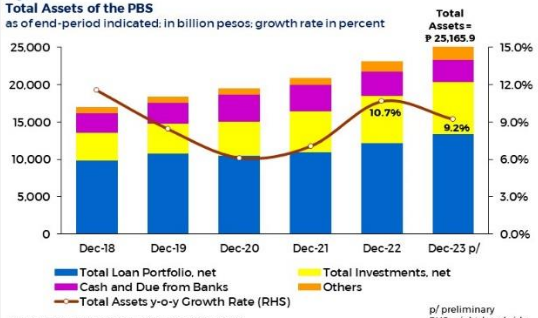
RECENT TRENDS IN THE PHILIPPINE FINANCIAL SYSTEM
As of December 2023

Banking Sector Developments[1]

Philippine banks ended 2023 with robust performance, as evidenced by continued growth in assets, loans, deposits, and earnings, as well as capital and liquidity positions that were well above regulatory standards. Domestic deposits primarily fueled this expansion, solidifying the banking system as a reliable provider of financial services and products to key economic sectors, including households. Moreover, sound credit risk management practices and governance standards enabled banks to maintain satisfactory loan quality and profitable operations.

- Total assets of the Philippine banking system (PBS) surged by 9.2 percent year-on-year (y-o-y) and reached ₱25.2 trillion in December 2023 (*Figure 1*). The overall upward momentum remains intact despite a slight deceleration from 9.9 percent last month and 10.7 percent a year ago but fell behind the 11.0 percent pre-pandemic average[2,3]. The asset expansion, which was funded by sustained domestic deposit inflows, was mostly channeled to loans and investments activities. Thus, enabling the banking system to remain supportive of the financing needs of the country and solidify public confidence in the financial sector.

Figure 1
Total Assets of the PBS
as of end-period indicated; in billion pesos; growth rate in percent

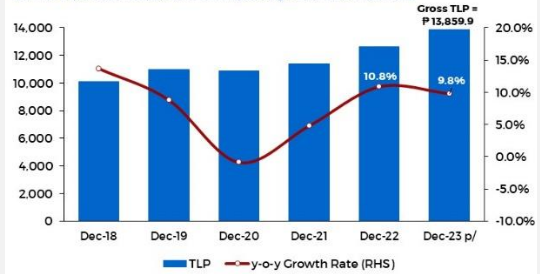


Source: Department of Supervisory Analytics (DSA)
p/ preliminary
RHS - right-hand side

- Universal and commercial banks (UKBs) maintained their dominance in the banking system, with around 93.9 percent share (₱23.6 trillion) of the system's total assets. Thrift banks (TBs), rural and cooperative banks (RCBs), and digital banks (DGBs) accounted for the remaining 4.1 percent (₱1.0 trillion), 1.6 percent (₱414.3 billion), and 0.4 percent (₱88.7 billion), respectively. All banking groups recorded growth in assets during the reference period, underscoring their resilience and adaptability amid the dynamic financial landscape.[4]

- Credit activity remained resilient, financing the requirements of the important economic sectors in the country, including households. This is evident in the continued growth of the total loan portfolio (TLP) since August 2021 (*Figure 2*). It ended 2023 with a 9.8-percent growth, reaching ₱13.9 trillion and outpacing the 9.3 percent recorded in November 2023 but falling short of the growth rate of 10.8 percent in December 2022 and the 13.8 percent pre-pandemic average.

Figure 2
Gross Total Loan Portfolio (TLP) of the PBS
as of end-periods indicated; in billion pesos; growth rates in percent



Source: DSA
p/ preliminary

- Across banking groups, UKBs continued to provide most of the financing requirements of the public, holding around 92.7 percent share (₱12.9 trillion) of the system's TLP. TBs, RCBs and DGBs held the remaining share at 5.3 percent (₱729.6 billion), 1.8 percent (₱253.9 billion), and 0.2 percent (₱24.8 billion), respectively.

