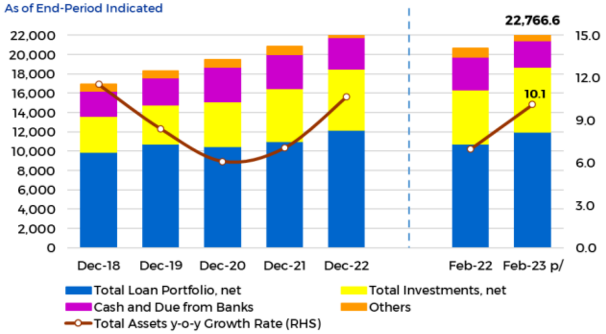
Banking Sector Developments[1]

The Philippine banking system (PBS) continued its strong performance as evidenced by sustained expansion in assets, deposits, and profit, as well as stable capital and liquidity buffers and ample provision for credit losses.

- Total assets of the PBS grew by 10.1 percent year-on-year (y-o-y) to ₱22.8 trillion as of end-February 2023 (Figure 1). This growth rate was higher than the 7.0 percent rate in February 2022 and the 9.4 percent growth rate last month.[2]

Figure 1. Total Assets of the PBS
Amounts in Billion ₱, Growth Rates in Percent
As of End-Period Indicated



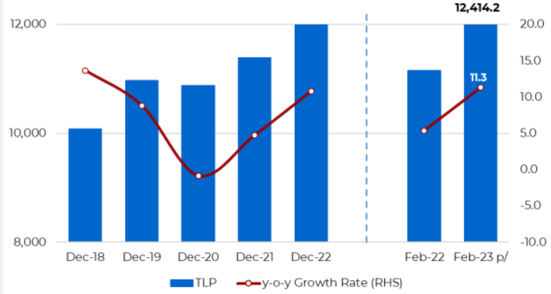
Source: Department of Supervisory Analytics (DSA) *p/ - Preliminary*

- The y-o-y asset growth was funded mainly by deposit generation.

- By banking group, universal and commercial banks (U/KBs) had the largest share of the total assets of the PBS at 94.2 percent (₱21.4 trillion), followed by thrift banks (TBs) at 4.2 percent (₱952.1 billion) and rural and cooperative banks (RCBs) at 1.6 percent (₱372.5 billion).[3]

- Credit activity has improved as gross total loan portfolio (TLP) of the PBS further expanded by 11.3 percent y-o-y to ₱12.4 trillion as of end-February 2023 (Figure 2). This growth rate, which marks the nineteenth consecutive month of positive y-o-y growth rate in gross TLP,[4] was an improvement from the 5.4 percent growth in February 2022 and higher than the 10.8 percent growth posted last month. As to economic activity, the loan growth was primarily driven by financial and insurance activities (up by 12.5 percent or ₱116.7 billion), wholesale and retail trade (up by 9.0 percent or ₱110.0 billion), electricity, gas, steam, and air-conditioning supply (up by 9.1 percent or ₱96.8 billion), manufacturing (up by 8.4 percent or ₱92.7 billion), information and communication (up by 18.5 percent or ₱91.7 billion), real estate activities (up by 3.9 percent or ₱85.4 billion), and household sectors particularly from salary-based general-purpose consumption loans (SBGPCLs, up by 68.8 percent or ₱147.1 billion) and credit card receivables (CCRs, up by 29.4 percent or ₱128.9 billion). Collectively, these sectors accounted for about 68.5 percent (₱8.5 trillion) of the PBS' gross TLP as of end-February 2023.

Figure 2. Gross Total Loan Portfolio (TLP) of the PBS
Amounts in Billion ₱, Growth Rates in Percent
As of End-Period Indicated



Source: DSA *p/ - Preliminary*

- Expansion in SBGPCLs[5] and CCRs were driven by households which primarily used their loan proceeds on basic goods,[6] recreation, dining, and transport, among others. Motor vehicle loans started to pick up in February 2023, increasing by 0.7 percent to ₱452.6 billion, reversing the 29-month contraction from September 2020 to January 2023. This mirrored the consumers' less pessimistic buying sentiment for motor vehicles.[7]

- Real estate had the largest share of TLP at 18.2 percent (₱2,254.5 billion), followed by wholesale and retail trade, manufacturing, and electricity, gas, steam, and air-conditioning supply with gross TLP shares of 10.7 percent (₱1,328.4 billion), 9.6 percent (₱1,196.6 billion) and 9.3 percent (₱1,158.4 billion), respectively. Loans for household consumption (₱1,417.7 billion), which

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[1] Data are preliminary. Growth rates pertain to y-o-y unless otherwise specified.

