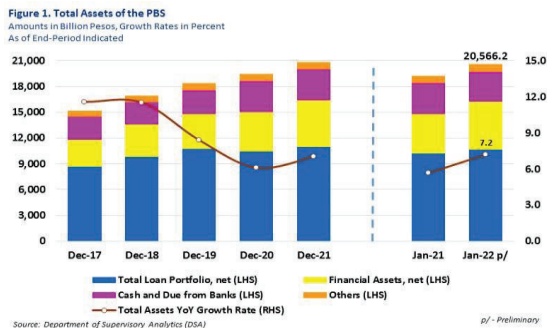


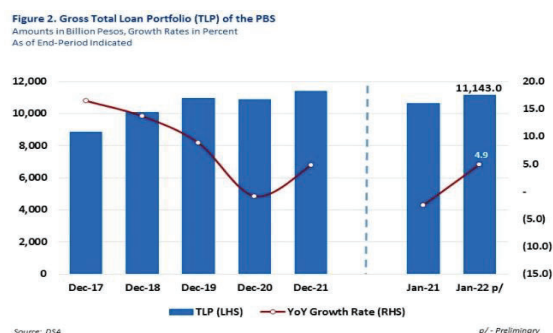
Banking Sector Developments¹

The Philippine banking system sustained its solid footing amid the pandemic.

- Total assets of the Philippine banking system (PBS) grew by 7.2 percent year-on-year (YoY) to P20.6 trillion as of end-January 2022 (Figure 1). This growth rate was higher than the 5.7 percent rate in January 2021.



- The asset growth was funded mainly by deposit generation and capital infusion.
- By banking group, universal and commercial banks (U/KBs) had the largest share of the total assets of the PBS at 94.1 percent (P19.4 trillion), followed by thrift banks (TBs) at 4.4 percent (P904.0 billion) and rural and cooperative banks (RCBs) at 1.5 percent (P312.0 billion)².
- Gross total loan portfolio (TLP) of the PBS further expanded by 4.9 percent YoY to P11.1 trillion as of end-January 2022 (Figure 2). This growth rate was a turnaround from the 2.5 percent contraction in January 2021. This was also the sixth consecutive month of positive YoY growth rate in TLP. In terms of the economy, the ratio of gross TLP to annualized nominal gross domestic product (GDP) stood at 58.8 percent as of end-December 2021.



¹ Data are preliminary.

- As the BSP kept policy rates low and maintained an accommodative policy stance, banks were able to pass on lower interest rates to their clients.
- As of end-December 2021, the overall mean weighted average interest rates (WAIR) on loans of U/KBs went down to 5.3 percent from 8.2 percent as of end-March 2020 (start of quarantine period) and 5.5 percent as of end-December 2020. Meanwhile, the overall median WAIR registered at 5.2 percent as of end-December 2021, lower than the 5.8 percent as of end-March 2020 but higher than the 4.8 percent as of end-December 2020. Overall, a declining trend was observed in both mean and median WAIR of loans to private corporations, as well as small and medium enterprise loans (Table 1).

Table 1. Comparative Interest Rates* by Type of Loans

Rates in Percent, For End-Periods Indicated

| Type of Loans | End-March 2020 | | End-December 2020 | | End-December 2021 | |
|--|----------------|-------------|-------------------|-------------|-------------------|-------------|
| | Mean WAIR | Median WAIR | Mean WAIR | Median WAIR | Mean WAIR | Median WAIR |
| Loans to Government | 7.9 | 4.3 | 9.0 | 3.6 | 6.4 | 4.8 |
| Loans to Private Corporations | 7.2 | 5.4 | 4.9 | 4.7 | 4.8 | 4.7 |
| Contracts to Sell | 6.1 | 6.8 | 5.3 | 6.6 | 6.6 | 6.6 |
| Agrarian Reform and Other Agricultural Loans | 6.4 | 5.3 | 4.8 | 4.4 | 4.9 | 4.2 |
| Small and Medium Enterprise Loans | 7.9 | 6.4 | 6.4 | 6.4 | 5.9 | 5.8 |
| Microenterprise Loans | 10.9 | 8.4 | 7.7 | 7.3 | 8.4 | 7.4 |
| Loans to Individuals | 14.4 | 11.1 | 8.6 | 8.1 | 8.9 | 8.6 |
| Overall | 8.2 | 5.8 | 5.5 | 4.8 | 5.3 | 5.2 |