- By economic activity, the real estate sector continued to be the largest borrower with 18.5 percent share (₱2.6 trillion). It was followed by households[5], wholesale and retail trade, manufacturing, and electricity, gas, steam, and air-conditioning supply sectors, with shares of 12.5 percent (₱1.7 trillion), 10.7 percent (₱1.5 trillion), 9.4 percent (₱1.3 trillion), and 9.3 percent (₱1.28 trillion), respectively.

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[1] Data are preliminary. All the growth rates, reference period and data pertain to y-o-y, as of December 2023 and the PBS, respectively. unless otherwise specified.
[2] The pre-pandemic compounded annual growth rate (CAGR) is computed using the data from December 2015 to December 2019.
[3] The asset growth of the PBS in December 2023, December 2022, and December 2021 stood at 9.2, 10.7, and 7.0 percent, respectively.
[4] UKBs' total assets expanded by 8.8 percent while total assets of TBs and RCBs rose by 7.2 and 11.2 percent, respectively. Meanwhile, DGBs' total assets increased by 7.8 percent in December 2023 from ₱82.2 billion in November 2023.
[5] Loans for household consumption **exclude** residential real estate loans or RRELs. The share of loans for household consumption to gross TLP of the PBS has been increasing in the past few years, with shares of 12.5, 11.1, and 10.0 percent, , in December 2023, December 2022, and December 2021, respectively.

- Lending to all these key sectors rose in December 2023, with loans to households consistently exhibiting the highest growth rate at 24.6 percent. Loans to households, particularly from credit card receivables[6] (CCRs, up by 30.1 percent or ₱167.2 billion), salary-based general-purpose consumption loans[7] (SBGPCLs, up by 26.3 percent or ₱91.8 billion), and motor vehicle loans (MVLs, up by 15.1 percent or ₱67.0 billion) drove the increase in TLP. The strong demand for consumer credit underscores the increased confidence and spending among households.

- The growth in household loans was consistent with the results of the latest consumer survey, which indicates that households finance their purchases of basic goods through bank loans.[8] Despite the overall pessimistic consumer sentiment towards big-ticket purchases,[9] MVLs sustained 11 consecutive months of growth since February 2023 to reach ₱511.7 billion in December 2023, indicating that consumers are still actively taking out loans to acquire motor vehicles.

- Loans to the real estate sector grew by 10.7 percent (₱248.4 billion) in December 2023. Loans to the wholesale and retail trade (7.8 percent or about ₱107.3 billion) and electricity, gas, steam, and air-conditioning supply (6.3 percent or about ₱75.6 billion) sectors also contributed to TLP expansion. These sectors, including households, collectively represented around 50.9 percent (₱7.1 trillion) of the system's gross TLP as of December 2023. Meanwhile, there are encouraging signs of sustained recovery in loans to the manufacturing sector. In December 2023, loans to this sector inched up by 1.0 percent from a year ago. building on the momentum in the previous month when it ended the four consecutive months of decline since July 2023.[10]

- As the economy fully reopened and amid high inflation and central banks tighter policy conditions, the BSP raised the policy rate[11] 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 those registered in March 2020, the onset of the pandemic. *Table 1* shows that the overall mean weighted average interest rate or WAIR on loans of UKBs stood at 8.4 percent in December 2023, higher than the 8.2 percent in March 2020 and the 7.8 percent in December 2022. Except for small and medium enterprise (SME) and microenterprise loans, the increase was observed across all loan types when compared to the same month a year ago.[12]

