

RECENT TRENDS IN THE PHILIPPINE FINANCIAL SYSTEM

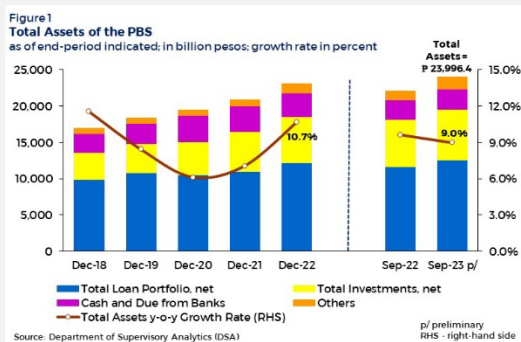
As of September 2023



Banking Sector Developments¹

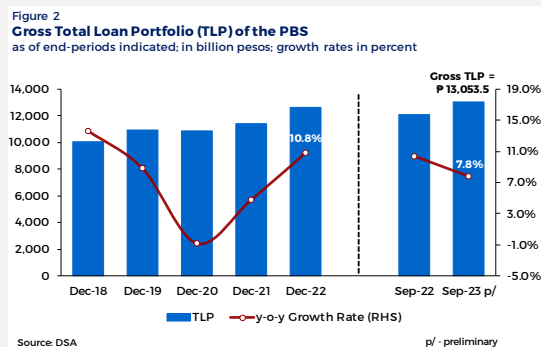
The Philippine banking system (PBS) continued its strong performance as evidenced by sustained expansion in total assets, deposits, and profit, together with stable capital and liquidity buffers and ample provision for credit losses.

- Total assets expanded by 9.0 percent year-on-year (y-o-y) and stood at ₱24.0 trillion as of September 2023 (Figure 1). This growth was faster than the 8.6 percent recorded in August 2023 but slower than the 9.6 percent posted from a year ago² and the 11.0 percent pre-pandemic average.³ Deposits continued to support the growing assets, denoting the sustained confidence of the public.



- In terms of asset share, universal and commercial banks (UKBs) held the biggest share of the banking system's total assets at 93.9 percent (₱22.5 trillion). The remaining share was distributed among thrift banks (TBs), rural and cooperative banks (RCBs), and digital banks (DGBs) at 4.2 percent (₱999.9 billion), 1.6 percent (₱385.7 billion),⁴ and 0.3 percent (₱82.3 billion), respectively. All banking groups registered asset growth as of the reference period.⁵

- Alongside the continued recovery of the economy, banks' credit activity further increased. Loans went up by 7.8 percent to reach ₱13.1 trillion (Figure 2), marking 26 consecutive months of y-o-y growth. However, this growth was slower than the 10.4 percent and the 9.5 percent increase recorded in September 2022 and the previous month, respectively.⁶



- Household loans drove the credit expansion particularly from credit card receivables (CCRs, up by 30.4 percent or ₱154.4 billion) and salary-based general-purpose consumption loans (SBGPCLs, up by 31.5 percent or ₱104.5 billion). The productive sector that also contributed to the loan growth were real estate activities (up by 5.0 percent or ₱112.2 billion), electricity, gas, steam, and air-conditioning supply (up by 9.0 percent or ₱103.3 billion), wholesale and retail trade (up by 6.1 percent or ₱79.4 billion), and financial and insurance activities (up by 4.8 percent or ₱49.2 billion). These sectors, including CCRs and SBGPCLs, represented 54.8 percent (₱7.2 trillion) of the PBS' gross TLP.

- Except for manufacturing,⁷ loans to all industry sectors increased, with households posting the highest growth rate at 25.4 percent. Loans to manufacturing contracted by 3.4 percent in September 2023, marking three consecutive months of decline since July 2023. The increase in material, fuel, and supplier costs as well as the high interest rates impacted the credit activity of this sector.

¹ Data are preliminary. All the growth rates, reference period and data pertain to y-o-y, as of September 2023 and the PBS, respectively, unless otherwise specified.

² The asset growth of the PBS as of September 2023, September 2022 and September 2021 stood at 9.0 percent, 9.6 percent and 7.3 percent, respectively.

