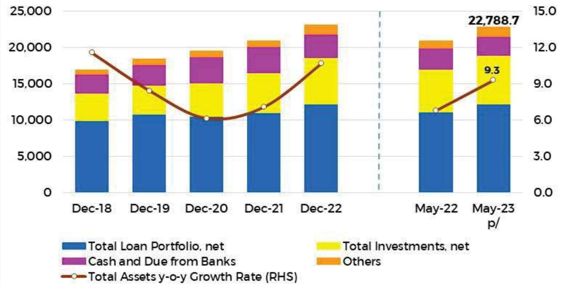
## Banking Sector Developments[1]

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

- Total assets of the PBS expanded by 9.3 percent year-on-year (y-o-y) to ₱22.8 trillion as of end-May 2023 (Figure 1). This growth rate surpassed the 6.8 percent in May 2022[2], albeit lower than the 9.9 percent last month and the pre-pandemic average growth rate of 11.0 percent[3].

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



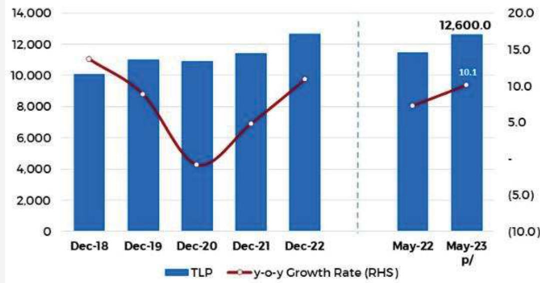

*Source: Department of Supervisory Analytics (DSA)* *p/ - Preliminary*

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

- By banking group, universal and commercial banks (UKBs) had the largest share of the total assets of the PBS at 93.9 percent (₱21.4 trillion), followed by thrift banks (TBs) at 4.2 percent (₱942.7 billion), rural and cooperative banks (RCBs) at 1.6 percent (₱367.3 billion)[4], and digital banks (DBs) at 0.3 percent (₱75.9 billion).

- Credit activity has improved as gross total loan portfolio (TLP) of the PBS grew by 10.1 percent y-o-y to ₱12.6 trillion as of end-May 2023 (Figure 2), marking 22 consecutive months of y-o-y growth rate in gross TLP. This was an improvement from the 7.3 percent growth in May 2022, albeit slightly lower than the 10.2 percent growth registered last month[5]. As to economic activity, the loan expansion was primarily driven by electricity, gas, steam, and air-conditioning supply (up by 13.9 percent or ₱148.8 billion), real estate activities (up by 5.4 percent or ₱118.0 billion), wholesale and retail trade (up by 7.9 percent or ₱98.3 billion), information and communication (up by 15.6 percent or ₱81.8 billion), financial and insurance activities (up by 7.2 percent or ₱67.9 billion), professional, scientific and technical activities (up by 53.4 percent or ₱45.1 billion), and household sectors particularly from salary-based general-purpose consumption loans (SBGPCLs, up by 57.8 percent or ₱147.1 billion) and credit card receivables (CCRs, up by 29.0 percent or ₱134.9 billion). Collectively, these sectors represented 60.4 percent (₱7.6 trillion) of the PBS' gross TLP in May 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[6] and CCRs were driven by households which mainly used their loan proceeds to purchase basic goods[7]. Motor vehicle loans (MVLs) went up by 5.1 percent y-o-y to ₱466.8 billion as of end-May 2023, marking four (4) consecutive months of growth since February 2023. This mirrors the consumers' less pessimistic buying sentiment for motor vehicles.[8]