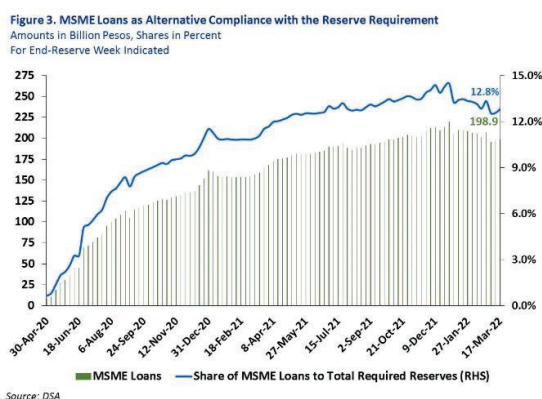
* Refers to weighted average interest rates (WAIR) on loans of U/KBs; excludes outlier data of several banks
Source: DSA

- Banks continued to support the credit requirements in the country even during crisis. The total amount of new loans granted by U/KBs for the month of December 2021 stood at P1.0 trillion. This represents 10.0 percent of the U/KB industry's TLP of P10.5 trillion as of end-December 2021. Loans to private corporations had the largest share of new loans granted at 73.4 percent (P764.3 billion) followed by loans to individuals at 12.7 percent (P131.8 billion). Meanwhile, agri-agra loans and micro-, small and medium enterprise (MSME) loans had 7.3 percent share (P75.6 billion) and 4.6 percent share (P48.4 billion), respectively, of new loans granted for the same period.
- To ensure continuous support to banking operations and key economic sectors including MSMEs, most of the BSP's relief measures remained in place. In line with this, the BSP allowed banks to use loans to MSMEs and large enterprises (LEs) that are not affiliated with conglomerates as alternative compliance with

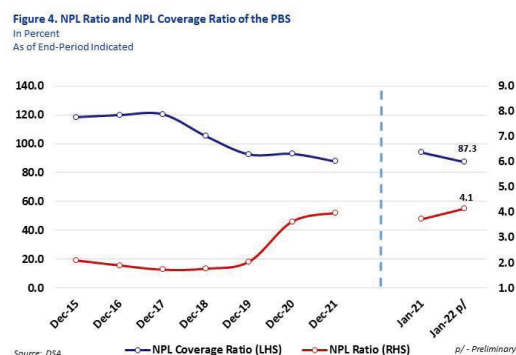
² As of end-December 2021.

the reserve requirements against deposit liabilities and deposit substitutes.

- For the reserve week ending 17 March 2022, the PBS allocated an average of P198.9 billion loans to MSMEs for compliance with the reserve requirements. This was a substantial increase from the P8.7 billion in MSME loans reported in April 2020 and accounted for 12.8 percent of total required reserves for the reserve week (Figure 3).

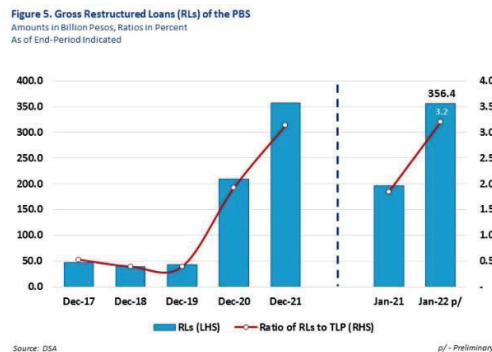


- Meanwhile, loans of banks to LEs used as alternative compliance with the reserve requirements amounted to P67.4 billion or 4.3 percent of total required reserves for the same reserve week.
- Amid the pandemic, loan quality remained manageable and within the BSP's expectations. The PBS' gross non-performing loan (NPL) ratio³ stood at 4.1 percent as of end-January 2022, up from the 3.7 percent ratio as of end-January 2021 but only slightly higher than the 4.0 percent ratio as of end-December 2021 (Figure 4).



