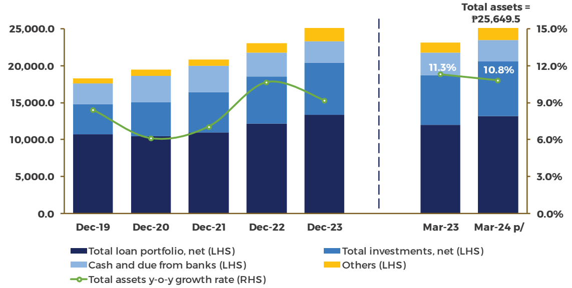
## Banking Sector Developments[1]

*The Philippine banking system (PBS) sustained its solid performance demonstrated by continued uptrend in assets, loans, deposits, and earnings, as well as ample provisions for credit losses. This was supported by strong capital and liquidity positions, cushioning banks from potential shocks.*

- Total assets of the Philippine banking system (PBS) expanded by 10.8 percent year-on-year (y-o-y) to ₱25.6 trillion in March 2024 (*Figure 1*). This growth outpaced the 9.6-percent increase in the previous month and inched closer to the 11.3-percent growth in March 2023 and the 11-percent pre-pandemic average[2,3] The asset expansion, which was mainly funded by deposits, was mostly channeled to loans and investment activities. The sustained growth momentum in total assets enabled the banking system to remain supportive of the country's financial requirements and reinforced public confidence in the financial sector.

- Across banking groups, universal and commercial banks (UKBs) maintained their dominance with 93.9 percent share (₱24.1 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 (₱425.4 billion), and 0.4 percent (₱96.9 billion), respectively. All banking groups posted asset growth during the reference period, indicating their strong performance and expanding operations on the back of a dynamic financial landscape.[4]

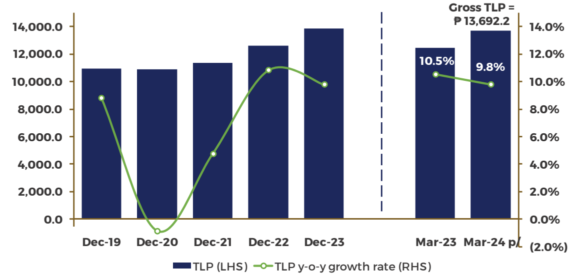
Figure 1
**Total Assets of the PBS**
as of end-period indicated; in billion PH pesos; growth rate in percent




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

- Banks' credit activity continued to be on an uptrend, as loans remained integral in financing the requirements of the country's key economic sectors, including households. This is seen in the continued growth of the total loan portfolio (TLP) since August 2021 (*Figure 2*). TLP rose by 9.8 percent to ₱13.7 trillion in March 2024 and outpaced the 9.1-percent increase registered in the previous month. This growth, however, was still slower than the 10.5 percent in March 2023 and fell short of the 13.8-percent pre-pandemic average.

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




Source: DSA
p/ preliminary

- Across banking groups, UKBs continued to provide most of the financing requirements of the public, holding 92.8 percent share (₱12.7 trillion) of the system's TLP. TBs, RCBs, and DGBs held the remaining shares at 5.1 percent (₱701.8 billion), 1.9 percent (₱262.5 billion), and 0.1 percent (₱19.9 billion), respectively.

- By economic activity, the real estate sector continued to be the largest borrower with 18.7 percent share (₱2.6 trillion). This was followed by households[5], wholesale and retail trade, electricity, gas, steam, and air-conditioning supply sectors, and manufacturing, with shares of 13.2 percent (₱1.8 trillion), 10.6 percent (₱1.4 trillion), 9.6 percent (₱1.31 trillion), and 9.2 percent (₱1.26 trillion), respectively.

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1 Data are preliminary. All growth rates, reference period and data pertain to y-o-y, as of March 2024 and the PBS, respectively. unless otherwise specified.
2 The pre-pandemic compounded annual growth rate (CAGR) is computed using December data from 2015 to 2019.
3 The asset growth of the PBS in March 2024, March 2023, and March 2022 stood at 10.8, 11.3, and 6.9 percent, respectively.
4 UKBs' total assets expanded by 10.7 percent while total assets of TBs and RCBs rose by 8.8 and 15.8 percent, respectively. Meanwhile, DGBs' total assets significantly rose by 63.1 percent over the same reference period.
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 13.2, 11.7, and 10.2 percent, in March 2024, March 2023, and March 2022, respectively.