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

Type of Loans	Mar 2020		Dec 2022		Dec 2023 p/	
	Mean WAIR	Median WAIR	Mean WAIR	Median WAIR	Mean WAIR	Median WAIR
Loans to Government	7.9	4.3	7.9	6.2	9.7	7.5
Loans to Private Corporations	7.2	5.4	6.4	6.2	7.1	6.9
Contracts to Sell	6.1	6.8	6.7	7.7	6.9	7.5
Agrarian Reform and Other Agricultural Loans	6.4	5.3	6.1	6.0	6.7	6.8
Small and Medium Enterprise Loans	7.9	6.4	8.2	7.3	8.2	7.9
Microenterprise Loans	10.9	8.4	12.6	7.9	11.5	9.6
Loans to Individuals	14.4	11.1	10.1	8.4	11.1	10.1
Overall	**8.2**	**5.8**	**7.8**	**6.4**	**8.4**	**7.2**

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

- Among loan types, agri-agra loans registered the lowest mean WAIR while loans to microenterprises and individuals posted the

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[6] 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)
[7] SBGPCLs have been growing double-digit for 21 consecutive months since April 2022.
[8] Based on the Consumer Expectations Survey (CES) for Q4 2023, most household respondents used their loan proceeds in the last 12 months to purchase basic goods (54.2 percent of households), followed by expenses for business start-up/expansion (26.8 percent), education-related expenses (22.4 percent), payment of other debts (16.8 percent), and health-related expenses (14.7 percent).
[9] Based on the CES Q4 2023, consumer sentiment on buying big-ticket items (consumer durables, motor vehicles, and housing) for the next 12 months was more pessimistic as the confidence index (CI) turned more negative to -70.9 from -68.4 percent in Q3 2023. In particular, the CI on buying motor vehicles for Q4 2023 declined to -81.2 from -72.2 percent in Q3 2023.
[10] Loans to the manufacturing sector 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, September 2023, and October 2023 by 0.2, 3.0, 3.4, and 3.1 percent, respectively. In November 2023, loans to this sector posted a 0.1-percent growth. Despite reversing the decline, the November 2023 growth remained muted, falling significantly short of the 16.3 percent growth recorded a year ago. Similarly, the 1.0-percent growth in December 2023 was far from the 15.6-percent expansion in December 2022. According to the Philippine Statistics Authority, Value and Volume of Production Index (VaPI) for manufacturing registered an annual growth of 2.2 percent in December 2023, faster than the 2.0-percent growth in November 2023.
[11] 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 14 February 2024 meeting, the Monetary Board maintained its policy settings. 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.
[12] Based on the Report on Interest Rates on Loans and Deposits (IRLD)

highest mean WAIR, denoting these borrowers' inherent risk profile.

- Preliminary data showed that the total amount of **new** loans granted[13] by UKBs for the month of December 2023 stood at ₱1.4 trillion (*Table 2*) or around 10.8 percent of the industry's gross TLP of ₱12.9 trillion.[14] By counterparty, private corporations held the largest share of new loans granted at 65.4 percent (₱627.5 billion), followed by individuals at 19.4 percent (₱186.4 billion). Agri-agra and MSMEs had 9.9 percent share (₱95.0 billion) and 3.5 percent share (₱33.7 billion), respectively. Beginning January 2023, the share of new loans granted to individuals to total loans granted has been increasing even if banks retained their lending standards for household loans[15].

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

Type of Loans	Dec 2022		Dec 2023 p/	
	Level	Share	Level	Share
Loans to Government	37.9	*3.1%*	10.8	*0.8%*
Loans to Private Corporations	836.3	*69.4%*	846.0	*60.7%*
Contracts to Sell	3.6	*0.3%*	164.7	*11.8%*
Agrarian Reform and Other Agricultural Loans	103.0	*8.5%*	113.5	*8.1%*
Small and Medium Enterprise Loans	53.6	*4.4%*	51.9	*3.7%*
Microenterprise Loans	5.1	*0.4%*	7.5	*0.5%*
Loans to Individuals	166.2	*13.8%*	199.8	*14.3%*
Total	**1,205.8**		**1,394.3**	

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

- Total restructured loans decreased even further on the back of better economic prospects and increased business optimism.[16] *Figure 3* shows that the total restructured loans that Philippine banks extended to their eligible borrowers amounted to ₱302.5 billion in December 2023, lower than last month's ₱305.8 billion. This level, which represented around 2.2 percent of the banking system's gross total loans, surpassed the pre-pandemic level of ₱45.0 billion in February 2020 but fell short of ₱329.7 billion in December 2022.