[2] Asset growth of the PBS as of end-February 2023, end-February 2022 and end- February 2021 stood at 10.1 percent, 7.0 percent, and 6.5 percent, respectively. The pre-pandemic compounded annual growth rate (CAGR) of total assets was 11.0 percent. Pre-pandemic CAGR is computed using end-December 2015 to end-December 2019 data.

[3] As of end-December 2022.

[4] Loan growth of the PBS remained lower than the pre-pandemic CAGR of 13.8 percent.

[5] SBGPCLs have been growing double digit for 11 consecutive months since April 2022.

[6] Based on the Consumer Expectations Survey (CES) for Q1 2023, majority of the household respondents used their loan proceeds in the last 12 months to purchase basic goods (52.1 percent), followed by business start-up/expansion (25.4 percent), education-related expenses (15.2 percent), health related expenses (13.3 percent), and payment of other debts (11.2 percent).

[7] Based on CES Q1 2023, consumer sentiment on buying motor vehicles was less pessimistic in Q1 2023 as confidence index (CI) turned less negative to -80.3 percent from -83.0 percent in Q4 2022 and -83.0 percent a year ago.

exclude loans to individuals for housing purposes, remained relatively stable at 11.4 percent of the PBS' gross total loans as of the same reference period.

- The BSP generally kept policy rates low and maintained an accommodative policy stance during the COVID-19 crisis. This enabled banks to pass on lower interest rates to their clients. However, with the full re-opening of the economy and amid persistent inflationary pressures, the BSP started to raise the policy rate[8] starting in the second quarter of 2022 after a series of policy rate cuts in 2020.

- Consequently, lending rates have started to inch up in 2022 with latest figures registering higher levels. Preliminary data indicate that for the period-ended February 2023, the overall *mean* WAIR on loans of U/KBs stood at 7.2 percent, lower than the 8.2 percent in March 2020 (start of quarantine period) but higher than the 5.5 percent in February 2022. Meanwhile, the overall *median* WAIR registered at 6.1 percent for the period-ended February 2023, higher than the 5.8 percent in March 2020 and the 4.8 percent in February 2022 (Table 1).[9]

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

Type of Loans	End-Mar 2020		End-Feb 2022		End-Feb 2023 p/	
	Mean WAIR	Median WAIR	Mean WAIR	Median WAIR	Mean WAIR	Median WAIR
Loans to Government	7.9	4.3	5.3	5.1	6.2	5.6
Loans to Private Corporations	7.2	5.4	4.4	4.3	6.0	5.7
Contracts to Sell	6.1	6.8	5.9	6.3	7.6	7.2
Agrarian Reform and Other Agricultural Loans	6.4	5.3	3.9	3.7	5.7	5.9
Small and Medium Enterprise Loans	7.9	6.4	6.2	5.8	7.3	6.7
Microenterprise Loans	10.9	8.4	8.8	7.4	17.0	8.0
Loans to Individuals	14.4	11.1	9.1	8.3	9.5	8.6
Overall	**8.2**	**5.8**	**5.5**	**4.8**	**7.2**	**6.1**

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

- With the continued recovery in the economy, the BSP has started to scale down the relief measures implemented during the COVID-19 crisis, except for those that promote lending to micro, small and medium enterprises (MSMEs). The relief measures that were extended until end-June 2023 include the reduced credit risk weight of loans granted to MSMEs and the utilization of loans to MSMEs as alternative compliance with the reserve requirements. Moreover, the temporary increase in Single Borrower's Limit to 30 percent was extended until 30 June 2023 as part of the six-month transition period on the amendments to the regulations on credit risk transfer.[10] This measure aims to promote the flow of liquidity at the wholesale level and to ensure sustained credit for big ticket/large-scale programs and projects.

- Preliminary data showed that the total amount of **new** loans granted[11] by U/KBs for the month of February 2023 stood at ₱756.4 billion or 6.5 percent of the industry's gross TLP of ₱11.6 trillion.[12] Loans to private corporations had the largest share of new loans granted at 67.2 percent (₱508.4 billion) followed by loans to individuals at 18.4 percent (₱138.8 billion). Meanwhile, agri-agra loans and MSME loans had 10.0 percent share (₱75.4 billion) and 4.0 percent share (₱30.3 billion), respectively, of new loans granted for the same period.