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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-May 2023, end-May 2022 and end-May 2021 stood at 9.3 percent, 6.8 percent and 4.1 percent, respectively.
3 Pre-pandemic compounded annual growth rate (CAGR) is computed using end-December 2015 to end-December 2019 data.
4 Data of RCBs are as of end-March 2023.
5 Loan growth of the PBS remained lower than the pre-pandemic CAGR of 13.8 percent.
6 SBGPCLs have been growing double digit for 13 consecutive months since April 2022.
7 Based on the Consumer Expectations Survey (CES) for Q2 2023, most household respondents used their loan proceeds in the last 12 months to purchase basic goods (48.6 percent of households), followed by expenses for business start-up/expansion (25 percent), education-related expenses (15.2 percent), health-related expenses (11.3 percent), and payment of other debts (10.4 percent).
8 Based on the CES Q2 2023, consumer sentiment on buying big-ticket items (consumer durables, motor vehicles and housing) for Q2 2023 was less pessimistic as the confidence index (CI) turned less negative to -67.7 percent from -72.8 percent in Q1 2023. In particular, the CI on buying motor vehicles for Q2 2023 improved to -75.2 from -80.3 in Q1 2023. Moreover, households' buying sentiment for motor vehicles for the next 12 months was less downbeat as the CI slightly improved to -79.6 percent from -79.7 percent in Q1 2023, albeit the decline from -75.0 percent the previous year.

- Real estate had the largest share of TLP at 18.4 percent (₱2,314.6 billion), followed by wholesale and retail trade, electricity, gas, steam and air-conditioning supply, and manufacturing, with gross TLP shares of 10.6 percent (₱1,336.7 billion), 9.7 percent (₱1,219.8 billion) and 9.3 percent (₱1,177.7 billion), respectively. Loans for household consumption (₱1,509.3 billion), which exclude loans to individuals for housing purposes, remained relatively stable at 12.0 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 inflationary pressure and increasing interest rate environment, the BSP started to raise the policy rate[9] beginning 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 generally registering higher levels than that posted as of end-March 2020, the onset of the pandemic. For the period-ended May 2023, the overall *mean* weighted average interest rate or WAIR on loans of UKBs stood at 8.2 percent, relatively unchanged when compared with March 2020 level (pre-pandemic) but higher than the 5.7 percent in May 2022. Meanwhile, the overall *median* WAIR was at 7.1 percent for the reference same period, higher than the 5.8 percent in March 2020 and the 5.0 percent in May 2022 (Table 1).[10]

**Table 1. Comparative Interest Rates* by Type of Loans**

Rates in Percent, For End-Periods Indicated

| Type of Loans | End-Mar 2020 | | End-May 2022 | | End-May 2023 p/ | |
|---|---|---|---|---|---|---|
| | Mean WAIR | Median WAIR | Mean WAIR | Median WAIR | Mean WAIR | Median WAIR |
| Loans to Government | 7.9 | 4.3 | 5.8 | 5.7 | 9.4 | 7.6 |
| Loans to Private Corporations | 7.2 | 5.4 | 4.4 | 4.4 | 6.6 | 6.7 |
| Contracts to Sell | 6.1 | 6.8 | 6.3 | 6.4 | 7.5 | 7.5 |
| Agrarian Reform and Other Agricultural Loans | 6.4 | 5.3 | 4.2 | 4.1 | 6.8 | 6.5 |
| Small and Medium Enterprise Loans | 7.9 | 6.4 | 6.3 | 5.8 | 8.0 | 7.7 |
| Microenterprise Loans | 10.9 | 8.4 | 8.8 | 8.0 | 11.2 | 8.1 |
| Loans to Individuals | 14.4 | 11.1 | 9.7 | 8.9 | 10.6 | 9.4 |
| **Overall** | **8.2** | **5.8** | **5.7** | **5.0** | **8.2** | **7.1** |

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

- Lending rates however, for most loan types remain below their end-March 2020 levels. *Mean* and *median* WAIR of loans to individuals for the month of May 2023 of 10.6 percent and 9.4 percent, respectively, was significantly lower than the *mean* WAIR of 14.4 percent and *median* WAIR of 11.1 percent registered as of end-March 2020.