- Lending to these key sectors expanded in March 2024, with loans to households consistently exhibiting the highest growth rate at 24 percent[6]. Loans to households, particularly from credit card receivables (CCRs, up by 30 percent, or ₱171.9 billion), motor vehicle loans (MVLs, up by 17.5 percent, or ₱80.1 billion), and salary-based general-purpose consumption loans[7] (SBGPCLs, up by 18.5 percent, or ₱71.7 billion) drove the growth in TLP. The strong demand for consumer credit indicates 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, MVLs sustained 14 consecutive months of growth since February 2023 to reach ₱538.3 billion in March 2024, indicating that consumers are still actively availing loans to acquire motor vehicles.

- Loans to the real estate sector expanded by 11.4 percent (₱262.1 billion) in March 2024. Loans to the electricity, gas, steam, and air-conditioning supply (up by 10 percent, or ₱119.1 billion) and wholesale and retail trade (up by 6.6 percent, or ₱89.5 billion) sectors also contributed to TLP growth. These sectors, including households, collectively represented 52.1 percent (₱7.1 trillion) of the system's gross TLP in March 2024. Meanwhile, there are encouraging signs of sustained recovery in loans to the manufacturing sector. In March 2024, loans to this sector went up by 5 percent from a year ago, marking five consecutive months of growth since November 2023.[9]

- The BSP has maintained the policy rate[10] since 16 November 2023, after a series of policy rate hikes in 2022.

- Given this policy stance, lending rates further increased in 2024 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 (WAIR) on loans of UKBs stood at 10.3 percent in February 2024, higher than the 8.2 percent in March 2020 and the 7.2 percent in February 2023. Except for contracts to sell and microenterprise loans, increase in lending rates was observed across all loan types when compared to the same month a year ago.[11]

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

| Type of loans | End-Mar 2020 | | End-Feb 2023 | | End-Feb 2024 p/ | |
|---|---|---|---|---|---|---|
| | Mean WAIR | Median WAIR | Mean WAIR | Median WAIR | Mean WAIR | Median WAIR |
| Loans to government | 7.9% | 4.3% | 6.2% | 5.6% | 10.0% | 7.5% |
| Loans to private corporations | 7.2% | 5.4% | 6.0% | 5.7% | 7.4% | 6.6% |
| Contracts to sell | 6.1% | 6.8% | 7.6% | 7.2% | 6.6% | 7.2% |
| Agrarian reform and other agricultural loans | 6.4% | 5.3% | 5.7% | 5.9% | 6.3% | 6.4% |
| Small and medium enterprise loans | 7.9% | 6.4% | 7.3% | 6.7% | 8.0% | 7.8% |
| Microenterprise loans | 10.9% | 8.4% | 17.0% | 8.0% | 12.3% | 9.1% |
| Loans to individuals | 14.4% | 11.1% | 9.5% | 8.6% | 12.9% | 9.9% |
| **Overall** | **8.2%** | **5.8%** | **7.2%** | **6.1%** | **10.3%** | **7.2%** |

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

- Agri-agra loans registered the lowest mean WAIR while loans to individuals and microenterprises posted the highest mean WAIR, denoting these borrowers' inherent risk profile.

- Preliminary data showed that the total amount of **new** loans granted[12] by UKBs for the month of February 2024 stood at ₱882.9 billion (*Table 2*) or 7 percent of the industry's gross TLP of ₱12.5 trillion.[13] By counterparty, private corporations held the largest share of new

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6 The growth rate of loans to households has been above 20 percent since December 2022.
7 SBGPCLs have been growing double-digit for two consecutive years since April 2022.
8 Based on the Consumer Expectations Survey (CES) for Q1 2024, most household respondents used their loan proceeds in the last 12 months to purchase basic goods (49.7 percent of households), followed by expenses for business start-up/expansion (24.8 percent), education-related expenses (19.1 percent), health-related expenses (14.0 percent), and payment of other debts (8.2 percent).
9 Loans to the manufacturing sector gradually recovered from the 4-month contraction recorded from July 2023 to October 2023. In March 2024, these loans expanded by 5.0-percent and marked 5 consecutive months of growth since November 2023. This growth, however, was a slowdown from 5.9 and 9.5 percent noted in the February 2024 and March 2023, respectively. This growth slowdown was consistent with the Philippine Statistics Authority report which stated that the Value of Production Index (VaPI) for manufacturing registered an annual decline of 6.8 percent in March 2024, a reversal from the 5.7-percent growth in February 2024.
10 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 16 May 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 and 7 percent, respectively.
11 Based on the Report on Interest Rates on Loans and Deposits (IRLD)
12 These exclude loan renewals and restructured loans, as well as outlier data of several banks.
13 This was higher than the ₱801.1 billion (6.5 percent of TLP) recorded for the month ending in January 2024 and the ₱756.4 billion (6.5 percent of TLP) posted for February 2023. **New** loans granted by UKBs from 2021 to 2023 ranged from 6 to 10.8 percent of the industry's TLP for the reference month.