- Banks continued to provide credit relief to their borrowers albeit at a declining pace due to improving state of paying capacity of borrowers coming out of the pandemic. As of end-February 2023, the level of restructured loans of the PBS went down by 6.8 percent y-o-y to ₱320.5 billion. This was equivalent to 2.6 percent of gross TLP, lower than the 3.1 percent ratio recorded the same period a year ago but substantially higher by 7.1 times the amount of restructured loans reported in February 2020 of ₱45.0 billion prior to the pandemic (Figure 3).

[8] Since May 2022, the BSP has increased the policy rate by an aggregate of 425 basis points (bps). In particular, the BSP policy rate was increased by 25 bps effective 20 May 2022 and 24 June 2022, 75 bps effective 14 July 2022, 50 bps effective 19 August 2022 and 23 September 2022, 75 bps effective 18 November 2022, 50 bps effective 16 December 2022 and 16 February 2023, and 25 bps effective 24 March 2023.

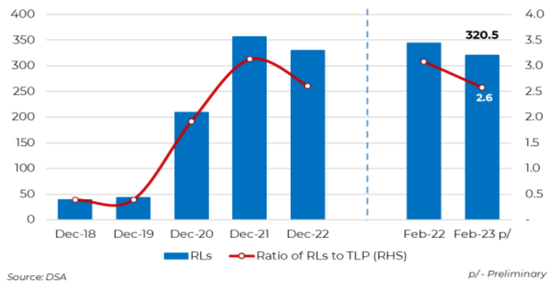
[9] Based on the Report on Interest Rates on Loans and Deposits (IRLD).

[10] Circular No. 1164 dated 5 January 2023

[11] Excludes loan renewals and restructured loans; excludes outlier data of several banks.

[12] This was lower than the ₱937.1 billion or 8.1 percent recorded for the month-ended January 2023 and the 7.0 percent posted for February 2022. **New** loans granted by U/KBs in 2021 and 2022 ranged from 6.0 to 10.2 percent of the industry's total outstanding loans for the reference month.

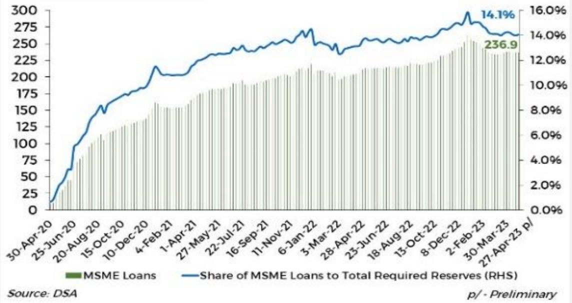
Figure 3. Gross Restructured Loans (RLs) of the PBS
Amounts in Billion ₱, Ratios in Percent
As of End-Period Indicated



- Availment of the BSP's relief measure on the use of new or re-financed loans to MSMEs and eligible large enterprises (LEs) as alternative compliance with the reserve requirements against deposit liabilities and deposit substitutes continues to be strong.

- For the reserve week ending 27 April 2023, the PBS allocated ₱236.9 billion of loans to MSMEs for compliance with the reserve requirements. This was a substantial increase from the ₱8.7 billion in MSME loans reported in April 2020 and accounted for 14.1 percent of total required reserves for the said reserve week (Figure 4).

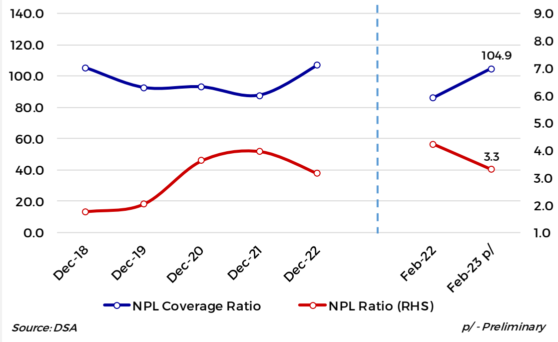
Figure 4. MSME Loans as Alternative Compliance with the Reserve Requirement
Amounts in Billion ₱, Shares in Percent
For End-Reserve Week Indicated



- Meanwhile, loans of banks to eligible LEs used as alternative compliance with the reserve requirements amounted to ₱65.5 billion or 3.9 percent of total required reserves for the same reserve week.