³ Ratio of gross NPLs to TLP.
⁴ Ratio of past due loans to TLP.
⁵ As of end-December 2021.

- Banks likewise continued to provide credit and relief to their borrowers. As of end-January 2022, the level of restructured loans (RLs) of banks grew by 81.8 percent YoY to P356.4 billion. This was equivalent to 3.2 percent of TLP, up from the 1.8 percent ratio recorded the same period a year ago (Figure 5).



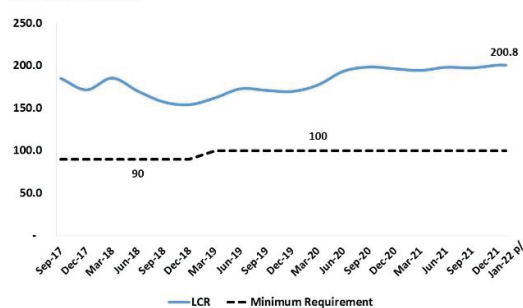
- The past due ratio⁴ was posted at 4.8 percent as of end-January 2022, relatively unchanged from the same period a year ago.
- Across banking groups, U/KBs' and TBs' gross NPL ratios went up to 3.8 percent and 8.5 percent, respectively, as of end-January 2022 from the previous year's 3.2 percent and 8.3 percent. Meanwhile, RCBs' NPL ratio improved to 12.8 percent⁵ from the previous year's 14.7 percent.
- The increase in NPLs of the PBS was matched by ample loan loss reserves. Early recognition of provision for credit losses in 2020 resulted to the high NPL coverage ratio⁶ of the PBS which stood at 87.3 percent as of end-January 2022, albeit lower than the 93.9 percent ratio as of end-January 2021.
- Across banking groups, U/KBs recorded a high NPL coverage ratio of 90.9 percent as of end-January 2022. Meanwhile, TBs and RCBs remained well-covered with NPL coverage ratios of 64.8 percent and 66.3 percent⁷, respectively.
- The PBS' funding came mainly from deposits at 78.0 percent (P16.0 trillion), capital at 12.4 percent (P2.5 trillion) and bonds payable at 3.3 percent (P674.9 billion).

⁶ Ratio of allowance for credit losses - TLP to gross NPLs.
⁷ As of end-December 2021.

- Total deposit liabilities of the PBS expanded by 8.5 percent YoY to P16.0 trillion as of end-January 2022. This growth rate is higher than the 8.1 percent recorded in January 2021.
- By deposit type, savings deposits had the biggest share of total deposits at 48.7 percent, followed by demand and NOW accounts at 29.8 percent share and time certificates of deposit at 20.2 percent share. LTNCDs had a minimal share at 1.2 percent.
- By banking group, U/KBs had the largest share of deposits at 94.2 percent (P15.1 trillion) as of end-January 2022, followed by TBs at 4.4 percent (P698.4 billion) and RCBs at 1.4 percent (P232.5 billion⁸).
- The U/KB industry posted a YoY deposit growth rate of 10.1 percent as of end-January 2022. However, deposits of the TB industry went down by 18.6 percent YoY as of the same reference period. Meanwhile, RCBs' deposits grew by 13.0 percent YoY as of end-December 2021.
- Bonds payable of the PBS declined by 2.8 percent YoY to P674.9 billion as of end-January 2022.
- The CARs of the U/KB industry and the PBS on solo and consolidated bases were well-above the minimum thresholds of 10 percent set by the BSP and the 8 percent set by the Bank for International Settlements (BIS). As of end-September 2021, the CARs of the U/KB industry stood at 16.9 percent and 17.4 percent on solo and consolidated bases, respectively. The PBS posted CARs of 17.1 percent on solo basis and 17.6 percent on consolidated basis. Meanwhile, the U/KB industry's common equity tier 1 (CET1) ratio stood at 15.7 percent and 16.3 percent on solo and consolidated bases, respectively.
- The U/KB industry's Basel III Leverage Ratio (BLR) as of end-September 2021 stood 9.6 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 and consolidated liquidity coverage ratio (LCR) of 200.9 percent and 200.6 percent, respectively, as of end-December 2021 remained well-above the