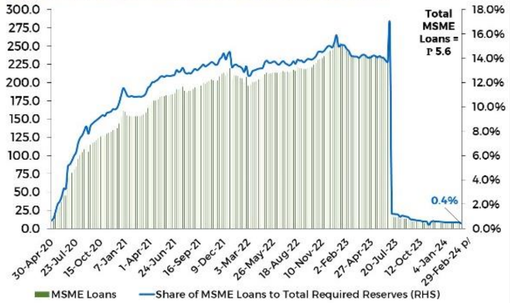
Figure 3
Gross Restructured Loans (RLs) of the PBS
as of end-periods indicated; in billion pesos; ratios in percent

Source: DSA
p/ preliminary

- 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) declined 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 of June 2023 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 29 February 2024, TBs and RCBs allocated an aggregate of ₱5.6 billion loans to MSMEs for compliance with the RRs. These accounted for 0.4 percent of total required reserves for the said reserve week (*Figure 4*).

Figure 4
MSME Loans as Alternative Compliance with RR
for end-reserve week indicated; in billion pesos; share in percent



Source: DSA
p/ preliminary

- In December 2023, the banking system's NPLs went up by 12.6 percent (or about ₱50.3 billion) and reached ₱449.1 billion, reversing the 11.9-percent contraction recorded in December 2022. The NPL ratio[18] stood at 3.2 percent, relatively the same as last year's ratio due to the uptick in NPLs being offset by the growth in total loans (*Figure 5*). The system's NPLs have been increasing since May 2023 on the back of

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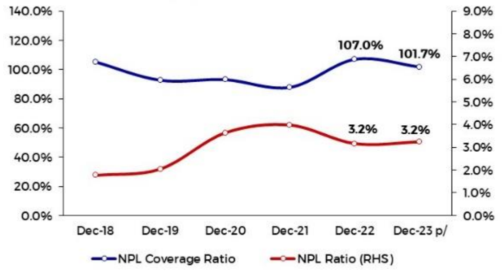
13 These exclude loan renewals and restructured loans, as well as outlier data of several banks.
14 This was higher than the ₱959.8 billion (7.8 percent of TLP) recorded for the month ending November 2023 and the ₱1.2 trillion (10.2 percent of TLP) posted for December 2022. **New** loans granted by UKBs from 2021 to 2023 ranged from 6.0 to 10.8 percent of the industry's TLP for the reference month.
15 Based on Q4 2023 Senior Bank Loan Officers' Survey (SLOS)
16 Based on Q4 2023 Business Expectations Survey (BES)
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 30 June 2023 are not eligible as alternative compliance with the RR.
18 This refers to the ratio of gross NPLs to gross TLP. The NPL ratio of the PBS ranged from 3.2 and 3.5 percent in 2023.

a high interest rate environment, which has impacted bank borrowers' paying capacity. Despite this, Philippine banks continue to improve their credit risk management practices as well as utilize credit risk mitigants to manage the rise in their NPLs. Moreover, while there has been growth in NPLs since May 2023, the PBS maintained a low NPL ratio and held ample provisions with an NPL coverage ratio[19] of 101.7 percent (*Figure 5).*

Figure 5
NPL Ratio and NPL Coverage Ratio of the PBS
as of end-periods indicated; in percent



Source: DSA
p/ preliminary

- By banking group, UKBs' NPL ratio slightly went up to 3.0 percent in December 2023 from last year's 2.9 percent. TBs' NPL ratio improved to 6.5 from the 7.1 percent recorded in December 2022 due to the faster growth of TLP compared to NPLs. Meanwhile, RCBs' and DGBs' NPL ratio both improved to 7.3 and 14.5 percent, respectively, from 8.9 percent a year ago and 20.2 percent last month due to decline in NPLs coupled with TLP growth.

