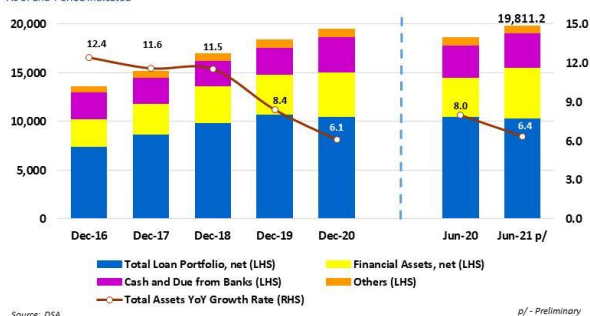


Banking Sector Developments¹

The Philippine banking system posted modest growth amid the ongoing COVID-19 pandemic

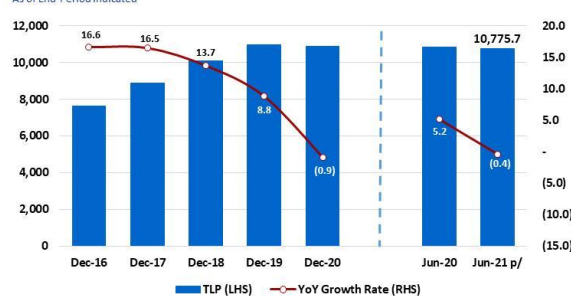
- Total assets of the Philippine banking system (PBS) increased by 6.4 percent year-on-year (YoY), albeit with decelerated growth, to P19.8 trillion as of end-June 2021 (Figure 1).

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



- 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 92.5 percent (P18.3 trillion), followed by thrift banks (TBs) at 6.0 percent (P1.2 trillion) and rural and cooperative banks (RCBs) at 1.5 percent (P0.3 trillion).
- Credit growth of the PBS has remained muted 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 0.4 percent YoY to P10.8 trillion as of end-June 2021, slower than the 5.2 percent growth rate posted in June 2020 (Figure 2). Meanwhile, the ratio of TLP to annualized nominal gross domestic product (GDP) stood at 58.3 percent as of end-June 2021.

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



Source: DSA

p/ - Preliminary

- 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 5.2 percent as of end-June 2021 from 8.2 percent as of end-March 2020 (start of quarantine period) and 5.7 percent as of end-September 2020. Similarly, the overall median WAIR declined to 4.9 percent as of end-June 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 (Table 1).

Table 1. Comparative Interest Rates* by Type of Loans

Ratios in Percent, For End-Periods Indicated

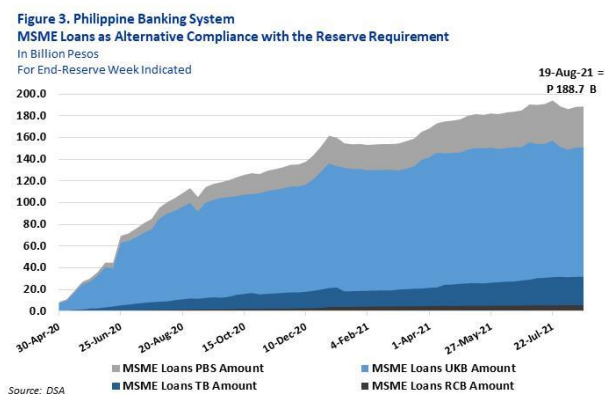
Type of Loans	End-March 2020		End-September 2020		End-June 2021	
	Mean WAIR	Median WAIR	Mean WAIR	Median WAIR	Mean WAIR	Median WAIR
Loans to Government	7.9	4.3	4.3	3.6	4.7	3.5
Loans to Private Corporations	7.2	5.4	5.1	4.8	4.6	4.5
Contracts to Sell	6.1	6.8	5.5	6.1	7.1	6.6
Agrarian Reform and Other Agricultural Loans	6.4	5.3	5.0	4.3	4.3	4.3
Small and Medium Enterprise Loans	7.9	6.4	5.9	6.2	6.1	5.5
Microenterprise Loans	10.9	8.4	8.4	7.9	8.4	6.8
Loans to Individuals	14.4	11.1	9.9	8.8	9.5	8.5
Overall	8.2	5.8	5.7	5.0	5.2	4.9

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

- Banks continued to lend amid the pandemic. The total amount of new loans granted by U/KBs for the month of June 2021 stood at P728.7 billion. This represents 7.4 percent of the U/KB industry's TLP of P9.8 trillion as of end-June 2021. Loans to private corporations had the largest share of new loans granted at 72.8 percent (P530.4 billion) followed by loans to individuals at 12.6 percent (P91.8 billion). Meanwhile, new loans granted to micro-, small and medium enterprises (MSMEs) stood at 4.5 percent (P32.4 billion) for the same period.