100 percent minimum threshold. Preliminary data as of end-January 2022 disclosed that the U/KB industry's solo LCR stood at 200.8 percent (Figure 6). For smaller banks, as of end-January 2022, the liquidity ratios of stand-alone TBs, rural banks (RBs) and cooperative banks (CBs) were 37.3 percent, 63.6 percent, and 41.0 percent, respectively, surpassing the required minimum liquidity ratio (MLR).⁹

Figure 6. LCR of the U/KB Industry (Solo Basis)
In Percent
As of End-Period Indicated



Source: DSA

p/ - Preliminary

- Meanwhile, the net stable funding ratio (NSFR) of U/KB industry remained well-above the BSP minimum 100 percent at 143.4 percent on solo basis and 145.1 percent on consolidated basis on consolidated basis as of end-December 2021.
- The high LCRs and NSFRs of U/KBs indicated banks' ability to fund requirements during short- and medium-term liquidity shocks.
- The PBS sustained its profitability amid the pandemic as the net profit of the system went up by 44.8 percent YoY to P224.8 billion for the period-ended December 2021. This growth was a turnaround from the 32.7 percent YoY drop in net profit for the period-ended December 2020.
- Return on assets (RoA)¹⁰ for the period-ended December 2021 registered at 1.1 percent, higher than the 0.8 percent ratio recorded a year ago. Return on equity (RoE)¹¹ inched up to 9.0 percent from the previous year's 6.5 percent.
- Net interest margin (NIM)¹² went down to 3.5 percent for the period-ended December 2021 from the previous year's 3.8 percent.
- The cost-to-income ratio¹³ stood at 58.7 percent for the period-ended December 2021 and has been maintained below 65 percent for the past six (6) years.

⁸ As of end-December 2021.

⁹ As a relief measure, the BSP reduced the MLR from 20 percent to 16 percent until end-December 2022.

¹⁰ Ratio of annualized net profit or loss to average assets.

¹¹ Ratio of annualized net profit or loss to average capital.

¹² Ratio of annualized net interest income to average earning assets.

¹³ Ratio of annualized non-interest expenses to annualized total operating income.

- Banks' physical network continued to expand. The number of bank offices increased to 13,177 as of end-January 2022 on account of new other offices added to the overall network. This network is composed of 504 head offices (HOs) and 12,673 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 (2) years (i.e., 2022 to 2023). Majority of the respondent banks continue to expect their NPL ratio to exceed 5 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 Developments¹⁴

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

- As of end-December 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 121 branches.
- NBQBs' total assets contracted by 12.8 percent YoY to P168.3 billion as of end-December 2021. The industry, however, remained profitable as net profit rose by 96.6 percent to P1.3 billion for the period-ended December 2021.

Non-Stock Savings and Loans Associations (NSSLAs)

- As of end-December 2021, there are 60 NSSLAs with 138 branches operating in the Philippines. The industry posted a 6.1 percent YoY increase in total assets to P283.3 billion as of end-December 2021, mainly due to the 5.1 percent YoY increase in gross loans.
- Capital accounts, which remain the main source of funds for NSSLAs, increased by 3.2 percent to P180.2 billion as of end-December 2021. Deposit liabilities expanded by 14.0 percent YoY to P80.6 billion as of the same reference period. Meanwhile, the industry's net profit went up by 25.8 percent YoY to

P22.1 billion for the period-ended December 2021.

Pawnshops and Money Service Businesses (MSBs)

- Pawnshops and MSBs remain as major financial service access points in the country particularly in providing immediate liquidity to borrowers, remittance services and other financial services in the countryside. As of end-December 2021, there are a total of 15,388 pawnshop offices (1,152 HOs and 14,236 branches). Meanwhile, there are 7,449 MSB offices as of end-December 2021 (748 HOs and 6,701 branches).
- Most pawnshops offer corollary remittance activities while most MSBs are large-scale operators. As of end-December 2021, there are 11,815 pawnshop offices under the type "C" license. These pawnshops have corollary remittance activities requiring BSP registration. Meanwhile, MSBs are dominated by large-scale operators with average monthly network volume of transactions of at least P75 million. These type "A" operators have a total of 5,078 offices as of the same reference period.

¹⁴ Data are preliminary.