loans granted at 64.8 percent (₱572.4 billion), followed by individuals at 20.1 percent (₱177.5 billion). Agri-agra and MSMEs had 9.7 percent (₱85.8 billion) and 4.9 percent (₱43.2 billion), respectively. Beginning January 2023, the share of new loans granted to individuals to total new loans granted has been increasing due to higher loan demand from households driven by increasing household consumption and banks' attractive financing terms[14].

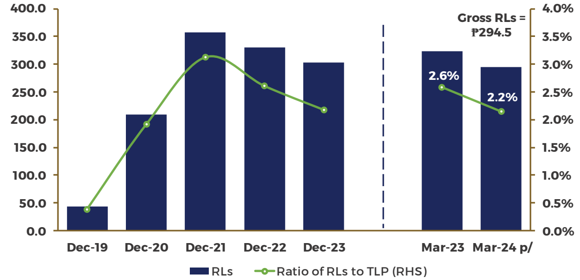
Table 2
**New Loans Granted by UKBs ***
for end-periods indicated; in billion PH pesos; share in percent

| Type of loans | Feb 2023 | | Feb 2024 p/ | |
|---|---|---|---|---|
| | Level | Share | Level | Share |
| Loans to government | 2.8 | *0.4%* | 2.5 | *0.3%* |
| Loans to private corporations | 508.4 | *67.2%* | 572.4 | *64.8%* |
| Contracts to sell | 0.7 | *0.1%* | 1.4 | *0.2%* |
| Agrarian reform and other agricultural loans | 75.4 | *10.0%* | 85.8 | *9.7%* |
| Small and medium enterprise loans | 27.3 | *3.6%* | 39.8 | *4.5%* |
| Microenterprise loans | 3.0 | *0.4%* | 3.4 | *0.4%* |
| Loans to individuals | 138.8 | *18.4%* | 177.5 | *20.1%* |
| **Total** | **756.4** | | **882.9** | |

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

- Total restructured loans declined further on the back of more upbeat business confidence[15] and improved consumer sentiment[16]. *Figure 3* shows that the total restructured loans that Philippine banks extended to their eligible borrowers amounted to ₱294.5 billion in March 2024, higher than last month's ₱292.1 billion. This level, which represented 2.2 percent of the banking system's gross TLP, surpassed the pre-pandemic level of ₱45.0 billion in February 2020 but was lower than the ₱322.9 billion in March 2023.

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

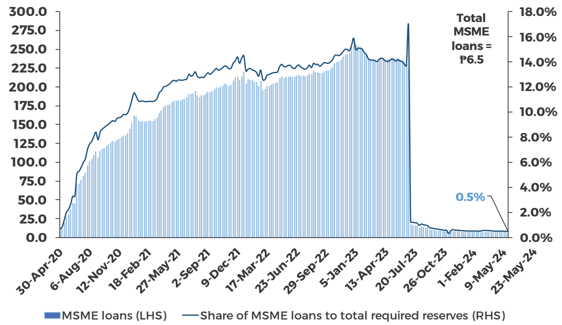



Source: DSA
p/ preliminary

- 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 23 May 2024, TBs and RCBs allocated an aggregate of ₱6.5 billion loans to MSMEs for compliance with the RRs. These accounted for 0.5 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 PH pesos; share in percent




Source: DSA

- In March 2024, the banking system's NPLs went up by 12.0 percent (₱49.7 billion) to ₱464.7 billion, reversing the 9.9-percent contraction recorded in March 2023. The NPL ratio[18] stood at 3.4 percent, slightly higher than last year's ratio of 3.3 percent due to the uptick in NPLs, outpacing the growth in total loans (*Figure 5*). The system's NPLs have been increasing since May 2023 on the back of a high interest rate environment, which has affected bank borrowers' paying capacity. Despite this, Philippine banks continue to improve their credit risk management practices as well as