- Among banking groups, UKBs' NPL coverage ratio declined to 107.5 percent in December 2023 from the 113.8 percent recorded the previous year as NPL growth outpaced the increase in UKBs' loan loss provision. On the other hand, TBs', and RCBs' NPL coverage improved to 66.9 and 81.6 percent, respectively, from the previous year's 66.4 and 79.0 percent. DGB's NPL coverage ratio, on one hand, declined to 50.5 from 52.6 percent a month ago.

- The PBS' past due ratio[20] stood at 4.0 percent in December 2023 compared to the 3.8 percent recorded a year ago, but better than the 4.2 percent reported in the previous month.

- The results of the latest real estate stress test (REST) as of December 2023 show an aggregate post-shock CAR that is comfortably above the 10.0 percent minimum for UKBs and subsidiary TBs.

- Meanwhile, the ratio of the PBS' gross real and other properties acquired (ROPA)[21] to total assets remained minimal at 0.6 percent, with the PBS's ROPA reaching ₱144.6 billion in December 2023.[22]

- Investments in securities[23] grew by 9.3 percent (₱578.9 million) and reached ₱6.8 trillion in December 2023, faster than the 8.4 percent growth rate last month but slower than the 10.6 percent pre-pandemic average. These were largely composed of securities measured at amortized cost (AC) at ₱4.0 trillion (59.2 percent share) and securities measured at fair value through other comprehensive income (FVOCI) at ₱2.5 trillion (36.8 percent share). Notably, the increasing share of FVOCI securities since July 2023 is consistent with market expectations that the BSP will keep a hawkish pause in the near term, amid steady policy rates in December 2023.[24] Securities measured at fair value through profit or loss (FVTPL) had a minimal share of about 4.0 percent (₱272.9 billion), rising by 31.3 percent from a year ago.

- Deposits further expanded and provided banks with a stable source of funding. As of December 2023, deposits accounted for around 75.6 percent share (₱19.0 trillion) of total assets, followed by capital at 12.2 percent share (₱3.1 trillion).

- The sustained public confidence supported the growing deposits of the PBS, which were primarily peso-denominated and sourced from resident individuals and private corporations. While deposit growth slowed to 7.1 percent in December 2023 from 8.2 percent last month and 9.4 percent a year ago, the sustained upward trend points to strong and steady deposit accumulation.

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19 This refers to the ratio of allowance for credit losses – gross TLP to gross NPLs. The NPL coverage ratio of the PBS stood at 101.5 percent in November 2023 and 107.0 percent in December 2022.
20 This refers to the ratio of past due loans to gross TLP.
21 These include non-current assets held for sale and sales contract receivables.
22 ROPA growth of the PBS as of December 2023, December 2022 and December 2021 stood at 2.5, 8.2, and 2.8 percent, respectively. ROPA has been growing since the pandemic started, with pre-pandemic average growth of 0.6 percent.
23 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.
24 The BSP kept its policy rate at 6.25 percent since 18 May 2023 before it took an off-cycle decision of a 25-basis point raise effective 27 October 2023, increasing the policy rate to 6.5 percent. At its 14 February 2024 meeting, the Monetary Board maintained its policy settings.

- By deposit type, low-cost deposits held the larger portion, particularly savings as well as demand and NOW accounts each having shares of 45.0 percent (₱8.6 trillion), and 27.6 percent (₱5.3 trillion), respectively. The remaining share was in the form of time certificates of deposits (TDs, 26.9 percent, ₱5.1 trillion) and long-term negotiable certificates of time deposits (LTNCDs, 0.4 percent, ₱81.2 billion). The growth in total deposits was largely due to the 22.8-percent increase in TDs, which have been increasing at a double-digit rate since August 2022. Moreover, deposit growth was observed across all banking groups.[25]

- UKBs generated the largest share of deposits at 94.0 percent (₱17.9 trillion), followed by TBs at 4.1 percent (₱789.3 billion), RCBs at 1.5 percent (₱292.2 billion), and DGBs at 0.4 percent (₱69.0 billion).