- As economic conditions improved and COVID-19 restrictions eased, 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). These temporary relief measures were extended until end-June 2023 and 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.[11] This measure also aims to facilitate 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[12] by UKBs for the month of May 2023 stood at ₱962.5 billion or 8.2 percent of the industry's gross TLP of ₱11.7 trillion.[13] Loans to private corporations had the largest share of new loans granted at 68.1 percent (₱655.1 billion) followed by loans to individuals at 17.9 percent (₱172.6 billion). Meanwhile, agri-agra loans and MSME loans had 8.8 percent share (₱84.3 billion) and 3.6 percent share (₱34.7 billion), respectively, of new loans granted for the same period. Since January 2023, the share of individuals to new loans granted has been relatively increasing while there has been a month-on-month uptick for that of government. In terms of level, all types of loans, except for contracts to sell,

[9] 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. During the last two (2) meetings in May 2023 and June 2023, the BSP decided to maintain the policy rate. Currently, interest rate on BSP's overnight reverse repurchase facility is at 6.25 percent while the interest rates on the overnight deposit and lending facilities are at 5.75 percent and 6.75 percent, respectively.
[10] Based on the Report on Interest Rates on Loans and Deposits (IRLD).
[11] Circular No. 1164 dated 05 January 2023
[12] Excludes loan renewals and restructured loans; excludes outlier data of several banks.
[13] This was higher than the ₱806.9 billion (6.9 percent of TLP) recorded for the month-ended April 2023 and the ₱941.2 billion (8.8 percent of TLP) posted for May 2022. **New** loans granted by UKBs in 2021 and 2022 ranged from 6.0 to 10.2 percent of the industry's total outstanding loans for the reference month.

went up in May 2023 when compared to the previous month (Table 2).

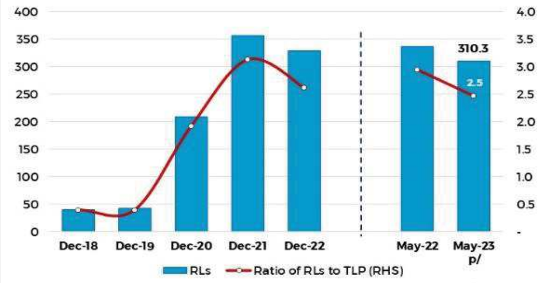
**Table 2. New Loans Granted by UKBs ***
Amounts in Billion ₱, Shares in Percent
For Periods Indicated

| Type of Loans | May 2022 | | Apr 2023 | | May 2023 p/ | |
|---|---|---|---|---|---|---|
| | Level | Share | Level | Share | Level | Share |
| Loans to Government | 9.1 | *1.0%* | 3.9 | *0.5%* | 14.1 | *1.5%* |
| Loans to Private Corporations | 710.6 | *75.5%* | 552.8 | *68.5%* | 655.1 | *68.1%* |
| Contracts to Sell | 1.4 | *0.2%* | 3.7 | *0.5%* | 1.7 | *0.2%* |
| Agrarian Reform and Other Agricultural Loans | 61.6 | *6.5%* | 75.3 | *9.3%* | 84.3 | *8.8%* |
| Small and Medium Enterprise Loans | 30.2 | *3.2%* | 27.9 | *3.5%* | 31.6 | *3.3%* |
| Microenterprise Loans | 2.5 | *0.3%* | 2.4 | *0.3%* | 3.0 | *0.3%* |
| Loans to Individuals | 125.7 | *13.4%* | 140.9 | *17.5%* | 172.6 | *17.9%* |
| **Total** | **941.2** | | **806.9** | | **962.5** | |

* Excludes outlier data of several banks
p/ - Preliminary data
*Source: DSA*

- Banks likewise provided credit relief to their borrowers albeit at a declining pace due to improving state of paying capacity of borrowers coming out of the pandemic. In May 2023, total restructured loans of the PBS went down by 7.8 percent y-o-y to ₱310.3 billion. This was equivalent to 2.5 percent of gross TLP, lower than the 2.9 percent ratio posted the same period a year ago but substantially higher by 6.9 times the ₱45.0 billion restructured loans reported in February 2020 (prior to the pandemic) (Figure 3).