[14] Based on the Q1 2024 Senior Bank Loan Officers' Survey (SLOS), the diffusion index (DI) method showed a net increase in demand from all key household loan categories driven by increasing household consumption and banks' more attractive financing terms. Both the modal and DI methods revealed that surveyed banks maintained lending standards to household loans due to banks' unchanged risk tolerance, steady profitability of banks' asset portfolios, as well as stable economic outlook and profile of borrowers.

[15] Based on the results of the Q1 2024 Business Expectations Survey (BES), the country's business confidence was more bullish for Q2 2024, and similarly more upbeat for the next 12 months.

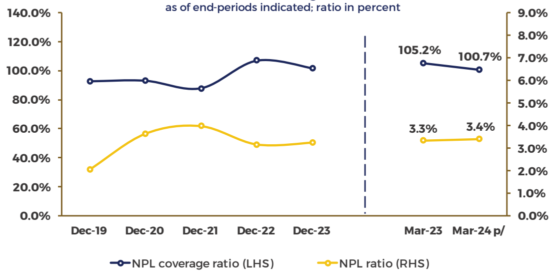
[16] Based on the results of the Q1 2024 Consumer Expectations Survey (CES), the consumer sentiment in the Philippines improved in Q1 2024 as the overall confidence index (CI) became less negative at -10.9 from -19 percent in Q4 2023.

[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.

utilize credit risk mitigants to manage the rise in their NPLs. As such, the PBS maintained a low NPL ratio and registered ample provisions with an NPL coverage ratio[19] of 100.7 percent (*Figure 5*).

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




Source: DSA
p/ preliminary

- By banking group, UKBs', and TBs' NPL ratio went up to 3.1 and 7.1 percent, respectively, in March 2024 from the previous year's 3 and 6.8 percent due to faster NPL growth against total loan growth. Likewise, DGBs also posted a higher NPL ratio at 25.3 from 7.2 percent in March 2023 that can be attributed to decline in total loans coupled with an uptick in NPLs. Meanwhile, RCBs' NPL ratio improved to 7.5 percent in March 2024 from 8.4 percent a year ago due to the industry's loan growth outpacing NPL growth.

- All banking groups recorded deterioration in their NPL coverage except for RCBs. UKBs', TBs', and DGBs' NPL coverage ratios declined to 106.9, 63.8, and 64.9 percent, respectively, in March 2024 from the 111.5, 65.9, and 113.2 percent in the previous year as NPL growth outpaced the increase in the banking groups' respective loan loss provision. Meanwhile, RCBs' NPL coverage ratio marginally improved to 79 percent in the same period from 78.7 percent posted in March 2023.

- The PBS' past due ratio[20] remained marginally lower at 4.30 percent in March 2024 compared to the 4.31 percent posted in the prior month. This, however, was higher than 4.1 percent recorded in March 2023.

- 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 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 ₱146.4 billion in March 2024.[22]

- Investments in securities[23] grew by 9.2 percent (₱601.1 billion) and reached ₱7.1 trillion in March 2024, slower than the 9.5 percent growth rate in the previous month and the 10.6 percent pre-pandemic average. These were largely composed of securities measured at amortized cost (AC) at ₱4.0 trillion (56.0 percent) and securities measured at fair value through other comprehensive income (FVOCI) at ₱2.7 trillion (37.4 percent).[24] Notably, the increasing share of FVOCI securities since July 2023 is consistent with market expectations that the BSP will keep policy rates steady in the near term.[25] Meanwhile, securities measured at fair value through profit or loss (FVTPL) had a minimal share of about 6.6 percent (₱470.9 billion), rising by 62.2 percent from a year ago.

- Deposits further expanded and provided banks with a stable source of funding. In March 2024, deposits accounted for 74.6 percent share (₱19.1 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 slightly increased to 8 percent in March 2024 from 7.9 percent in the previous month and was slower compared to 10.1 percent recorded a year ago, the sustained upward trend points to strong and steady deposit accumulation (*Figure 6*).