- The overall mean WAIR of UKBs on peso-denominated deposits of 1.7 percent for the month of December 2023 was higher than the 1.2 percent in December 2022 and March 2020. The mean WAIR of most peso-denominated deposits, except LTNCDs, generally rose across all deposit types when compared from a year ago. (*Table 3*). Meanwhile, sub-types of savings accounts posted mixed performance compared to their rates from the previous year.

Table 3
Comparative Interest Rates* by Type of Deposits
for end-periods indicated; rates in percent

Type of Deposits	End-Mar 2020		End-Dec 2022		End-Dec 2023 p/	
	Mean WAIR	Median WAIR	Mean WAIR	Median WAIR	Mean WAIR	Median WAIR
Demand Deposit	1.2	0.3	0.4	0.15	0.5	0.15
Savings Deposit	0.9	0.3	0.9	0.3	1.0	0.2
Regular Savings Account	*0.8*	*0.3*	*0.7*	*0.2*	*0.6*	*0.1*
Kiddie and Teen Savings Account	*0.53*	*0.19*	*0.67*	*0.078*	*0.20*	*0.083*
Basic Deposit Account	-	-	*0.071*	*0.097*	*0.103*	*0.103*
Other Savings Account	*1.8*	*1.0*	*1.7*	*0.8*	*2.4*	*2.7*
Time Deposit	2.5	2.6	2.8	3.0	4.1	4.4
Long Term Negotiable Certificates of Deposit	8.0	4.4	12.9	5.0	12.0	4.9
Overall Peso-Denominated Deposit	**1.2**	**0.9**	**1.2**	**1.1**	**1.7**	**1.4**

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

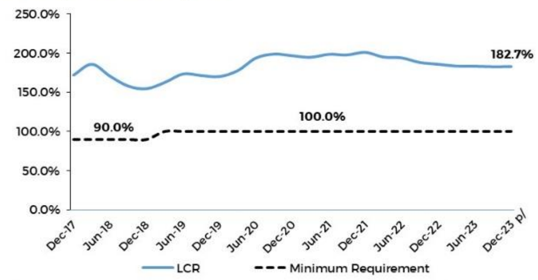
- Other bank borrowings continued to be minimal. As of December 2023, bills payable grew by 17.2 percent to reach ₱780.2 billion, while bonds payable declined by 14.2 percent to reach ₱496.3 billion. These accounts represented only around 3.5 and 2.2 percent, respectively, of the system's total liabilities.

- The CARs of the PBS and the UKB industry, on a 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 September 2023, the PBS posted its solo and consolidated CARs of 16.7 and 17.1 percent, respectively. Relatedly, all banking groups remained well capitalized. The UKB industry's solo and consolidated CARs stood at 16.6 and 17.0 percent, respectively. Preliminary data as of December 2023 show that the UKB industry's solo CAR stood at 16.4 percent while subsidiary TBs, RCBs, and DGBs registered CARs of 16.7, 14.6, and 20.8 percent, respectively.

- 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 9.2 percent on solo basis and 9.7 percent on consolidated basis as of December 2023. These were higher than the ratios registered a year ago of 8.8 and 9.3 percent, respectively, and remained well above the BSP and international thresholds.

- The liquidity ratios of banks were likewise well above the minimum thresholds. The UKB industry's liquidity coverage ratio (LCR) stood at 182.7 percent on solo basis and 181.4 percent on consolidated basis as of December 2023 (*Figure 6*). Similarly, the minimum liquidity ratios of stand-alone TBs, RBs, and CBs registered at 32.8, 52.4, and 39.6 percent, respectively, in December 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

- Moreover, the net stable funding ratio (NSFR) of the UKB industry continued to be well above the BSP 100 percent minimum at 135.8 and 136.3 percent, respectively, on solo basis and consolidated basis as of September 2023. Preliminary data as of December 2023 show that UKB industry's solo NSFR stood at 135.8 percent.