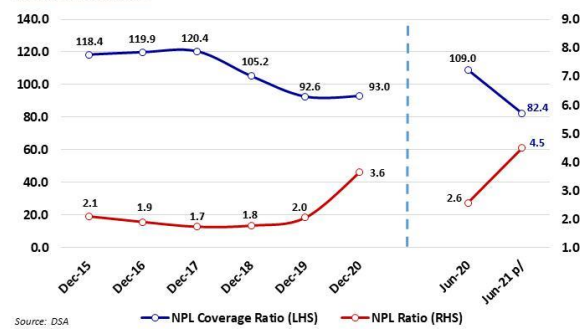
¹ Data are preliminary.

- The BSP's menu of regulatory relief measures aims to support the recovery of the vulnerable sectors such as 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 19 August 2021, the banking system allocated an average of P188.7 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 12.7 percent of total required reserves (Figure 3).



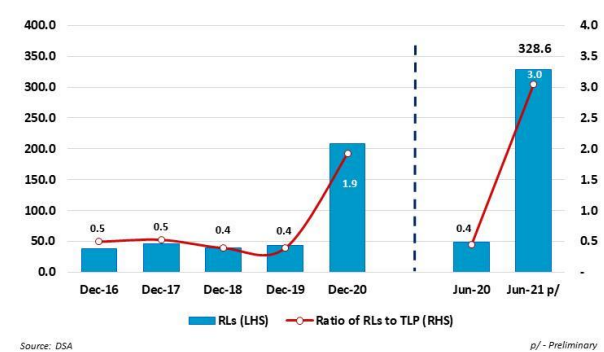
- Meanwhile, loans of banks to LEs used as alternative compliance with the reserve requirements amounted to P37.1 billion or 2.5 percent of total required reserves for the reserve week ending 19 August 2021.
- The quality of the PBS' loan portfolio was manageable amid the COVID-19 pandemic. As of end-June 2021, the PBS's non-performing loan (NPL) ratio stood at 4.5 percent, higher than the 2.6 percent ratio recorded the same period last year (Figure 4).

**Figure 4. Philippine Banking System
Non-Performing Loans (NPL) Ratio and NPL Coverage Ratio**
In Percent
As of End-Period Indicated



- As of end-June 2021, the level of restructured loans (RLs) of banks jumped to P328.6 billion, almost seven times the P48.7 billion posted for the same period last year. This was equivalent to 3.0 percent of TLP, up from 0.4 percent recorded a year ago (Figure 5).

**Figure 5. Philippine Banking System
Restructured Loans (RLs), Gross**
Amounts in Billion Pesos, Ratios in Percent
As of End-Period Indicated



- The past due ratio² likewise increased to 5.4 percent from the 3.5 percent ratio posted as of end-June 2020.
- Across banking groups, U/KBs' gross NPL ratio went up to 4.0 percent from last year's 2.1 percent ratio. The NPL ratios of TBs and RCBs increased to 8.2 percent and 14.1 percent from last year's 5.8 percent and 13.5 percent ratios, respectively.
- The increase in NPLs of the PBS was matched by high loan loss provisioning. Early recognition of provision for credit losses in 2020 resulted to the high NPL coverage ratio of the PBS which stood at 82.4 percent as of end-June 2021, albeit lower than the 109.0 percent ratio as of end-June 2020.
- Across banking groups, U/KBs posted a high NPL coverage ratio of 87.6 percent. Meanwhile, the expected credit losses of TBs and RCBs remained well-covered with NPL coverage ratios of 57.4 percent and 59.4 percent, respectively.