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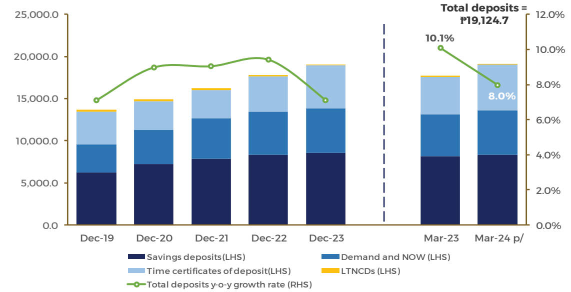
19 This refers to the ratio of allowance for credit losses – gross TLP to gross NPLs. The NPL coverage ratio of the PBS stood at 100.1 percent in February 2024 and 105.2 percent in March 2023.
20 This refers to the ratio of past due loans to gross TLP.
21 These include non-current assets held for sale and sales contract receivables.
22 ROPA growth of the PBS as of March 2024, March 2023 and March 2022 stood at 6, 5.2, and 2.9 percent, respectively. ROPA has been growing at a faster rate since the pandemic started, compared to pre-pandemic average growth of 0.6 percent.
23 The amount, which is gross of allowance for credit losses, if applicable, comprises investments in debt and equity securities and derivatives and excludes equity investments in subsidiaries/associates/joint ventures.
24 By counterparty, investments in securities issued by the national government reached ₱5.3 trillion, accounting for 73.4 percent of the banking system's total investments.
25 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. On its 16 May 2024 meeting, the Monetary Board maintained its policy settings.

Figure 6
**Total Deposits of the PBS**
as of end-period indicated; in billion PH pesos; growth rate in percent




Source: DSA
p/ preliminary

- By deposit type, savings accounts held the largest share at 43.4 percent (₱8.3 trillion), followed by time deposits (TDs) and demand and NOW accounts, with shares of 28.7 percent (₱5.5 trillion) and 27.6 percent (₱5.3 trillion), respectively. The remaining share was in the form of long-term negotiable certificates of time deposits (LTNCDs, 0.3 percent, ₱64.1 billion). The growth in total deposits was largely due to the 24.3-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.[26]

- UKBs generated the largest share of deposits at 93.8 percent (₱17.9 trillion), followed by TBs at 4.2 percent (₱799.3 billion), RCBs at 1.6 percent (₱301.7 billion), and DGBs at 0.4 percent (₱76.8 billion).

- The overall mean WAIR of UKBs on peso-denominated deposits of 1.8 percent for the month of February 2024 was higher than the 1.2 percent in February 2023 and March 2020. The mean WAIR of peso-denominated deposits 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; rate in percent

| Type of deposits | End-Mar 2020 | | End-Feb 2023 | | End-Feb 2024 p/ | |
|---|---|---|---|---|---|---|
| | Mean WAIR | Median WAIR | Mean WAIR | Median WAIR | Mean WAIR | Median WAIR |
| Demand deposit | 1.2% | 0.3% | 0.3% | 0.12% | 0.4% | 0.14% |
| Savings deposit | 0.9% | 0.3% | 0.8% | 0.2% | 1.2% | 0.3% |
| *Regular savings account* | *0.8%* | *0.3%* | *0.5%* | *0.1%* | *0.9%* | *0.1%* |
| *Kiddie and teen savings account* | *0.53%* | *0.19%* | *0.63%* | *0.093%* | *0.20%* | *0.097%* |
| *Basic deposit account* | - | - | *0.087%* | *0.087%* | *0.957%* | *0.957%* |
| *Other savings account* | *1.8%* | *1.0%* | *1.9%* | *1.7%* | *2.3%* | *2.4%* |
| Time deposit | 2.5% | 2.6% | 3.1% | 3.3% | 4.0% | 4.2% |
| Long term negotiable certificates of deposit | 8.0% | 4.4% | 5.4% | 4.7% | 6.2% | 5.4% |
| **Overall peso-denominated deposit** | **1.2%** | **0.9%** | **1.2%** | **1.0%** | **1.8%** | **1.6%** |

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

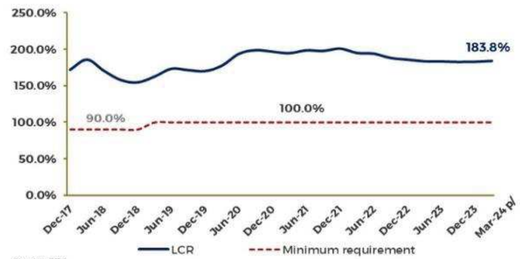
- Other bank borrowings continued to be minimal. As of March 2024, bills payable grew by 21.7 percent to ₱803.1 billion, while bonds payable grew by 6.4 percent to ₱555.9 billion. These accounts represented only around 3.6 and 2.5 percent, respectively, of the system's total liabilities.