³ The pre-pandemic compounded annual growth rate (CAGR) is computed using the data from December 2015 to December 2019.

⁴ Data of RCBs are as of June 2023.

⁵ UKBs' total assets grew by 8.6 percent while total assets of TBs and RCBs rose by 9.1 percent and 11.7 percent, respectively. Meanwhile, DGBs' total assets had minimal increase of 0.1 percent in September 2023, reaching ₱82.3 billion from ₱82.2 billion in August 2023.

⁶ Loan growth of the PBS was lower than the pre-pandemic CAGR of 13.8 percent.

⁷ Loans to manufacturing started to weaken beginning Q2 2023, growing minimally by 0.9 percent in May 2023 and 0.4 percent in June 2023. This was followed by a contraction in July 2023, August 2023, and September 2023 by 0.2 percent, 3.0 percent, and 3.4 percent, respectively, reversing the 15.6 percent growth recorded in September 2022.

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- Meanwhile, the expansion in SBGPCs⁸ and CCRs⁹ was mainly used to purchase basic goods.¹⁰ Motor vehicle loans (MVLs) went up by 12.6 percent and reached ₱496.5 billion in September 2023, marking eight consecutive months of growth since February 2023 and consumers' less pessimistic buying sentiment.¹¹
- By economic activity, the real estate industry continued to be the biggest borrower with 18.1 percent share (₱2,357.5 billion), followed by wholesale and retail trade, electricity, gas, steam and air-conditioning supply, and manufacturing industries, with shares of 10.7 percent (₱1,390.8 billion), 9.5 percent (₱1,245.2 billion) and 9.2 percent (₱1,198.2 billion), respectively. Loans for household consumption (₱1,641.1 billion), which exclude residential real estate loans, remained stable with 12.6 percent share as of the same reference period.¹²
- As the economy fully reopened and amid high inflation and interest rate environment, the BSP raised the policy rate¹³ starting in Q2 2022, after a series of policy rate cuts in 2020.

- Consequently, lending rates further increased in 2023 with latest figures recording higher levels than that registered as of March 2020, the onset of the pandemic. As presented in *Table 1*, the overall mean weighted average interest rate or WAIR on loans of UKBs stood at 8.22 percent for the period ending September 2023, higher than the 8.20 percent in March 2020 and the 6.4 percent in September 2022. The increase was also observed across all loan types when compared to the same month a year ago except for microenterprise loans.¹⁴

Table 1
Comparative Interest Rates* by Type of Loans
for end-periods indicated; rates in percent

Type of Loans	End-Mar 2020		End-Sep 2022		End-Sep 2023 p/	
	Mean WAIR	Median WAIR	Mean WAIR	Median WAIR	Mean WAIR	Median WAIR
Loans to Government	7.9	4.3	7.5	5.5	9.5	7.6
Loans to Private Corporations	7.2	5.4	5.1	5.0	6.9	6.8
Contracts to Sell	6.1	6.8	7.1	7.2	7.2	7.6
Agrarian Reform and Other Agricultural Loans	6.4	5.3	4.9	4.6	7.0	6.9
Small and Medium Enterprise Loans	7.9	6.4	7.6	6.6	8.1	8.0
Microenterprise Loans	10.9	8.4	12.2	7.4	11.0	8.2
Loans to Individuals	14.4	11.1	9.3	8.4	10.7	9.6
Overall	8.2	5.8	6.4	5.1	8.2	7.3

* Refers to WAIR on loans of UKBs; excludes outlier data of several banks
p/ preliminary
Source: DSA

- Loans to private corporations posted the lowest mean WAIR among loan types. In contrast, loans to micro-enterprises and individuals registered the highest mean WAIR, denoting these borrowers' inherent risk profile.
- Preliminary data showed that the total amount of **new** loans granted¹⁵ by UKBs for the month of September 2023 stood at ₱983.2 billion. Level of new loans of UKBs declined from that of the previous year but its share to gross TLP has remained within the historical range of 6.0 percent to 10.2 percent at 7.6 percent of the industry's gross TLP of ₱12.1 trillion.¹⁶ By counterparty, private corporations held the largest share of new loans granted at 68.8 percent (₱676.0 billion) followed by individuals at 18.0 percent (₱177.3 billion). Agri-agra and MSMEs each had 8.5 percent share (₱83.7 billion) and 3.5 percent share (₱38.1 billion), respectively, of new loans granted for the same period. Beginning January 2023, the share of new loans granted to individuals to total loans granted has been increasing while there has been a month-on-month decline for that of government (*Table 2*).

