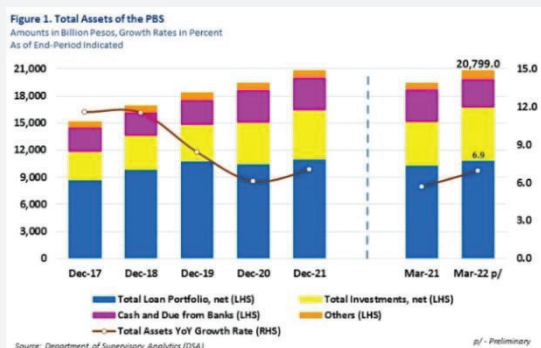




## Banking Sector Developments<sup>1</sup>

The Philippine banking system (PBS) sustained its solid footing as shown by continued growth in assets, deposits and profit, as well as stable capital and liquidity buffers and ample loan loss reserves.

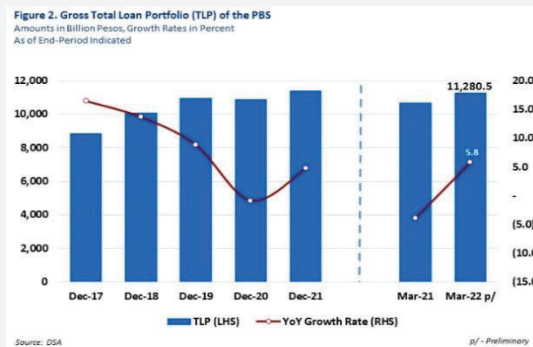
- Total assets of the PBS grew by 6.9 percent year-on-year (YoY) to P20.8 trillion as of end-March 2022 (Figure 1). This growth rate was higher than the 5.7 percent rate in March 2021.



- 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 94.0 percent (P19.6 trillion), followed by thrift banks (TBs) at 4.4 percent (P909.8 billion) and rural and cooperative banks (RCBs) at 1.6 percent (P329.0 billion).

<sup>1</sup> Data are preliminary.

- Total loan portfolio (TLP) of the PBS further expanded by 5.8 percent YoY to P11.3 trillion as of end-March 2022 (Figure 2). This growth rate was a turnaround from the 3.9 percent contraction in March 2021. This was also the eighth consecutive month of positive YoY growth rate in TLP. The loan expansion largely came from the real estate, information and communication, wholesale and retail trade, and manufacturing sectors.



- 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-March 2022, the overall *mean* weighted average interest rates (WAIR) on loans of U/KBs stood at 6.4 percent, lower than the 8.2 percent as of end-March 2020 (start of quarantine period) but higher than the 5.5 percent as of end-March 2021. Meanwhile, the

overall *median* WAIR registered at 5.2 percent as of end-March 2022, lower than the 5.8 percent as of end-March 2020 but higher than the 5.0 percent as of end-March 2021. Overall, a declining trend was observed in both mean and median WAIR of loans to private corporations, as well as agrarian reform and other agricultural (agri-agra) loans (Table 1).

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

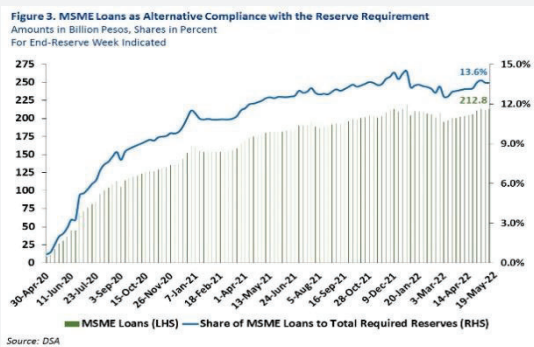
Type of Loans	End-March 2020		End-March 2021		End-March 2022	
	Mean WAIR	Median WAIR	Mean WAIR	Median WAIR	Mean WAIR	Median WAIR
Loans to Government	7.9	4.3	6.2	3.7	6.8	5.3
Loans to Private Corporations	7.2	5.4	4.9	4.6	5.1	4.4
Contracts to Sell	6.1	6.8	6.8	6.7	6.2	6.4
Agrarian Reform and Other Agricultural Loans	6.4	5.3	4.9	4.2	4.6	4.2
Small and Medium Enterprise Loans	7.9	6.4	6.5	5.8	7.4	6.3
Microenterprise Loans	10.9	8.4	11.5	6.5	11.3	7.9
Loans to Individuals	14.4	11.1	9.1	8.5	10.4	8.8
<b>Overall</b>	<b>8.2</b>	<b>5.8</b>	<b>5.5</b>	<b>5.0</b>	<b>6.4</b>	<b>5.2</b>