² Ratio of past due loans to TLP

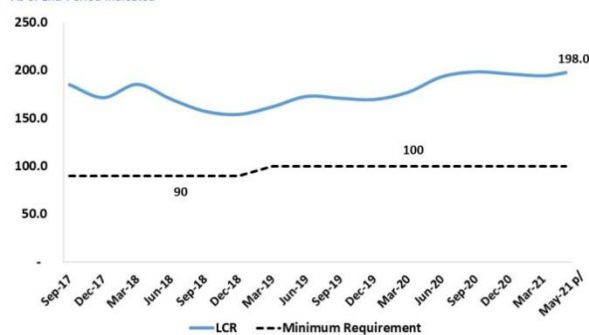
- The banking system's funding mainly came from deposits at 77.5 percent (P15.3 trillion), capital at 12.7 percent (P2.5 trillion) and bonds payable at 3.5 percent (P0.7 trillion).
- Total deposit liabilities of the banking system increased by 7.6 percent YoY to P15.3 trillion as of end-June 2021.
- By banking group, U/KBs had the largest share of deposit liabilities at 92.5 percent (P14.2 trillion), followed by TBs at 6.0 percent (P0.9 trillion) and RCBs at 1.5 percent (P0.2 trillion) as of end-June 2021.
- The U/KB industry posted a YoY deposit growth of 7.6 percent during the period. Meanwhile, deposits of the TB and RCB industries went up by 6.8 percent and 12.0 percent YoY, respectively, during the same period.
- Bonds payable of the PBS grew by 10.9 percent YoY to P0.7 trillion as of end-June 2021.
- The 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 against its total on-book and off-book exposure.
- The U/KB industry's solo liquidity coverage ratio (LCR) stood at 198.0 percent as of end-May 2021, above the regulatory minimum of 100 percent (Figure 6). The high LCRs of U/KBs indicate banks' ability to fund requirements during short-term liquidity shocks.

Figure 6. Universal and Commercial Banks

Liquidity Coverage Ratio (LCR)

In Percent

As of End-Period Indicated



Source: DSA

p/ - Preliminary

- As of end-May 2021, the minimum liquidity ratios (MLRs) of stand-alone TBs, rural banks (RBs) and cooperative banks (CBs) stood 36.4 percent, 59.9 percent and 40.7 percent, respectively, surpassing the minimum requirement.³
- The U/KB industry's net stable funding ratio (NSFR) stood at 143.6 percent on solo basis as of end-May 2021, 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 as the net profit of the banking system went up by 42.9 percent YoY to P122.7 billion for the semester-ended June 2021.
- Meanwhile, annualized net profit declined by 6.6 percent YoY to P192.0 billion for the period-ended June 2021.
- Return on assets (ROA) registered at 1.0 percent for the period-ended June 2021, slightly lower than the 1.1 percent recorded for June 2020. Return on equity (ROE) also weakened to 8.0 percent from the previous year's 9.0 percent.
- Net interest margin (NIM) went down to 3.7 percent for the period-ended June 2021 from the previous year's 3.9 percent.
- The cost-to-income ratio stood at 56.0 percent for the period-ended June 2021 and has been maintained below 65 percent for the past six (6) years.
- Banks' physical network continued to expand. The number of bank offices increased to 13,114

³ As a relief measure, the BSP reduced the MLR from 20 percent to 16 percent until end-December 2021.

as of end-June 2021 on account of new other offices added to the overall network. This network is composed of 523 head offices (HOs) and 12,591 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 (5%) 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-June 2021, the total number of NBQBs stood at six (6), composed of one (1) investment house (IH), four (4) Financing Companies (FCs), and one (1) other NBQB. In terms of network, the 4 FCs have a total of 126 other offices.
- NBQBs posted a decline in total assets to P171.7 billion as of end-March 2021. The industry, however, remained profitable as it posted a net income of P0.05 billion for the quarter-ended March 2021.

Non-Stock Savings and Loans Associations (NSSLAs)

- As of end-June 2021, there are 62 NSSLAs with 138 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 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. There are a total 14,899 pawnshop offices (1,108 HOs and 13,791 other offices) as of end-June 2021. Meanwhile, there are 7,214 MSB offices as of end-December 2020.
- 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.