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

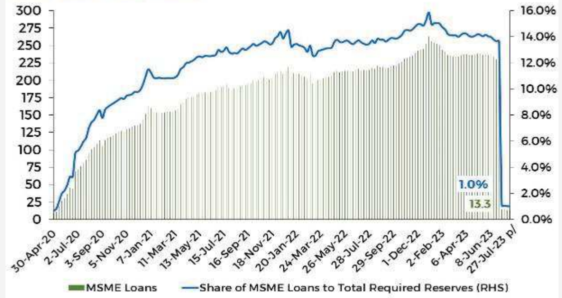



*Source: DSA* *p/ - Preliminary*

- 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 declined. This is in view of the lapse of the temporary relief measure, particularly for UKBs effective 01 July 2023. Meanwhile, TBs and RCBs will still be allowed to utilize their outstanding loans to MSMEs and LEs as alternative mode compliance with the reserve requirement until such loans are fully paid, but not later than 31 December 2025.

- For the reserve week ending 27 July 2023, TBs and RCBs allocated an aggregate of ₱13.3 billion and ₱6.5 million loans to MSMEs and LEs, respectively, for compliance with the reserve requirements. These accounted for 1.0 percent and 0.0005 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



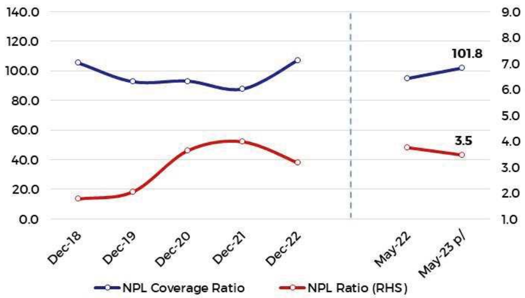

*Source: DSA* *p/ - Preliminary*

- The unwinding was set to coincide with the reduction in the reserve requirement ratios by 30 June 2023 to facilitate the transition, supporting the banks' continued compliance with the reserve requirement and managing friction costs related to the policy adjustment.

- The non-performing loan (NPL) level increased by 1.6 percent y-o-y to ₱436.1 billion as of end-May 2023 from ₱429.1 billion, a reversal from the 10.5 percent y-o-y contraction in May 2022. Despite the increase in NPL level, the PBS' gross NPL ratio[14] eased to 3.5 percent as of end-May 2023, better than the 3.7 percent ratio recorded in May 2022 but slightly higher than the 3.4 percent registered last month (Figure 5).

[14] Ratio of gross NPLs to TLP, gross.

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




*Source: DSA* *p/ - Preliminary*

- The PBS' satisfactory loan quality was accompanied by ample loan loss provisioning resulting in the NPL coverage ratio[15] of 101.8 percent as of end-May 2023, higher than the 94.8 percent ratio posted in May 2022 but lower than the 103.3 percent a month ago (Figure 5).

- Across banking groups, UKBs', and TBs' gross NPL ratios improved to 3.2 percent and 7.2 percent, respectively, as of end-May 2023 from the previous year's 3.4 percent and 8.0 percent. In the same manner, RCBs' NPL ratio went down to 8.4 percent in March 2023 from the 12.6 percent recorded a year ago.[16]

- NPL coverage ratio across banking groups registered an increase from the same period a year ago. UKBs posted an ample NPL coverage ratio of 107.7 percent as of end-May 2023. Meanwhile, TBs and RCBs' NPL coverage ratios stood at 63.3 percent as of end-May 2023 and 78.7 percent as of end-March 2023, respectively.[17]

- The PBS' past due ratio[18] stood at 4.2 percent as of end-May 2023, better than the 4.4 percent from the same period a year ago but slightly higher compared to the 4.1 percent recorded last month.

- Meanwhile, the PBS' gross real and other properties acquired (ROPA)[19] increased by 4.3 percent y-o-y to ₱138.3 billion as of end-May 2023 from ₱132.6 billion as of end-May 2022.[20] However, the ratio of ROPA to total assets remained low at only 0.6 percent, relatively unchanged from the ratio recorded in May 2022.