⁸ SBGPCs have been growing double digit for 18 consecutive months since April 2022.

⁹ Amid elevated inflation, households turned to their credit cards to augment their buying capacity, enabling them to contend with the rising costs. (Sources: Camus, M. (2023). Credit card issuers welcome BSP decision to keep higher interest rates. Inquirer.net. <https://business.inquirer.net/417401/credit-card-issuers-welcome-bsp-decision-to-keep-higher-interest-rates>.)

¹⁰ Based on the Consumer Expectations Survey (CES) for Q3 2023, most household respondents used their loan proceeds in the last 12 months to purchase basic goods (51.5 percent of households), followed by expenses for business start-up/expansion (27.7 percent), education-related expenses (19.4 percent), health-related expenses (14.6 percent), and payment of other debts (11.1 percent).

¹¹ Based on the CES Q3 2023, consumer sentiment on buying big-ticket items (consumer durables, motor vehicles and housing) for the next 12 months was less pessimistic as the confidence index (CI) turned less negative to -62.7 percent from -67.7 percent in Q2 2023. In particular, the CI on buying motor vehicles for Q3 2023 improved to -72.2 from -75.2 in Q2 2023.

¹² The share of loans for household consumption to gross TLP has been relatively increasing the past few years, with their share to PBS' gross TLP at 12.6 percent, 10.8 percent and 10.3 percent as of September 2023, September 2022, and September 2021, respectively.

¹³ Since May 2022, the BSP has increased the policy rate by an aggregate of 450 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 and 27 October 2023. At its 26 October 2023 meeting, the Monetary Board raised the BSP's Target Reverse Repurchase (RRP) Rate by 25 basis points to 6.50 percent, effective 27 October 2023. Currently, BSP's overnight reverse repurchase facility is at 6.5 percent while the interest rates on the overnight deposit and lending facilities are at 6.0 percent and 7.0 percent, respectively.

¹⁴ Based on the Report on Interest Rates on Loans and Deposits (IRLD).

¹⁵ These exclude loan renewals and restructured loans; excludes outlier data of several banks.

¹⁶ This was lower than the ₱1,018.4 billion (8.5 percent of TLP) recorded for the month ending August 2023 and the ₱1,095.9 billion (9.7 percent of TLP) posted for September 2022.

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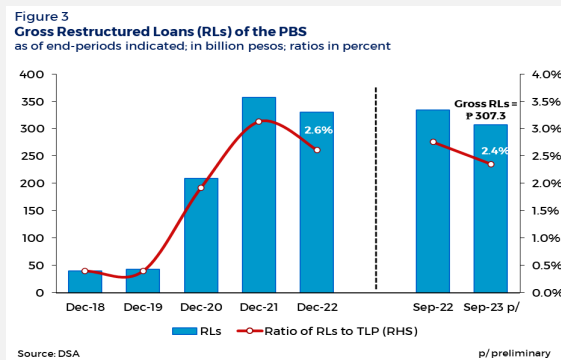
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Table 2
New Loans Granted by UKBs*
for periods indicated; in billion pesos; shares in percent

Type of Loans	Sep 2022		Sep 2023 p/	
	Level	Share	Level	Share
Loans to Government	5.6	0.5%	3.9	0.4%
Loans to Private Corporations	749.3	68.4%	676.0	68.8%
Contracts to Sell	14.7	1.3%	4.3	0.4%
Agrarian Reform and Other Agricultural Loans	89.2	8.1%	83.7	8.5%
Small and Medium Enterprise Loans	36.7	3.3%	34.2	3.5%
Microenterprise Loans	3.8	0.3%	3.8	0.4%
Loans to Individuals	196.6	17.9%	177.3	18.0%
Total	1,095.9		983.2	