[25] The deposits of the UKB, TB, and RCB industries grew by 6.7, 6.5, and 8.4 percent, respectively, while DGBs' deposits inched up by 4.7 percent from the previous month.

- The high LCR and NSFR of UKBs indicate their ability to meet both short- and medium-term funding requirements.

- Banks sustained their profitable operations in 2023, with a double-digit growth in net earnings. For the year ending December 2023, the PBS posted a 15.0-percent increase in net profit, reaching ₱356.5 billion. However, this growth was slower than the 38.0 percent recorded in December 2022 but higher 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 households[26] and investments in securities[27], denoting that core activities continued to drive banks' operations.

- Interest income expanded at a faster rate of 41.2 percent (up ₱134.5 billion) vis-a-vis the 17.3 percent growth in December 2022. However, the high interest income registered in December 2023 was tempered by the increase in funding and borrowing costs as total interest expense rose by 137.2 percent (₱41.5 billion) to reach ₱371.2 billion amid a high interest rate environment. Interest expense on deposits and bills payable both rose by 171.0 percent (to reach ₱305.4 billion) and 162.2 percent (to reach ₱32.3 billion). Fees and commissions income likewise increased by 14.1 percent (₱17.4 billion to reach ₱140.8 billion), contributing to banks' profitable operations despite higher funding and operating costs due to higher deposit rates and administrative costs, including expenses related to technology upgrades.[28]

- The trading income for the year ending December 2023 grew by 39.4 percent (₱6.5 billion) to reach ₱23.0 billion. It was mainly composed of ₱10.6 billion realized gains from FX transactions and ₱10.2 billion profits in sales and/or redemption of trading securities. The growth in trading income was driven by the ₱2.2 billion unrealized mark-to-market gains incurred on trading portfolio, a reversal of the ₱2.9 billion unrealized losses in December 2022.

- Notably, income recognized by banks remained sufficient to offset impact on capital of net unrealized losses from FVOCI portfolio. In December 2023, the total net unrealized losses from FVOCI securities reached ₱48.0 billion, with debt securities recording net unrealized losses of ₱58.0 billion and equity securities registering net unrealized gains of ₱10.0 billion. The level of net unrealized losses was lower than the ₱69.5 billion in November 2023 and the ₱121.1 billion in December 2022.[29,30] Meanwhile, total realized gains from sale, redemption and/or derecognition of FVOCI and financial assets measured at AC reached ₱2.7 billion in December 2023, which was higher than the ₱2.4 billion registered in September 2023 and a reversal of the ₱1.1 billion realized losses recorded in December 2022.

- Other earnings metrics also improved, reinforcing banks' profitable operations in 2023. The return on assets (RoA)[31] and the return on equity (RoE)[32] stood at 1.5 and 12.4 percent, respectively, higher than the 1.4 percent and the 11.7 percent posted a year ago.

- Amid the continued digital transformation, the banking system maintains a leaner and stronger banking landscape. The total bank network, which was comprised of 482 head offices and 12,877 other offices, reached 13,359 in December 2023 from 13,269 in December 2022. The growth in the total number of banking offices stemmed from expansion in other offices (composed of branches, branch-lite units, representative offices, remittance desk offices, marketing offices, and sub-branches).

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[26] Bulk of the system's total interest income came from loans to private corporations and individuals, with shares of 35.3 percent (up by 35.1 percent to reach ₱454.7 billion) and 26.1 percent (up by 47.9 percent to reach ₱335.7 billion), respectively, in December 2023.

[27] Interest income from securities measured at AC accounted for 13.8 percent (up by 37.6 percent to reach ₱177.6 billion) of the system's total interest income.