- The results of the Real Estate Stress Test (REST) as of end-December 2022 showed that stressed CARs of UKBs and subsidiary TBs are comfortably above the 10 percent minimum.

- Investments in securities[21] rose by 12.0 percent y-o-y to ₱6.5 trillion in May 2023, higher than its pre-pandemic average growth of 10.6 percent. Investments were composed of securities measured at amortized cost[22] at ₱4.0 trillion (61.0 percent share) and securities measured at fair value through other comprehensive income[23] (FVOCI) at ₱2.2 trillion (34.1 percent share). Meanwhile, securities measured at fair value through profit or loss (FVTPL) had a minimal 4.9 percent share at ₱321.1 billion.

- 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 34.1 percent share of total portfolio investments in May 2023 from the 39.4 percent share in May 2022, contracting by 3.3 percent y-o-y. Meanwhile, the share of securities measured at amortized cost substantially increased to 61.0 percent in May 2023 from 55.9 percent a year ago, growing by 22.3 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 y-o-y growth since March 2022. The observed shift is consistent with a rebalancing strategy that

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15 Ratio of allowance for credit losses – TLP, gross to gross NPLs.
16 By contrast, DBs' NPL ratio inched up to 7.7 percent in May 2023 from the 7.4 percent ratio recorded last month.
17 NPL coverage ratio of UKBs and TBs stood at 100.1 percent and 64.7 percent, respectively, as of end-May 2022. RCBs' NPL coverage ratio registered at 68.1 percent as of end-March 2022. Meanwhile, DB's NPL coverage ratio declined to 104.3 percent as of end-May 2023 from 114.8 percent the previous month.
18 Ratio of past due loans to TLP, gross.
19 Includes non-current assets held for sale and sales contract receivables.
20 ROPA growth of the PBS as of end-May 2023, end-May 2022 and end-May 2021 stood at 4.3 percent, 3.4 percent, and 1.7 percent, respectively. ROPA has been growing since the pandemic started, with the pre-pandemic CAGR of ROPA at only 0.6 percent.
21 The amount, which is gross of allowance for credit losses, if applicable, is comprised of investments in debt and equity securities and derivatives and excludes equity investments in subsidiaries/associates/joint ventures.
22 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.
23 These investments in securities were mostly debt securities (₱2.2 trillion, 97.9 percent share). By counterparty, debt securities issued by the NG accounted for 71.2 percent (₱1.6 trillion) of total investments in securities measured at FVOCI.

reduces mark-to-market (MTM) losses amid an increasing interest rate environment.

- As of end-May 2023, the PBS' funding structure was largely from deposits at 76.9 percent (₱17.5 trillion), followed by capital at 12.5 percent (₱2.8 trillion), bills payable at 2.7 percent (₱608.7 billion) and bonds payable at 2.2 percent (₱499.9 billion).

- The sustained confidence of depositors was evident in the continued deposit growth even during the crisis. Total deposits of the PBS, which were mostly peso-denominated and sourced from resident individuals and private corporations, expanded by 8.2 percent y-o-y to ₱17.5 trillion in May 2023. This growth rate was higher than the 7.2 percent rate recorded in May 2022.

- By deposit type, savings deposits had the largest share of total deposits at 45.0 percent (₱7.9 trillion), followed by demand and NOW accounts at 28.3 percent share (₱5.0 trillion) and time deposits at 26.1 percent share (₱4.6 trillion). Long-Term Negotiable Certificates of Time Deposits (LTNCDs) had a minimal share at 0.6 percent (₱109.3 billion). The noted growth in deposits was predominantly driven by placements in time deposit accounts, rising by 41.5 percent as of end-May 2023. These deposits have been growing at a double-digit rate since August 2022, thereby contributing to the deposit type's steadily increasing proportion to total deposits.

- By banking group, UKBs had the largest share of deposits at 94.1 percent (₱16.5 trillion), followed by TBs at 4.1 percent (₱713.1 billion), RCBs at 1.5 percent (₱263.2 billion), and DBs at 0.3 percent (₱61.2 billion).