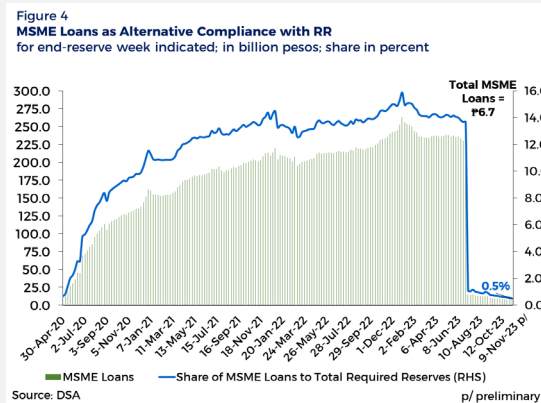
* Excludes outlier data of several banks
p/ preliminary
Source: DSA

- Eligible borrowers also received relief from banks through loan restructuring. As shown in *Figure 3*, total restructured loans, which was equivalent to 2.4 percent of gross TLP, stood at ₱307.3 billion in September 2023, higher than the ₱306.1 billion last month but lower than the ₱333.7 billion last year. The level of RLs, however, still remained significantly higher than the ₱45.0 billion in February 2020.

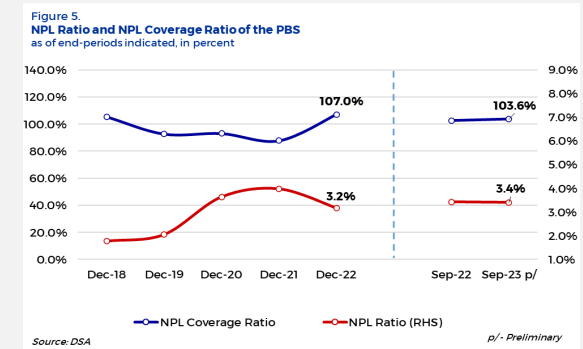


- Banks' availment of the BSP's relief measure on the use of new or refinanced loans to MSMEs and eligible large enterprises (LEs) as alternative compliance with the reserve requirements (RR) also declined. This is in view of the lapse of the temporary relief measure on alternative RR compliance, particularly for UKBs effective 01 July 2023. Meanwhile, TBs and RCBs can still utilize their outstanding loans to MSMEs and LEs as alternative compliance with the RR until such loans are fully paid, but not later than 31 December 2025, subject to certain conditions.¹⁷

- For the reserve week ending 09 November 2023, TBs and RCBs allocated an aggregate of ₱6.7 billion and ₱12.4 million loans to MSMEs and LEs, respectively, for compliance with the RRs. These accounted for 0.5 percent and 0.0009 percent of total required reserves for the said reserve week (*Figure 4*).



- In September 2023, non-performing loans (NPLs) increased by 7.2 percent to ₱444.3 billion, reversing the 14.8 percent contraction recorded a year ago. Despite the rise in NPLs, the NPL ratio¹⁸ remained relatively unchanged at 3.4 percent when compared to last year's ratio due to faster expansion in total loans (*Figure 5*).



- Figure 5* also shows that the PBS' satisfactory loan quality was accompanied by ample loan loss reserves, with NPL coverage ratio¹⁹ of 103.6 percent in September 2023. This ratio was higher than the 102.5 percent ratio posted last year, and the 103.0 percent recorded a month ago.
- Across banking groups, UKBs', and TBs' NPL ratios improved to 3.09 percent and 7.1 percent, respectively, from the previous year's 3.10 percent and 7.5 percent. Similarly, RCBs' NPL ratio dropped to 8.3 percent in June 2023 from the 10.9 percent recorded a year

¹⁷ The outstanding MSME and LE loans of TBs and RCBs as of June 2023 that become past due or non-performing or are extended, renewed, or restructured are no longer eligible as alternative compliance with the RR. Likewise, new MSME and LE loans granted by banks after June 2023 are not eligible as alternative compliance with the RR.

¹⁸ Ratio of gross NPLs to TLP, gross.

¹⁹ Ratio of allowance for credit losses – TLP, gross to gross NPLs.

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ago.²⁰ The UKB and TB industries registered increase in their NPLs but this NPL growth was outpaced by loan expansion. Meanwhile, the RCB industry's NPL level declined as its TLP expanded.