- 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 December 2023, the PBS posted its solo and consolidated CARs of 16.6 and 17.1 percent, respectively. All banking groups remained well capitalized, with the UKB industry registering its solo and consolidated CARs at 16.4 and 16.9 percent, respectively. TBs' solo and consolidated CARs were at 18.1 and 19.9 percent, respectively, RCBs' solo and consolidated CARs were at 18.8 and 21.3 percent, respectively, and DGBs posted solo and consolidated CARs of 29.6 and 43.8 percent, respectively, over the same period.

- The UKB industry's Basel III Leverage Ratios (BLRs), which relate the level of a bank's Tier 1 capital against its total on- and off-balance sheet exposure were 9.21 percent on solo basis and 9.7 percent on consolidated basis in December 2023. These were higher than the ratios of 8.8 and 9.3 percent, respectively, registered a year ago. Moreover, preliminary data as of March 2024 showed that the said ratio stood at 9.20 percent on a solo basis. The banking system's BLR remained well above the BSP and international thresholds.

- On liquidity buffers, banks maintained their liquidity ratios well above the minimum thresholds. In particular, the UKB industry's liquidity coverage ratio (LCR) stood at 182.7 percent on a solo basis and 181.4 percent on consolidated basis in December 2023. Preliminary data as of March 2024 showed that the said ratio remained high at 183.8 percent on a solo basis (*Figure 7*). 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 7
**LCR of the UKB Industry (Solo Basis)**
as of end-periods indicated; ratio in percent




Source: DSA
p/ preliminary

[26] The deposits of the UKB, TB, RCB, and DGB industries increased y-o-y by 7.7, 8.7, 14.6, and 66.5 percent, respectively, in March 2024.

- In addition, the net stable funding ratio (NSFR) of the UKB industry continued to be well above the BSP's 100 percent minimum requirement, at 135.8 and 136 percent on a solo and consolidated basis, respectively, in December 2023.

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

- Banks sustained their profitable operations, marked by continued growth in net earnings. For the period ending March 2024, the PBS posted a 2.9-percent increase in net profit, reaching ₱92.1 billion. However, this growth was slower compared to the 34.9 percent recorded in March 2023 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 households[27] and investments in securities[28], denoting that core activities continued to drive banks' operations.

- Interest income expanded at a slower rate of 21.9 percent (₱64.0 billion) vis-a-vis the 47.4-percent growth in March 2023. The high interest income registered in March 2024 was tempered by the increase in funding and borrowing costs as total interest expense rose by 36.7 percent (₱29.2 billion) amid a high interest rate environment. Interest expense on deposits and bills payable both rose by 41.3 percent (₱26.5 billion) and 30.5 percent (₱2.2 billion). Fees and commissions income likewise increased by 8.9 percent (₱3.0 billion), contributing to banks' profitable operations. This offset higher funding and operating costs due to higher deposit rates and administrative costs, including expenses related to technology upgrades.[29]

- The trading income for the period ending March 2024 decreased by 68.9 percent (₱3.3 billion), reaching ₱1.5 billion. This decline was primarily driven by the ₱1.4 billion unrealized mark-to-market loss incurred on trading portfolio a larger decline of 23.6-percent compared to the ₱1.2 billion unrealized losses in March 2023. Moreover, realized profit in sales and/or redemption of trading securities declined by 68.9 percent to ₱1.5 billion while realized gains from FX transactions declined by 84.5 percent to ₱406.3 million.

- Notably, income recognized by banks remained sufficient to offset impact on capital of net unrealized losses from FVOCI portfolio. In March 2024, the total net unrealized losses from FVOCI securities reached ₱58.3 billion, with debt securities recording net unrealized losses of ₱66.0 billion and equity securities registering net unrealized gains of ₱7.7 billion. The level of net unrealized losses was lower than the ₱61.7 billion in February 2024 and the ₱85.9 billion in March 2023.[30,31] Meanwhile, total realized gains from sale, redemption and/or derecognition of FVOCI and financial assets measured at AC reached ₱1.0 billion in March 2024, which was lower than the ₱2.7 billion registered in December 2023 and the ₱1.3 billion recorded in March 2023.