\* 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 March 2022 stood at P827.9 billion. This represents 7.8 percent of the U/KB industry's TLP of P10.6 trillion as of end-March 2022. Loans to private corporations had the largest share of new loans granted at 69.2 percent (P572.6 billion) followed by loans to individuals at 15.6 percent (P129.3 billion). Meanwhile, agri-agra loans and micro, small and medium enterprise (MSME) loans had 8.8 percent share (P73.3 billion) and 4.6 percent share (P38.2 billion), respectively, of new loans granted for the same period.

# RECENT TRENDS IN THE PHILIPPINE FINANCIAL SYSTEM

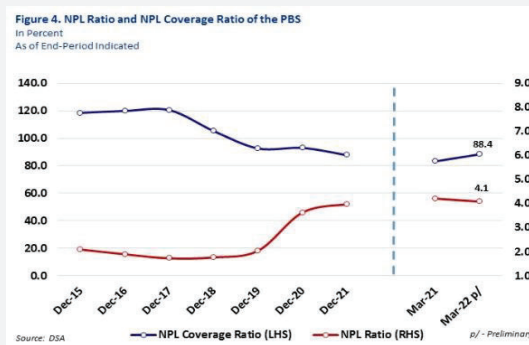
- To ensure continuous support to banking operations and key economic sectors including MSMEs, most of the BSP's relief measures remain in place. In line with this, the BSP allowed banks to use loans to MSMEs and large enterprises (LEs) that are not affiliated with conglomerates as alternative compliance with the reserve requirements against deposit liabilities and deposit substitutes<sup>2</sup>.
- For the reserve week ending 19 May 2022, the PBS allocated an average of P212.8 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 13.6 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 P65.0 billion or 4.2 percent of total required reserves for the same reserve week.

<sup>2</sup> This policy became effective on 24 April 2020 for loans to MSMEs and 29 May 2020 for loans to LEs and lapses on 29 December 2022 subject to early closure, if the aggregate limits of P300

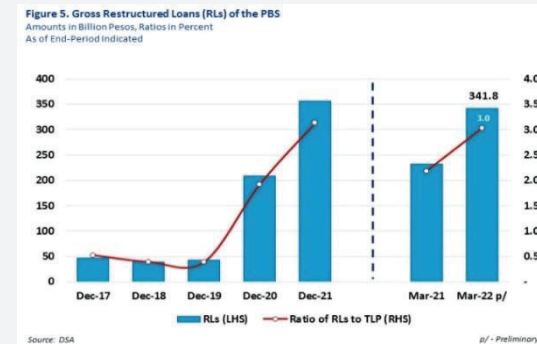
- Loan quality remained manageable and within the BSP's expectations. The PBS' gross non-performing loan (NPL) ratio<sup>3</sup> stood at 4.1 percent as of end-March 2022, lower than the 4.2 percent ratio as of end-March 2021 (Figure 4).



- Banks likewise continued to provide credit and relief to their borrowers. As of end-March 2022, the level of restructured loans (RLs) of banks grew by 46.7 percent YoY to P341.8 billion. This was equivalent to 3.0 percent of TLP, up from the 2.2 percent ratio posted the same period a year ago (Figure 5).

billion and P425 billion for loans to MSMEs and loans to LEs, respectively, are met prior to said date.

<sup>3</sup> Ratio of gross NPLs to TLP.