- By banking group, UKBs and RCBs posted higher NPL coverage ratio of 110.5 percent and 78.2 percent, respectively, as of end-September 2023 and end-June 2023, respectively.²¹ These banks beefed up their provisioning requirements in line with increasing NPLs. TBs' NPL coverage ratio declined to 63.1 percent from the 63.8 percent posted last year owing to NPL growth outpacing increase in loan loss provision.
- The PBS' past due ratio²² stood at 4.21 percent in September 2023, higher than the 4.04 percent the same period a year ago and the 4.15 percent recorded last month.
- The results of the latest Real Estate Stress Test (REST) as of March 2023 showed an aggregate post-shock CAR that is comfortably above the 10.0 percent minimum for UKBs and subsidiary TBs.
- Meanwhile, the PBS' gross real and other properties acquired (ROPA)²³ increased by 3.7 percent and reached ₱142.7 billion as of the

same period from ₱137.7 billion in September 2022.²⁴ However, the ratio of ROPA to total assets remained low at only 0.6 percent, relatively unchanged from the ratio recorded last year.

- Investments in securities²⁵ expanded by 5.8 percent to reach ₱6.7 trillion in September 2023, lower than its pre-pandemic average growth of 10.6 percent. These were composed of securities measured at amortized cost²⁶ at ₱4.0 trillion (59.2 percent share) and securities measured at fair value through other comprehensive income²⁷ (FVOCI) at ₱2.4 trillion (36.3 percent share). Notably, there has been an uptick in the share and growth of FVOCI beginning July 2023 amid the pause in policy rate hike which started in May 2023. Said behavior is consistent with expectations for the BSP to keep policy rates steady or transition to a more dovish stance in the near term. Meanwhile, securities measured at fair value through profit or loss (FVTPL) had a minimal 4.5 percent share at ₱303.8 billion, contracting by 32.1 percent from a year ago.
- Deposits remained a stable source of bank funding. In September 2023, deposits accounted for around 76.2 percent share (₱18.3 trillion) of total assets, followed by capital at 12.3 percent (₱3.0 trillion), bills payable at 2.7

percent (₱655.2 billion) and bonds payable at 2.0 percent (₱478.6 billion).

- The continued expansion of deposits reflected the confidence of depositors. Deposits, which were mostly peso-denominated and sourced from resident individuals and private corporations, grew by 9.4 percent to reach ₱18.3 trillion in September 2023. This growth rate was higher than the 6.8 percent rate recorded in September 2022.
- By deposit type, low-cost deposits held the larger portion, particularly savings as well as demand and NOW accounts each having shares of 44.5 percent (₱8.1 trillion), and 28.2 percent (₱5.2 trillion), respectively. The remaining share was in the form of time certificate of deposits (TDs, 26.7 percent, ₱4.9 trillion) and long-term negotiable certificates of time deposits (LTNCDs, 0.5 percent, ₱97.7 billion). The noted growth in deposits was predominantly driven by the 30.9 percent expansion in TDs, which have been growing at a double-digit rate since August 2022. Growth

²⁰ DGBs' NPL ratio declined to 8.5 percent in September 2023 from the 9.3 percent ratio recorded last month. This was due to DGBs' TLP expanding at a faster pace than the increase in NPL level.

²¹ NPL coverage ratio of UKBs and TBs stood at 108.9 percent and 63.8 percent, respectively, as of September 2022. RCBs' NPL coverage ratio registered at 72.2 percent as of June 2022. Meanwhile, DGB's NPL coverage ratio declined to 63.2 percent as of September 2023 from 79.7 percent the previous month.

²² Ratio of past due loans to TLP, gross.

²³ These include non-current assets held for sale and sales contract receivables.

²⁴ ROPA growth of the PBS as of September 2023, September 2022 and September 2021 stood at 3.7 percent, 6.9 percent, and 3.7 percent, respectively. ROPA has been growing since the pandemic started, with the pre-pandemic CAGR of ROPA at only 0.6 percent.

²⁵ 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.

²⁶ By counterparty, debt securities issued by the national government (NG) accounted for 79.7 percent (₱3.2 trillion) of total investments in securities measured at amortized cost as of September 2023.

