16 percent until end-December 2021.

P69.0 billion as of end-September 2020. Meanwhile, the industry posted a net profit of P16.6 billion, higher by 2.6 percent than the same period in 2019.

### ***Pawnshops and Money Service Businesses (MSBs)***

- Pawnshops and MSBs remain as major financial access points in the country particularly in providing remittance services and other financial services in the countryside. As of end-December 2020, there are 14,641 pawnshop offices and 7,214 MSB offices in the country, surpassing that of banks' 13,044 offices.
- Most pawnshops offer corollary remittance activity while most MSBs are large-scale operators. During the year 2020, 194 pawnshop entities also functioned as a remittance transfer company/foreign exchange dealer/ money changer (RTC/FXD/MC). Meanwhile, MSBs are dominated by large-scale RTC HOs and branches that may also offer MC/FXD business with average monthly network volume of transactions of at least P75 million.