- The non-performing loan (NPL) level declined by 13.0 percent y-o-y to ₱411.2 billion as of end-February 2023 from ₱472.7 billion, a reversal of the 9.6 percent y-o-y growth in February 2022. Consequently, the PBS' gross NPL ratio[13] eased to 3.31 percent as of end-February 2023, better than the 4.2 percent ratio posted in February 2022 but slightly higher than the 3.28 percent ratio registered last month (Figure 5). The NPLs declined owing to heightened collection efforts and easing payment strain on the part of borrowers resulting in upgrade in their loan classification status.

Figure 5. NPL Ratio and NPL Coverage Ratio of the PBS
In Percent
As of End-Period Indicated



- The PBS' satisfactory loan quality was accompanied by ample loan loss provisioning resulting in the NPL coverage ratio[14] of 104.9 percent as of end-February 2023, lower than the 106.3 percent a month ago but notably higher than the 86.1 percent ratio as of end-February 2022 (Figure 5).

- Across banking groups, U/KBs', and TBs' gross NPL ratios improved to 3.0 percent and 7.0 percent, respectively, as of end-February 2023 from the previous year's 3.9 percent and 8.9 percent. In the same manner, RCBs' NPL ratio went down to 8.9 percent as of end-December 2022 from the previous year's 12.8 percent.

- NPL coverage ratio across banking groups registered an increase from the same period a year ago. U/KBs posted an ample NPL coverage ratio of 111.3 percent as of end-February 2023. Meanwhile, TBs and RCBs' NPL coverage ratios stood at 66.3 percent as of end-February 2023 and 79.0 percent as of end-December 2022, respectively.[15]

[13] Ratio of gross NPLs to TLP, gross.
[14] Ratio of allowance for credit losses – TLP, gross to gross NPLs.
[15] NPL coverage ratio of U/KBs and TBs stood at 89.7 percent and 63.3 percent, respectively, as of end-February 2022. RCBs' NPL coverage ratio registered at 66.3 percent as of end-December 2021.

- The PBS' past due ratio[16] stood at 4.04 percent as of end-February 2023, better than the 5.00 percent from the same period a year ago but slightly higher than the 4.01 percent ratio recorded last month.

- Meanwhile, the PBS' gross real and other properties acquired (ROPA)[17] increased by 8.0 percent y-o-y to ₱140.8 billion as of end-February 2023 from ₱130.3 billion as of end-February 2022.[18] However, the ratio of ROPA to total assets remained low at only 0.62 percent and slightly declined from the 0.63 percent in end-February 2022.

- Investments in securities[19] rose by 21.0 percent y-o-y to ₱6.6 trillion as of end-February 2023. These were composed of investments in securities measured at amortized cost[20] at ₱4.0 trillion (60.9 percent share) and investments in securities measured at fair value through other comprehensive income[21] (FVOCI) at ₱2.2 trillion (34.2 percent share). Meanwhile, investments in securities measured at fair value through profit or loss (FVTPL) had a minimal share at ₱320.5 billion (4.9 percent share).

- A shift in portfolio investments particularly from securities measured at FVOCI to securities measured at amortized cost has been noted since October 2021. Specifically, securities measured at FVOCI dropped to 34.2 percent share of total portfolio investments in February 2023 from the 44.6 percent share in February 2022, contracting by 7.2 percent y-o-y. Meanwhile, the share of securities measured at amortized cost substantially increased to 60.9 percent in February 2023 from 50.7 percent a year ago, growing by 45.5 percent y-o-y as of the same reference period. Growth in securities measured at amortized cost has slowed down starting in December 2022, ending nine consecutive months of more than 50 percent growth since March 2022. These securities have been recording double-digit growth since June 2021. The observed shift is consistent with a rebalancing strategy that reduces mark-to-market (MTM) losses amid an increasing interest rate environment.[22]

- The PBS' funding came mainly from deposits at 76.1 percent (₱17.3 trillion), followed by capital at 12.2 percent (₱2.8 trillion), bills payable at 3.2 percent (₱724.5 billion), and bonds payable at 2.6 percent (₱587.2 billion).

- Amid the pandemic, the sustained confidence of depositors was evident in the continued deposit growth. Total deposits of the PBS expanded by 7.7 percent y-o-y to ₱17.3 trillion as of end-February 2023 from ₱16.1 trillion. This growth rate was lower than the 8.1 percent recorded in February 2022. These deposits were mostly peso-denominated and sourced from resident individuals and private corporations.