²⁷ As of September 2023, these investments in securities were mostly debt securities (₱2.4 trillion, 98.2 percent share). By counterparty, debt securities issued by the NG accounted for 68.2 percent (₱1.7 trillion) of total investments in securities measured at FVOCI as of the same reference period.

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in deposits was also observed across all banking groups.²⁸

- UKBs held the largest share of deposits at 93.9 percent (₱17.2 trillion), followed by TBs at 4.2 percent (₱762.0 billion), RCBs at 1.5 percent (₱279.9 billion), and DGBs at 0.4 percent (₱65.2 billion).
- As to nominal interest rates on deposit accounts,²⁹ the median rates for UKBs³⁰, TBs³¹ and RCBs³² across savings deposit products, except for basic deposit accounts³³ (BDAs), remained relatively unchanged in March 2023 vis-à-vis March 2022 (*Table 3*).

Table 3
Nominal Rates* on Bank Deposit Accounts
for end-periods indicated; rates in percent

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
BDAs	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
Source: DSA

- Meanwhile, the overall mean WAIR of UKBs on peso-denominated deposits of 1.7 percent for the month of September 2023 was higher than the 0.8 percent in September 2022 and the 1.2 percent in March 2020. Across all types, including sub-types of regular savings accounts, the mean WAIR of all peso-

denominated deposits generally rose when compared from a year ago (*Table 4*).

Table 4
Comparative Interest Rates* by Type of Deposits
for end-periods indicated; rates in percent

Type of Deposits	End-Mar 2020		End-Sep 2022		End-Sep 2023 p/	
	Mean WAIR	Median WAIR	Mean WAIR	Median WAIR	Mean WAIR	Median WAIR
Demand Deposit	1.25	0.25	0.31	0.15	0.43	0.13
Savings Deposit	0.86	0.32	0.56	0.23	1.01	0.25
Regular Savings Account	0.81	0.27	0.44	0.15	0.62	0.15
Kiddie and Teen Savings Account	0.53	0.19	0.27	0.07	0.61	0.10
Basic Deposit Account	-	-	0.076	0.076	0.100	0.100
Time Deposit	2.50	2.58	1.77	1.70	4.40	4.26
Overall Peso-Denominated Deposit	1.23	0.86	0.79	0.66	1.65	1.51

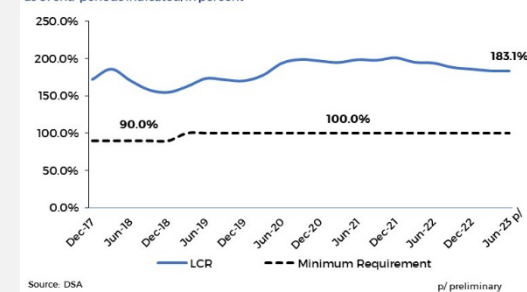
* Refers to weighted average interest rates (WAIR) on Deposits of UKBs; excludes outlier data of several banks
p/ - preliminary data
Source: DSA

- Other borrowings of banks continued to be minimal. As of September 2023, bills payable declined by 1.8 percent to ₱655.2 billion, while bonds payable declined by 21.7 percent to ₱478.6 billion. These accounts represented only around 3.1 percent and 2.3 percent, respectively, of the PBS' total liabilities.
- The CARs of the PBS and the UKB industry, on solo and consolidated basis, were well above the minimum thresholds set by the BSP (10 percent) and the Bank for International Settlements (8 percent). In March 2023, the PBS posted CARs of 16.0 percent on solo basis and 16.6 percent on consolidated basis. Meanwhile, preliminary data as of June 2023 disclosed that the UKB industry maintained high CARs at 16.3 percent and 16.9 percent on solo and consolidated basis, respectively, based on

preliminary data as of June 2023. Similarly, their common equity tier 1 (CET1) ratios stood at 15.2 percent and 15.8 percent on solo and consolidated basis, respectively, as of the same reference period.