- The UKB industry posted y-o-y deposit growth rate of 8.0 percent as of end-May 2023. Similarly, the deposits of the TB industry and RCB industry rose y-o-y by 4.7 percent and 7.2 percent, respectively.[24]

- As to nominal interest rates on deposit accounts,[25] the median rates for UKBs[26], TBs[27] and RCBs[28] across savings deposit products except for basic deposit accounts[29] (BDAs) remained relatively unchanged in March 2023 when compared from previous quarter and a year ago (Table 3).

**Table 3. Nominal Rates* on Bank Deposit Accounts**
Rates in Percent, For End-Periods Indicated

| Type of Deposits | End-Mar 2022 | | | End-Mar 2023 p/ | | |
|---|---|---|---|---|---|---|
| | UKBs | TBs | RCBs | UKBs | TBs | RCBs |
| Regular Peso Savings | 0.1 | 0.3 | 0.5 | 0.1 | 0.3 | 0.5 |
| Basic Deposit Accounts | 3.3 | 0.3 | 0.3 | 0.1 | 0.3 | 0.5 |
| 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, both overall mean and overall median WAIR of UKBs on peso-denominated deposits of 1.6 percent and 1.3 percent, respectively, for the month of May 2023 were higher than the levels recorded in March 2020 and May 2022 (Table 4). Across types, both mean and median WAIR of all peso-denominated deposits rose when compared from a year ago. Per sub-account of savings deposit, both mean and median WAIR on regular savings, kiddie and teen savings accounts, and BDAs likewise registered higher rates than in May 2022 (Table 4).

**Table 4. Comparative Interest Rates* by Type of Deposits**
Rates in Percent, For End-Periods Indicated

| Type of Deposits | End-Mar 2020 | | End-May 2022 | | End-May 2023 p/ | |
|---|---|---|---|---|---|---|
| | Mean WAIR | Median WAIR | Mean WAIR | Median WAIR | Mean WAIR | Median WAIR |
| Demand Deposit | 1.25 | 0.25 | 0.25 | 0.13 | 0.43 | 0.14 |
| Savings Deposit | 0.86 | 0.32 | 0.35 | 0.13 | 1.04 | 0.24 |
| *Regular Savings Account* | *0.81* | *0.27* | *0.30* | *0.13* | *0.61* | *0.14* |
| *Kiddie and Teen Savings Account* | *0.53* | *0.19* | *0.20* | *0.08* | *0.58* | *0.11* |
| *Basic Deposit Account* | - | - | *0.094* | *0.094* | *0.095* | *0.095* |
| Time Deposit | 2.50 | 2.58 | 0.95 | 0.78 | 3.82 | 3.84 |
| **Overall Peso-Denominated Deposit** | **1.23** | **0.86** | **0.51** | **0.39** | **1.56** | **1.33** |

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

- Bills payable of the PBS rose by 55.2 percent y-o-y to ₱608.7 billion as of end-May 2023, while bonds payable declined by 21.0 percent to ₱499.9 billion as of the same reference period. These other funding sources however, continued to be minimal at 3.1 percent and 2.5 percent, respectively, of the PBS' total liabilities.

- The CARs of the PBS and the UKB 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

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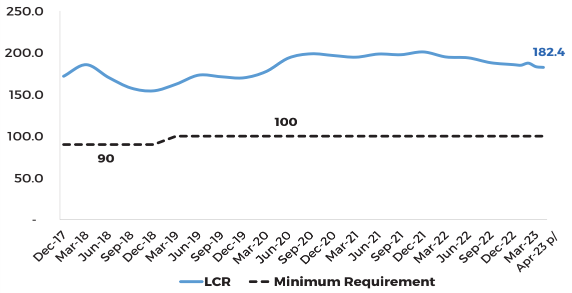
[24] DBs' deposits expanded by 19.4 percent from the previous month.
[25] Source: Report on Bank Deposit Interest Rates (BDIR).
[26] For UKBs, median rates ranged between 0.1 percent and 0.3 percent prior to the pandemic and settled at 0.1 percent from 2020 to 2022.
[27] For TBs, median rates ranged between 0.3 percent and 0.5 prior to the pandemic, and between 0.1 percent to 0.5 percent from 2020 to 2022.
[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] The median rate of UKBs' BDAs went down to 0.1 percent in March 2023 from 3.3 percent in the previous year.
The median rate of RCBs' BDAs inched up to 0.5 percent in March 2023 from 0.3 percent in the previous year.