- The return on assets (RoA)[32] and the return on equity (RoE)[33] stood at 1.47 and 12.2 percent, respectively, slightly lower than the 1.52 percent and the 12.6 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 480 head offices and 12,898 other offices, reached 13,378 in March 2024 from 13,293 in March 2023. The growth in the total number of banking offices was on account of expansion in both the number of branches and branch-lite units.

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27 Bulk of the system's total interest income came from loans to private corporations and individuals, with shares of 34 percent (up by 13.6 percent to reach ₱121.1 billion) and 26.6 percent (up by 47.6 percent to reach ₱94.7 billion), respectively, in March 2024.

28 Interest income from debt securities measured at AC accounted for 13.0 percent (up by 8 percent to reach ₱46.3 billion) of the system's total interest income.

29 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 in March 2024, relatively unchanged from the ratio recorded in December 2023 but higher than the 55 percent posted in March 2023.

30 The PBS posted net unrealized gains from April 2020 to October 2021.

31 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.

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

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

## Non-Bank Sector Developments[34]

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

- As of March 2024, 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 9.6 percent and reached ₱167.4 billion in March 2024.[35] This was a reversal of the 8.7-percent decline in assets in March 2023. The industry's assets in March 2024 consisted largely of loans at 86.5 percent.
- Alongside the asset growth, the lending activity increased, rising by 11.4 percent to ₱144.7 billion over the same period. This credit expansion was accompanied by improvement in loan quality as non-performing loans (NPLs) declined by 10.4 percent (₱772.0 million) to ₱6.6 billion and NPL ratio eased to 4.5 percent, which was better than the 5.6 percent recorded in March 2023. This was matched with improvement in NPL coverage ratio of 46.5 percent, higher than the 38.5 percent from a year ago.
- In terms of funding, bills payable remained the main source of NBQBs' funding, accounting for 81.9 percent (₱117.8 billion) of the industry's total liabilities in March 2024. Meanwhile, total capital of NBQBs rebounded, growing by 8.9 percent to ₱23.6 billion, reversing the 26.8-percent contraction recorded in the same period a year ago.
- NBQBs sustained profitable operations, with net profit reaching ₱529.6 million for the period ending in March 2024, growing by 24.3 percent from ₱426.1 million in the same period last year.

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

- As of March 2024, there were 55 NSSLAs with 137 branches operating in the Philippines. The industry recorded a 7-percent growth in total assets to ₱320.5 billion in March 2024[36], comprising mainly of members' loans at 78 percent of total assets.
- The industry's gross total loans expanded by 4.8 percent (₱12.4 billion) to ₱272.3 billion in March 2024. Alongside this credit growth, the level of non-performing loans (NPLs) increased by 13.9 percent (₱2.9 billion) to ₱23.9 billion. This translated to higher NPL ratio of 8.8 percent compared to the 8.1 percent recorded in the same period a year before, and lower NPL coverage of 92.4 percent vis-a-vis the previous year's 115.2 percent.
- The asset expansion was largely funded by members' capital of ₱213.6 billion (up by 8.3 percent) and deposits of ₱88.0 billion (up by 0.8 percent) as of March 2024.
- NSSLAs sustained profitable operations, with net profit rising by 6.1 percent (₱0.4 billion) to ₱7.0 billion for the period ending in March 2024.

### *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 March 2024, there were a total of 16,200 pawnshop offices (1,169 head offices and 15,031 branches) while there were 7,503 MSB offices (719 head offices and 6,784 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 March 2024, there were 12,655 pawnshop offices (or 78.1 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 5,343 offices (or 71.2 percent of the total MSB offices) as of the same reference period.

[34] Data are preliminary. All growth rates pertain to y-o-y, unless otherwise specified.
[35] The pre-pandemic CAGR of NBQBs' total assets was 8 percent from 2015 to 2019, far from the contraction of 10.1, 12.8, and 30.9 percent in 2022, 2021, and 2020, respectively. The NBQB's total assets stood at ₱152.7 billion in March 2023.
[36] 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-percent growth recorded in 2022, 2021 and 2020, respectively. The NSSLA's total assets stood at ₱299.4 billion in March 2023.