- 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 March 2023, whereas preliminary data as of June 2023 disclosed that the UKB industry recorded an LCR of 183.1 percent on a solo basis (*Figure 6*). Similarly, the minimum liquidity ratios (MLRs) of stand-alone TBs, RBs and CBs registered at 31.0 percent, 56.2 percent, and 36.6 percent, respectively, as of June 2023, surpassing the 20 percent minimum requirement.

Figure 6
LCR of the UKB Industry (Solo Basis)
as of end-periods indicated; in percent



Source: DSA

p/ preliminary

²⁸ The deposits of the UKB, TB and RCB industries grew y-o-y by 9.0 percent, 10.2 percent and 8.1 percent, respectively, in September 2023, while DGBs' deposits declined by 0.8 percent from the previous month.

²⁹ Source: Report on Bank Deposit Interest Rates.

³⁰ 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.

³¹ For TBs, median rates ranged between 0.3 percent and 0.5 percent prior to the pandemic and ranged between 0.1 percent to 0.5 percent from 2020 to 2022.

³² 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.

³³ 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.

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- Moreover, the net stable funding ratio (NSFR) of the UKB industry continued to be well above the BSP 100 percent minimum at 139.1 percent and 139.4 percent, respectively, on solo and consolidated basis as of March 2023. Preliminary data as of June 2023 disclosed that the UKB industry maintained a high NSFR at 138.3 percent on a solo basis.
- The high LCR and NSFR of UKBs indicate banks' ability to meet both short- and medium-term funding requirements.
- Banks sustained their profitable operations. For the period ending September 2023, the PBS recorded a 10.4 percent increase in net profit, reaching ₱270.4 billion. This growth was slower than the 44.8 percent recorded in September 2022 and the 14.3 percent pre-pandemic average. The increase in net profit was primarily driven by higher interest income particularly from lending to private corporations and households³⁴ and investment in securities³⁵, denoting that core activities continued to drive the bank's operations.
- Interest income grew at a faster rate of 43.9 percent (to reach ₱929.4 billion) vis-a-vis the 11.3 percent growth in September 2022. Fees and commissions income of ₱103.4 billion likewise contributed to profitable operations alongside

the efficient management of overhead expenses.³⁶

- The trading income for the same period was composed of ₱9.6 billion profits in sales and/or redemption of trading securities, ₱9.4 billion realized gains from FX transactions, and ₱1.8 billion unrealized mark-to-market losses incurred on trading portfolio (financial assets/liabilities measured at FVTPL). Trading income grew marginally by 0.8 percent as the 19.6 percent increase in realized gains from the sale and/or redemption of trading securities was tempered by the 374.7 percent growth in unrealized losses from mark-to-market of held-for-trading securities.
- Income recognized by banks remained sufficient to offset impact on capital of net unrealized losses from FVOCI portfolio. In September 2023, the total net unrealized losses from FVOCI securities reached ₱94.9 billion, with debt securities recording net unrealized losses of ₱100.0 billion and equity securities registering net unrealized gains of ₱5.1 billion.³⁷ The level of net unrealized losses was higher than the ₱88.7 billion in August 2023, but lower than the ₱121.1 billion in December 2022.^{38,39} Meanwhile, total realized gains from sale, redemption and/or derecognition of FVOCI and financial assets measured at amortized cost reached ₱2.4 billion in September 2023, which

was higher than the ₱2.0 billion recorded in June 2023 and the ₱0.5 billion gains in September 2022.

- Other earnings metrics improved, with the return on assets (RoA)⁴⁰ and the return on equity (RoE)⁴¹ increasing to 1.5 percent and 12.0 percent, respectively, from 1.4 percent and 11.6 percent recorded in September 2022.
- Amid the continued digital transformation, the banking system maintains leaner and stronger banking landscape. The total bank network, which was comprised of 485 head offices and 12,895 other offices, reached 13,380 in September 2023 from 13,219 in September 2022. The increase in the total number of banking offices was due to expansion in other offices (composed of branches, branch-lite units, representative offices, remittance desk offices, marketing offices and sub-branches).

³⁴ Bulk of the interest income came from loans to private corporations and individuals, with shares of 36.0 percent (up by 39.9 percent to reach ₱334.5 billion) and 16.2 percent (up by 48.4 percent to reach ₱150.6 billion), respectively, in September 2023.