- The past due ratio<sup>4</sup> was recorded at 4.8 percent as of end-March 2022, lower than the 5.3 percent registered the same period a year ago.
- Across banking groups, U/KBs' and TBs' gross NPL ratios stood at 3.7 percent and 8.1 percent, respectively, as of end-March 2022, relatively unchanged from the previous year's ratios. Meanwhile, RCBs' NPL ratio improved to 12.6 percent from the previous year's 14.4 percent.
- The PBS' satisfactory loan quality was matched by ample loan loss reserves resulting to the NPL coverage ratio<sup>5</sup> of 88.4 percent as of end-March 2022, up from the 83.2 percent ratio as of end-March 2021.
- Across banking groups, U/KBs recorded a high NPL coverage ratio of 92.2 percent as of end-March 2022. Meanwhile, TBs and RCBs remained well-covered with NPL coverage ratios of 64.2 percent and 68.1 percent, respectively, as of the same reference period.

<sup>4</sup> Ratio of past due loans to TLP.

<sup>5</sup> Ratio of allowance for credit losses - TLP to gross NPLs.

# RECENT TRENDS IN THE PHILIPPINE FINANCIAL SYSTEM

- Investments in securities<sup>6</sup> increased by 24.1 percent YoY to P5.7 trillion as of end-March 2022. These were composed mostly of debt securities measured at amortized cost at P3.0 trillion (53.3 percent share) and financial assets measured at fair value through other comprehensive income (FVOCI) at P2.4 trillion (41.6 percent share). Financial assets measured at fair value through profit or loss (FVTPL) had a minimal share at P294.9 billion (5.1 percent share).
- The PBS' funding came mainly from deposits at 77.4 percent (P16.1 trillion), capital at 12.2 percent (P2.5 trillion) and bonds payable at 3.3 percent (P694.2 billion).
- Amid the pandemic, banks sustained the confidence of depositors with continued deposit growth. Total deposit liabilities of the PBS expanded by 7.2 percent YoY to P16.1 trillion as of end-March 2022. This growth rate however is lower than the 7.9 percent rate recorded in March 2021.
- By deposit type, savings deposits had the biggest share of total deposits at 48.5 percent, followed by demand and NOW accounts at 30.2 percent share and time certificates of deposit at 20.1 percent share. LTNCDs had a minimal share at 1.2 percent.
- By banking group, U/KBs had the largest share of deposits at 94.1 percent (P15.1 trillion) as of end-March 2022, followed by TBs at 4.4 percent (P704.7 billion) and RCBs at 1.5 percent (P245.5 billion).

<sup>6</sup> Gross of allowance for credit losses; excludes equity investments in subsidiaries/associates/joint ventures.

- The U/KB and RCB industries posted YoY deposit growth rates of 8.5 percent and 14.3 percent, respectively, as of end-March 2022. However, deposits of the TB industry went down by 17.5 percent YoY as of the same reference period mainly due to the merger of bank operations of a leading subsidiary TB with its parent bank in the beginning of 2022.
- In terms of interest rates on deposit accounts<sup>7</sup>, the median deposit interest rates of U/KBs on regular peso savings, kiddie savings deposits, and basic deposit accounts (BDAs) remained constant at 0.1 percent as of end-September 2021. Meanwhile, the TBs' median deposit interest rates on the same savings deposit products ranged from 0.1 percent to 0.5 percent as of end-September 2021. The median deposit interest rates of RCBs on regular peso and kiddie savings posted at 0.5 percent as of end-September 2021 while the median interest rates on BDAs settled at 0.3 percent.
- Bonds payable of the PBS decreased by 3.4 percent YoY to P694.2 billion as of end-March 2022.
- The CARs of the PBS and the U/KB industry 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-December 2021, the PBS posted CARs of 16.7 percent on solo basis and 17.2 percent on consolidated basis. The CARs of the U/KB industry stood at 16.5 percent and 17.1 percent

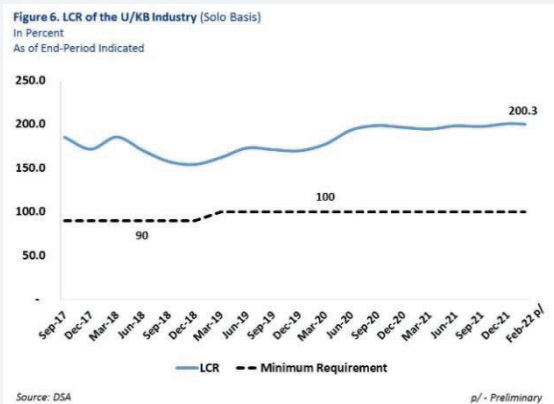
<sup>7</sup> These are the "walk-in" interest rates for basic savings deposit accounts (i.e. regular peso savings, kiddie savings deposits and BDAs).

on solo and consolidated bases, respectively. Meanwhile, the U/KB industry's common equity tier 1 (CET1) ratios stood at 15.3 percent and 15.9 percent on solo and consolidated bases, respectively.