- By deposit type, savings deposits had the largest share of total deposits at 45.7 percent (₱7.9 trillion), followed by demand and NOW accounts at 29.0 percent share (₱5.0 trillion) and time deposits at 24.5 percent share (₱4.2 trillion). Long-Term Negotiable Certificates of Time Deposits (LTNCDs) had a minimal share at 0.8 percent (₱136.5 billion).

- By banking group, U/KBs had the largest share of deposits at 94.3 percent (₱16.3 trillion) as of end-February 2023, followed by TBs at 4.2 percent (₱723.4 billion) and RCBs at 1.5 percent (₱269.6 billion).[23]

- The U/KB industry posted y-o-y deposit growth rate of 7.6 percent as of end-February 2023. Similarly, the deposits of the TB industry and RCB industry grew y-o-y by 7.0 percent and 15.9 percent,[24] respectively, in the same reference period.

- As to nominal interest rates on deposit accounts,[25] the median rates of U/KBs[26] on regular peso savings deposit types as of end-December 2022 remained constant at 0.1 percent from the previous year's rates. For TBs, median rates on both regular peso savings deposits and BDAs stood at 0.3 percent, while

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[16] Ratio of past due loans to TLP, gross.

[17] Includes non-current assets held for sale and sales contract receivables

[18] ROPA growth of the PBS as of end-February 2023, end-February 2022 and end-February 2021 stood at 8.0 percent, 2.6 percent, and -0.3 percent, respectively. ROPA has been growing since the pandemic started, with the pre-pandemic CAGR of ROPA at only 0.6 percent.

[19] The amount, which is gross of allowance for credit losses, is comprised of investments in debt and equity securities and derivatives and excludes equity investments in subsidiaries/associates/joint ventures.

[20] By counterparty, debt securities issued by the National Government (NG) accounted for 79.9 percent (₱3.2 trillion) of total investments in securities measured at amortized cost.

[21] These investments in securities were mostly debt securities (₱2.2 trillion, 97.8 percent share). By counterparty, debt securities issued by the NG accounted for 69.5 percent (₱1.6 trillion) of total investments in securities measured at FVOCI.

[22] The observed rebalancing in 2020 from financial assets measured at amortized cost to FVOCI portfolio was largely from higher-yielding, longer-tenor securities to more liquid, shorter-tenor securities. The changes in the investment portfolio were primarily driven by liquidity considerations.

[23] As of end-December 2022.

[24] Ibid. Footnote 23.

[25] Source: Report on Bank Deposit Interest Rates (BDIR).

[26] For U/KBs, median rates ranged between 0.1 percent and 0.3 percent prior to the pandemic and settled at 0.1 percent from 2020 to 2022.

kiddie savings deposits had 0.1 percent.[27] For RCBs, the median rates remained constant at 0.5 percent on regular peso and kiddie savings deposits and 0.3 percent on BDAs from the rates recorded a year ago (Table 2).[28] Median rates for U/KBs, TBs and RCBs across these savings deposit products remained relatively unchanged when compared from a quarter ago.

Table 2. Nominal Rates* on Bank Deposit Accounts
Rates in Percent, For End-Periods Indicated

Type of Deposits	End-Dec 2021			End-Dec 2022 p/		
	UKBs	TBs	RCBs	UKBs	TBs	RCBs
Regular Peso Savings	0.1	0.1	0.5	0.1	0.3	0.5
Basic Deposit Accounts	0.1	0.5	0.3	0.1	0.3	0.3
Kiddie Savings	0.1	0.1	0.5	0.1	0.1	0.5

* Refers to nominal or walk-in rates offered by banks to their depositors.
p/ - Preliminary data
Source: DSA

- Meanwhile, the overall mean WAIR of U/KBs on peso-denominated deposits was at 1.19 percent for the month of February 2023, slightly lower than the 1.23 percent in March 2020, but higher than the 0.45 percent in February 2022. The overall median WAIR stood at 0.98 percent, higher than both the 0.86 percent and 0.42 percent posted in March 2020 and February 2022, respectively. The mean and median WAIR of U/KBs across all types of peso-denominated deposits declined from the rates posted a month ago[29] but were higher than the rates in February 2022 (Table 3). Likewise, the overall mean WAIR on all sub-accounts of peso-denominated savings went down from the rates registered a month ago[30] but inched up from rates posted a year ago. The median WAIR on these sub-accounts also increased from the rates in the prior year.