15.7 percent on solo basis and 16.3 percent on consolidated basis. Meanwhile, as of end-March 2023, the CARs of the UKB industry registered at 15.7 percent and 16.4 percent on solo and consolidated bases, respectively. The UKB industry's common equity tier 1 (CET1) ratios stood at 14.7 percent and 15.4 percent on solo and consolidated bases, respectively, as of the same reference period.

- The UKB industry's Basel III Leverage Ratios (BLRs) which relates the level of a bank's Tier 1 capital against its total on- and off-balance sheet exposure were 9.0 percent on solo basis and 9.5 percent on consolidated basis as of end-March 2023. These were lower than levels registered a year ago at 9.2 percent and 9.7 percent, respectively, as on-balance sheet exposures grew due to resumption in lending activity. Nonetheless, these were well-above the BSP and international thresholds of 5.0 percent and 3.0 percent, respectively.

- The liquidity ratios of banks were likewise well-above the minimum thresholds. The UKB industry's solo and consolidated liquidity coverage ratios (LCRs) stood at 183.3 percent and 182.9 percent, respectively, as of end-March 2023, whereas preliminary data as of end-April 2023 disclosed that the banking system recorded an LCR of 182.4 percent (Figure 6). Similarly, the minimum liquidity ratios (MLRs) of stand-alone TBs, RBs and CBs registered at 30.9 percent, 59.0 percent, and 41.3 percent, respectively, as of end-March 2023, surpassing the required 20 percent minimum requirement.

**Figure 6. LCR of the UKB Industry** (Solo Basis)
In Percent
As of End-Period Indicated




*Source: DSA* *p/ - Preliminary*

- Meanwhile, the net stable funding ratio (NSFR) of the UKB 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 UKBs indicate banks' ability to meet both short- and medium-term funding requirements.

- The PBS sustained its profitability as the net profit of the system rose by 34.9 percent y-o-y to ₱89.5 billion for the period-ended March 2023. This growth in net profit was higher than the 26.3 percent growth for the period-ended March 2022. Meanwhile, annualized net profit went up by 39.1 percent y-o-y to ₱331.8 billion for the same period, albeit at a slower rate than the 56.9 percent growth in annualized net profit for the period-ended March 2022.

- The improvement in net profit was mainly due to higher interest income (mostly from lending and investing activities) which grew by 47.4 percent y-o-y to ₱292.4 billion for the period-ended March 2023, at a faster rate than the 3.4 percent growth in March 2022. Fees and commissions income of ₱34.4 billion likewise contributed to profitable operations of banks alongside efficient management of overhead expenses[30] and low cost of funding.[31]

- The trading income of banks for the period-ended March 2023 was composed of ₱3.3 billion profits in sales and/or redemption of trading securities and ₱2.6 billion realized gains from FX transactions. Unrealized MTM losses incurred on trading portfolio (financial assets/liabilities measured at FVTPL) was ₱1.2 billion.

- Income recognized by banks was sufficient to offset impact on capital of net unrealized losses from FVOCI portfolio. The net unrealized losses from FVOCI securities reached ₱70.4 billion in May 2023, with debt securities recording net unrealized losses of ₱76.3 billion and equity securities registering net unrealized gains of ₱6.0 billion.[32] The net unrealized losses from FVOCI securities came largely from UKBs (₱68.4 billion or 97.2 percent share) for the same reference period. The level of net unrealized losses was lower than the ₱80.0 billion in April 2023 and the ₱121.1 billion in December

30 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 55.0 percent for the period-ended March 2023, lower than the 55.2 percent in December 2022 and the 58.3 percent in March 2022.