[28] 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 December 2023, relatively unchanged from the ratio recorded in September 2023 but higher than the 55.2 percent posted in December 2022.

[29] The PBS posted net unrealized gains from April 2020 to October 2021.

[30] 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.

[31] This refers to the ratio of annualized net profit or loss to average assets.

[32] This refers to the ratio of annualized net profit or loss to average capital.

Non-Bank Sector Developments[33]

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

- As of December 2023, there were five 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 three FCs have a total of 14 branches, while the IH and other NBQB are single head office units.

- NBQBs' total assets expanded by 6.7 percent and reached ₱161.3 billion in December 2023.[34] This was a reversal of the 10.1-percent decline in assets in December 2022. The industry's assets in December 2023 were largely comprised of loans at around 87.6 percent share.

- Alongside the asset growth, the lending activity increased, rising by 10.2 percent to reach ₱144.5 billion in December 2023. This credit expansion was accompanied by improvement in loan quality as NPLs declined by 15.3 percent (₱1.2 billion to reach ₱6.5 billion) and NPL ratio eased to 4.5 percent, which was better than the 5.9 percent recorded in December 2022. Moreover, NPL coverage ratio was 47.7 percent, higher than the 36.2 percent from a year ago.

- Bills payable remained the main source of NBQBs' funding, accounting for 68.3 percent share (₱110.1 billion) of the industry's total assets as of December 2023. Total capital, which made up 14.3 percent share of the industry's total assets, grew by 8.3 percent and reached ₱23.0 billion as of the same reference period.

- NBQBs sustained profitable operations, with net profit reaching ₱1.8 billion, albeit marginally declining by 0.3 percent for the year ending December 2023.

Non-Stock Savings and Loan Associations (NSSLAs)

- As of December 2023, there were 56 NSSLAs with 136 branches operating in the Philippines. The industry recorded a 5.7 percent growth in total assets to reach ₱316.8 billion as of December 2023[35], comprising mainly of members' loans at 77.0 percent of total assets.

- The industry's gross total loans expanded by 6.1 percent (₱15.4 billion) to ₱268.3 billion in December 2023. Alongside this credit growth, the level of NPLs increased by 8.6 percent (₱1.7 billion) to reach ₱22.1 billion. The NPL ratio stood at 8.2 percent, marginally higher than last year's 8.1 percent. NSSLAs matched the increase in NPLs by ample loan provisioning as the NPL coverage ratio of the industry stood at 109.8 percent in December 2023, albeit lower than the previous year's 115.4 percent.

- The asset expansion was largely funded by members' capital of ₱206.9 billion (up by 7.7 percent) and deposits of ₱86.2 billion (0.2 percent) as of December 2023.

- NSSLAs sustained profitable operations, with net profit rising by 11.7 percent (₱2.9 billion) to ₱27.9 billion for the year ending December 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 December 2023, there were a total of 16,070 pawnshop offices (1,160 head offices and 14,910 branches). Meanwhile, there were 7,358 MSB offices as of December 2023 (722 head offices and 6,636 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 December 2023, there were 12,512 pawnshop offices (or 77.9 percent of the 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 5,213 offices (or 70.8 percent of the total MSB offices) as of the same reference period.

[33] Data are preliminary. All the growth rates pertain to y-o-y, unless otherwise specified.
[34] The pre-pandemic CAGR of NBQBs' total assets was 8.0 percent from 2015 to 2019, far from the contraction of 10.1, 7.4, and 30.9 percent in 2022, 2021, and 2020, respectively. The NBQB's total assets stood at ₱151.3 billion as of December 2022.
[35] The pre-pandemic CAGR of NSSLA's total assets averaged at 11.8 percent from 2015 to 2019, higher than the 5.6, 6.3, and 3.0 percent growth recorded in 2022, 2021 and 2020, respectively. The NSSLA's total assets stood at ₱299.6 billion in December 2022.