Table 3 Comparative Interest Rates* by Type of Deposits
Rates in Percent, For End-Periods Indicated

Type of Deposits	End-Mar 2020		End-Feb 2022		End-Feb 2023 p/	
	Mean WAIR	Median WAIR	Mean WAIR	Median WAIR	Mean WAIR	Median WAIR
Demand Deposit	1.23	0.25	0.20	0.11	0.34	0.12
Savings Deposit	0.86	0.32	0.34	0.13	0.80	0.22
Regular Savings Account	*0.81*	*0.27*	*0.30*	*0.12*	*0.53*	*0.14*
Kiddie and Teen Savings Account	*0.53*	*0.19*	*0.23*	*0.08*	*0.63*	*0.09*
Basic Deposit Account	-	-	*0.09*	*0.09*	*0.09*	*0.09*
Time Deposit	2.50	2.58	0.73	0.56	3.11	3.33
Overall Peso-Denominated Deposit	**1.23**	**0.86**	**0.45**	**0.42**	**1.19**	**0.98**

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

- Bills payable of the PBS grew by 79.6 percent y-o-y to ₱724.5 billion as of end-February 2023, while bonds payable declined by 15.1 percent to ₱587.2 billion as of the same reference period. Bills payable and bonds payable, however, remained minimal compared to total liabilities of the PBS, posting 3.2 percent and 2.6 percent share, respectively, as of this period.

- The CARs of the PBS and the U/KB industry on solo and consolidated bases were well-above the minimum thresholds set by the BSP (10 percent) and the Bank for International Settlements (8 percent). As of end-December 2022, the PBS recorded CARs of 15.7 percent on solo basis and 16.3 percent on consolidated basis. Meanwhile, as of end-December 2022, the CARs of the U/KB industry registered at 15.4 percent and 16.1 percent on solo and consolidated bases, respectively. The U/KB industry's common equity tier 1 (CET1) ratios stood at 14.3 percent and 15.0 percent on solo and consolidated bases, respectively, as of the same reference period.

- The U/KB industry's Basel III Leverage Ratios (BLRs) as of end-December 2022 were 8.8 percent on solo basis and 9.3 percent on consolidated basis, lower than levels registered a year ago at 9.4 percent and 9.8 percent, respectively, but 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- and off-balance sheet exposure.

- The liquidity ratios of banks were likewise well-above the minimum thresholds. The U/KB industry's solo and consolidated liquidity coverage ratios (LCRs) stood at 185.7 percent and 185.4 percent, respectively, as of end-December 2022. Preliminary data as of end-January 2023 disclosed that the industry's LCR stood at 185.0 percent on solo basis (Figure 6). Similarly, the minimum liquidity ratios (MLRs) of stand-alone TBs, RBs and CBs registered at 29.9 percent, 63.7 percent, and 44.4 percent, respectively, as of end-December 2022, surpassing the required MLR.[31]

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27 For TBs, median rates ranged between 0.3 percent and 0.5 prior to the pandemic. From 2020 to 2022, rates ranged from 0.1 percent to 0.5 percent.

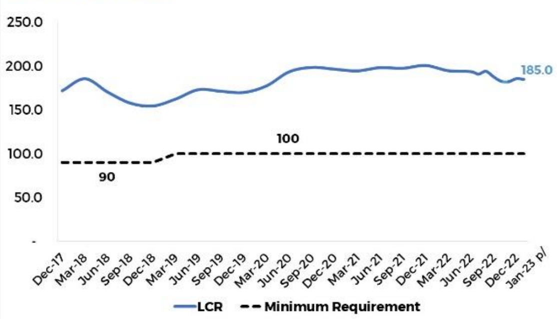
28 For RCBs, median rates ranged between 0.5 percent and 1.0 percent prior to the pandemic, and between 0.3 percent to 0.8 percent from 2020 to 2022.

29 *Mean* WAIR on peso-denominated demand, savings, and time deposits in January 2023 were 0.35 percent, 0.84 percent, and 3.114 percent, respectively, while median WAIR on these accounts were 0.14 percent, 0.24 percent, and 3.54 percent, respectively.

30 *Mean* WAIR on peso-denominated regular peso savings, kiddie and teen savings, and BDAs in January 2023 were 0.57 percent, 0.70 percent, and 0.10 percent, respectively.