- The U/KB industry's Basel III Leverage Ratios (BLRs) 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 liquidity ratios of banks were likewise well-above the minimum thresholds. Preliminary data as of end-February 2022 disclosed that the U/KB industry's solo liquidity coverage ratio (LCR) stood at 200.3 percent (Figure 6). Similarly, the liquidity ratios of stand-alone TBs, rural banks (RBs) and cooperative banks (CBs) registered at 37.1 percent, 64.1 percent, and 40.6 percent, respectively, as of the same reference period, surpassing the required minimum liquidity ratio (MLR).<sup>8</sup>

<sup>8</sup> As a relief measure, the BSP reduced the MLR from 20 percent to 16 percent until end-December 2022.

# RECENT TRENDS IN THE PHILIPPINE FINANCIAL SYSTEM



- Meanwhile, the net stable funding ratio (NSFR) of the U/KB industry remained well-above the BSP minimum 100 percent at 143.5 percent on solo basis as of end-February 2022.
- The high LCR and NSFR of U/KBs indicate banks' ability to meet both short- and medium-term funding requirements.
- The PBS sustained its profitability as the net profit of the system went up by 26.3 percent YoY to P66.3 billion for the period-ended March 2022. This growth was a turnaround from the 5.7 percent YoY decline in net profit for the period-ended March 2021. Meanwhile, annualized net profit rose by 56.9 percent YoY to P238.6 billion for the same period.

<sup>9</sup> Ratio of annualized net profit or loss to average assets.

<sup>10</sup> Ratio of annualized net profit or loss to average capital.

<sup>11</sup> Ratio of annualized net interest income to average earning assets.

- The improvement in net profit was mainly due to the increase in banks' interest income from loans and investments, as well as the decrease in interest expense on deposits.
- Return on assets (RoA)<sup>9</sup> for the period-ended March 2022 was posted at 1.2 percent, higher than the 0.8 percent ratio recorded a year ago. Return on equity (RoE)<sup>10</sup> inched up to 9.6 percent from the previous year's 6.4 percent.
- Net interest margin (NIM)<sup>11</sup> went down to 3.5 percent for the period-ended March 2022 from the previous year's 3.7 percent.
- The cost-to-income ratio<sup>12</sup> stood at 58.3 percent for the period-ended March 2022 and has been maintained below 65 percent for the past seven (7) years.
- Banks' physical network continued to expand. While the total number of banks declined to 499 head offices (HOs) in end-March 2022, the total number of other offices (composed of branches, branch-lite units, representative offices, remittance desk offices, marketing offices and sub-branches) rose to 12,683. This resulted to an increase in the number of bank offices to 13,182 as of end-March 2022.
- 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

<sup>12</sup> Ratio of annualized non-interest expenses to annualized total operating income.

<sup>13</sup> Data are preliminary.

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 Developments<sup>13</sup>

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

- As of end-March 2022, 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 declined by 2.6 percent YoY to P167.3 billion as of end-March 2022. The industry, however, remained profitable as net profit stood at P0.4 billion for the period-ended March 2022.

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

- As of end-March 2022, 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 total 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-March 2022, there are a total of 15,506 pawnshop offices (1,156 HOs and 14,350 branches). Meanwhile, there are 7,062 MSB offices as of end-March 2022 (734 HOs and 6,328 branches). This extensive market reach provides complementary and additional touchpoints to the banking system in accelerating the financial inclusion agenda of the BSP.
- Most pawnshops offer corollary remittance activities while most MSBs are large-scale operators. As of end-March 2022, there are 11,922 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 4,694 offices as of the same reference period.