³⁵ Interest income from securities measured at amortized cost accounted for 14.2 percent (₱131.9 billion) of total interest income.

³⁶ Cost-to-income (CTI), which refers to the ratio of annualized non-interest expenses to annualized total operating income, indicates operational efficiency. For the past years, CTI has been maintained below 60 percent. This ratio stood at 56.7 percent for the period ending September 2023, higher than the 55.2 percent in June 2023, and the 55.7 percent recorded in September 2022.

³⁷ Based on FRP Balance Sheet as of September 2023.

³⁸ The banking system posted net unrealized gains from April 2020 to October 2021.

³⁹ 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.

⁴⁰ This refers to the ratio of annualized net profit or loss to average assets.

⁴¹ This refers to the ratio of annualized net profit or loss to average capital.

RECENT TRENDS IN THE PHILIPPINE FINANCIAL SYSTEM

As of September 2023



Non-Bank Sector Developments⁴²

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

- As of September 2023, there were five NBQBs supervised by the BSP, composed of one investment house (IH), three financing companies (FCs), and one other NBQB. In terms of network, the three FCs have a total of 14 branches, while the IH and other NBQB are single head office units.
- NBQBs' total assets expanded by 6.5 percent and reached ₱154.8 billion in June 2023.⁴³ These assets were largely comprised of loans at around 86.8 percent share.
- Alongside the asset growth, the lending activity of NBQBs' also increased, rising by 11.3 percent to reach ₱137.5 billion in June 2023. This credit expansion was accompanied by improvement in loan quality as total NPLs declined by 13.9 percent (down to ₱7.3 billion) and NPL ratio eased to 5.3 percent, which was better than the 6.9 percent recorded in June 2022. Moreover, NPL coverage ratio was 42.5 percent, higher than the 31.6 percent from a year ago.
- Bills payable remained the main source of NBQBs' funding, accounting for around 68.9 percent share (₱106.6 billion) of the industry's total assets as of June 2023. Total capital, which made up 14.2 percent share of total assets, grew

by 6.9 percent and reached ₱22.0 billion as of the same reference period.

- NBQBs sustained profitable operations, with net profit reaching ₱1.0 billion and posting 25.4 percent growth for the period ending June 2023.

Non-Stock Savings and Loans Associations (NSSLAs)

- As of September 2023, there were 57 NSSLAs with 136 branches operating in the Philippines. The industry posted a 5.1 percent increase in total assets to reach ₱299.4 billion as of March 2023⁴⁴, comprising mainly of members' loans at 78.7 percent of total assets.
- The industry's gross total loans rose by 4.8 percent to ₱259.9 billion as of March 2023 from ₱247.9 billion a year ago. Alongside the credit growth, the level of NPLs increased at a faster rate, growing by 4.4 percent to reach ₱20.9 billion. The NPL ratio stood at the same 8.1 percent from last year. This, however, was matched by ample loan provisioning as the NPL coverage ratio of the industry stood at 115.2 percent in March 2023, albeit lower than the 121.6 percent in the previous year.
- The asset expansion was largely funded by members' capital and deposits which both increased by 6.4 percent and 3.1 percent, respectively, to reach ₱197.1 billion and ₱87.4 billion in March 2023.

- NSSLAs sustained profitable operations, with net profit amounting to ₱24.9 billion and growing by 14.4 percent for the period ending March 2023.

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 September 2023, there were a total of 16,038 pawnshop offices (1,165 head offices and 14,873 branches). Meanwhile, there were 7,950 MSB offices as of June 2023 (735 head offices and 7,215 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. In June 2023, there were 12,437 pawnshop offices (or 77.5 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 5,275 offices (or 66.4 percent of total MSB offices) as of the same reference period.

⁴² Data are preliminary. All the growth rates pertain to y-o-y, unless otherwise specified.

⁴³ 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 ₱145.4 billion as of June 2022.

⁴⁴ The pre-pandemic CAGR of NSSLAs' total assets averaged at 11.8 percent from 2015 to 2019, higher than the 3.0 percent and 6.3 percent growth recorded in December 2020 and December 2021, respectively. The NSSLAs' total assets stood at ₱284.9 billion as of March 2022.