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

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 the U/KB industry remained well-above the BSP 100 percent minimum at 137.4 percent and 138.1 percent, respectively, on solo and consolidated bases as of end-December 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 38.0 percent y-o-y to ₱310.1 billion for the period-ended December 2022. However, this growth in net profit was lower than the 44.8 percent growth for the period-ended December 2021.

- The improvement in net profit was mainly due to higher interest income (mostly from lending and investing activities) which grew by 17.3 percent y-o-y to ₱911.7 billion for the period-ended December 2022, a substantial turnaround from the 8.7 percent contraction in December 2021. Trading and other income of ₱16.5 billion and ₱90.2 billion respectively. likewise contributed to profitable operations of banks alongside efficient management of overhead expenses[32] and lower cost of funding.[33]

- The trading income of banks for the period-ended December 2022 was composed of ₱9.6 billion profits in sales and/or redemption of trading securities and ₱9.7 billion realized gains from FX transactions. Unrealized MTM losses incurred on trading portfolio (financial assets/liabilities measured at FVTPL) was recorded at ₱2.9 billion.

- Income recognized by banks was sufficient to offset impact on capital of increase in net unrealized losses from FVOCI portfolio. The net unrealized losses from the FVOCI securities reached ₱91.9 billion in February 2023, with debt securities and equity securities posting unrealized losses of ₱91.3 billion and ₱0.6 billion, respectively.[34] Said unrealized losses came largely from U/KBs (₱89.4 billion or 97.3 percent share) for the same reference period. The recorded loss was higher than the ₱83.2 billion unrealized loss in January 2023 but lower than the recorded ₱121.1 billion net unrealized loss in December 2022.[35,36] Meanwhile, total realized losses from sale, redemption and/or derecognition of FVOCI and financial assets measured at amortized cost reached ₱1.1 billion in end-December 2022, a reversal from the ₱0.5 billion and ₱27.3 billion gain in end-September 2022 and end-December 2021, respectively.

- Other measures of profitability such as return on assets (RoA)[37] and return on equity (RoE)[38] improved. For the period-ended December 2022, RoA stood at 1.4 percent, higher than the 1.1 percent ratio posted a year ago. Meanwhile, RoE inched up to 11.7 percent from the previous year's 9.0 percent.

- The increase in bank assets was accompanied by a leaner but stronger banking landscape. As of end-February 2023, the total number of bank head offices (HOs) declined to 494 from 503 a year ago due to bank mergers, consolidations, and acquisitions as well as closures to promote resilient and competitive institutions. Meanwhile, the banks' physical network continued to expand as total number of other offices (composed of branches, branch-lite units, representative offices, remittance desk offices, marketing offices and sub-branches) rose to 12,759 from 12,671 in February 2022. This translated to an increase in the total number of bank offices to 13,253 in February 2023 from 13,174 in February 2022.

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[32] Cost-to-income (CTI), which refers to ratio of annualized non-interest expenses to annualized total operating income, indicates operational efficiency. For the past seven years, CTI has been maintained below 65 percent. This ratio stood at 55.2 percent for the period-ended December 2022, lower than the 55.7 percent in September 2022 and the 58.7 percent in December 2021.

[33] Funding cost refers to ratio of annualized interest expense to average interest-bearing liabilities of banks. For the period-ended December 2022, funding cost was 0.9 percent, more expensive than the 0.70 percent in September 2022 and the 0.68 percent recorded in December 2021.

[34] Based on FRP Balance Sheet as of end-December 2022.

[35] The banking system posted net unrealized gains from April 2020 to October 2021.

[36] Unrealized fair value gains or losses from financial assets at FVOCI are recognized in Other Comprehensive Income. The cumulative fair value gain or loss is reclassified or recycled from equity to profit when the financial asset at FVOCI is derecognized, except for equity securities which have been irrevocably designated at FVOCI at initial recognition.

[37] Ratio of annualized net profit or loss to average assets.

[38] Ratio of annualized net profit or loss to average capital.

Non-Bank Sector Developments[39]

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

- As of end-February 2023, the total number of NBQBs stood at five (5),[40] composed of one (1) investment house (IH), three (3) Financing Companies (FCs), and one (1) other NBQB. In terms of network, the 3 FCs have a total of 14 branches, while the IH and other NBQB are single head office units.