31 Funding cost refers to ratio of annualized interest expense to average interest-bearing liabilities of banks. For the period-ended March 2023, funding cost remained low at 1.2 percent, albeit more expensive than the 0.9 percent in December 2022 and the 0.7 percent registered in March 2022.

32 Based on FRP Balance Sheet as of end-April 2023.

2022.[33,34] Meanwhile, total realized gains from sale, redemption and/or derecognition of FVOCI and financial assets measured at amortized cost reached ₱1.3 billion in end-March 2023, a reversal from the ₱1.1 billion losses in end-December 2022 and higher than the ₱0.6 billion gains in end-March 2022.

- Other measures of profitability such as return on assets (RoA)[35] and return on equity (RoE)[36] improved. For the period-ended March 2023, RoA stood at 1.5 percent, higher than the 1.2 percent ratio posted in March 2022. Meanwhile, RoE inched up to 12.6 percent from the previous year's 9.6 percent.

- The increase in bank assets was accompanied by a leaner but stronger banking landscape. As of end-May 2023, the total number of bank head offices (HOs) declined to 491 from 498 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 12,811 from 12,669 in May 2022. Overall, there was an increase in the total number of banking offices to 13,302 in May 2023 from 13,167 in May 2022.

## Non-Bank Sector Developments[37]

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

- As of end-May 2023, there are five (5) NBQBs supervised by the BSP, 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 March 2023. NBQBs' total assets decreased by 8.7 percent y-o-y to ₱152.7 billion as of end-March 2023.[38]

- In terms of share, loans (net of allowance for probable losses) still held the largest share of NBQBs' total assets at 85.1 percent as of end-March 2023. Gross total loans, however, dropped by 7.7 percent y-o-y to ₱132.8 billion from ₱143.9 billion last year. The decline in total loans was accompanied by a reduction in NPLs which dropped by 47.4 percent y-o-y to ₱7.4 billion as of the same reference period from ₱14.1 billion a year ago. This translated to easing of NPL ratio to 5.6 percent in March 2023, better than the 9.8 percent recorded the same period a year ago. Meanwhile, NPL coverage ratio stood at 38.5 percent, lower than the 42.4 percent last year.

- Bills payable remained the main source of NBQBs' funding, comprising around 69.5 percent share (₱106.1 billion) of total assets of the industry.[39] Total capital, which accounted for 14.2 percent share of total assets, also dropped by 26.8 percent to ₱21.7 billion as of the same reference period.

- Notwithstanding this, NBQBs sustained profitable operations with 14.4 percent y-o-y growth in net profit after tax to ₱426.1 million for the period-ended March 2023 from ₱372.4 million in March 2022.

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

- As of end-May 2023, there were 57 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,[40] comprising mainly of members' loans at 76.5 percent of total assets.

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33 The banking system posted net unrealized gains from April 2020 to October 2021.
34 Net 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 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.
35 Ratio of annualized net profit or loss to average assets.
36 Ratio of annualized net profit or loss to average capital.
37 Data are preliminary.
38 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 in 2022, 2021, and 2020, respectively. The NBQB's total assets stood at ₱167.3 billion as of end-March 2022.
39 The industry's total liabilities, which included bills payable and other payables, declined by 4.8 percent y-o-y to ₱131.0 billion.
40 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.

- 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, however, 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-March 2023, there were a total of 16,025 pawnshop offices (1,169 HOs and 14,856 branches). Meanwhile, there were 7,457 MSB offices as of end-March 2023 (739 HOs and 6,718 branches). This extensive market reach provides complementary and additional touchpoints to the banking system thereby helping accelerate the financial inclusion agenda of the BSP.

- Most pawnshops and MSBs offer corollary remittance activities. As of end-March 2023, there were 12,407 pawnshop offices (or 77.4 percent of total pawnshop offices) operating under the type "C" license which are authorized to 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" MSB operators maintained 4,995 offices (or 67.0 percent of total MSB offices) as of the same reference period.