- As a result of streamlining within the industry, assets, liabilities, and capital of NBQBs declined in 2022. NBQBs' total assets decreased by 10.1 percent y-o-y to ₱151.3 billion as of end-December 2022.[41]

- In terms of share, loans (net of allowance for probable losses) still held the largest share of NBQBs' total assets at 84.8 percent as of end-December 2022. Gross total loans, however, dropped by 7.7 percent y-o-y to ₱131.0 billion from ₱142.0 billion last year. The decline in total loans was accompanied by a reduction in NPLs which dropped by 45.2 percent y-o-y to ₱7.7 billion as of the same reference period from ₱14.1 billion a year ago. This translated to easing of NPL ratio to 5.9 percent as of end-December 2022, better than the 9.9 percent recorded the same period last year. Meanwhile, NPL coverage ratio stood at 36.2 percent, lower than the 40.1 percent last year.

- Bills payable remained the main source of NBQBs' funding, comprising around 70.2 percent share (₱106.2 billion) of total assets of the industry.[42] Total capital, which accounted for 14.1 percent share of total assets, also dropped by 27.8 percent to ₱21.3 billion as of the same reference period.

- Notwithstanding this, NBQBs sustained profitable operations with 40.1 percent y-o-y growth in net profit after tax to ₱1.8 billion for the period-ended December 2022 from ₱1.3 billion the same period a year ago.

Non-Stock Savings and Loans Associations (NSSLAs)

- As of end-December 2022, there were 58 NSSLAs with 136 branches operating in the Philippines. The industry posted a 5.6 percent y-o-y increase in total assets to ₱299.6 billion as of end-December 2022,[43] comprising mainly of members' loans at 76.5 percent of total assets.

- The industry's gross total loans rose by 2.7 percent y-o-y to ₱252.9 billion as of end-December 2022 from ₱246.3 billion a year ago. Alongside the credit growth, the level of NPLs increased by 4.0 percent to ₱20.4 billion. In turn, the NPL ratio inched up to 8.1 percent from 8.0 percent in the same period a year ago. This was matched by ample loan provisioning as the NPL coverage ratio of the industry stood at 115.4 percent in end-December 2022, albeit lower than the 123.9 percent in the previous year.

- The asset expansion was largely funded by members' capital and deposits which both inched up by 6.4 percent and 7.2 percent, respectively, to ₱192.1 billion and ₱86.4 billion as of end-December 2022 from ₱180.5 billion and ₱80.6 billion, respectively, as of end-December 2021.

- Notably, NSSLAs' operations sustained profitability with net profit after tax growing double-digit by 11.7 percent y-o-y to ₱24.9 billion for the period-ended December 2022.

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, offering remittance services, performing money-changing and serving as cash-in and cash-out agents in the countryside. As of end-December 2022, there were a total of 15,999 pawnshop offices (1,172 HOs and 14,827 branches). Meanwhile, there were 7,584 MSB offices as of end-December 2022 (743 HOs and 6,481 branches). This extensive market reach provides complementary and additional touchpoints to the banking system thereby

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[39] Data are preliminary.
[40] One (1) entity voluntarily surrendered its quasi-banking license in June 2022.
[41] The pre-pandemic CAGR of NBQBs' total assets was 8.0 percent from 2015 to 2019, far from the contraction of 10.1 percent, 7.4 percent, and 30.9 percent, respectively, in 2022, 2021, and 2020, respectively. The NBQB's total assets stood at ₱168.3 billion as of end-December 2021.
[42] The industry's total liabilities, which included bills payable and other payables, declined by 6.4 percent y-o-y to ₱130.0 billion.
[43] The pre-pandemic CAGR of NSSLA's total assets averaged at 11.8 percent from 2015 to 2019, higher than the 3.0 percent and 6.3 percent growth recorded in end-December 2020 and end December 2021, respectively. The NSSLA's total assets stood at ₱283.8 billion as of end-December 2021.

helping accelerate the financial inclusion agenda of the BSP.

- Most pawnshops and MSBs offer corollary remittance activities. As of end-December 2022, there were 12,363 pawnshop offices (or 77.3 percent of total pawnshop offices) operating under the type "C" license which engage in remittance activities. Meanwhile, MSBs were dominated by large-scale remittance operators with average monthly network volume of transactions of at least ₱75 million. These type "A" operators maintained 5,135 offices (or 67.7 percent of total MSB offices) as of the same reference period.