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The Effects of the Pandemic on the Listed Philippine Banks' Financials

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This study examined the effects of the pandemic on the operating performance and financial position of listed Philippine banks. Their major sources of revenues, interest rates on loans and deposit liabilities, impairment losses, and operating expenses in 2020 and 2021 were evaluated vis-à-vis the five-year data prior to the COVID-19 outbreak. The impact of the pandemic on the banks' asset mix, loans to deposit ratios (LDR), liquidity coverage ratios (LCR), net stable funding ratios (NSFR), and capital adequacy ratios (CAR) were likewise assessed over the same period. While the banks were adversely affected by the pandemic, the impact was not as severe as the other industries. Because of the banks' aversion to lending and borrowers' higher demand for credit facilities during the period, the LDRs went down, but the average net interest margins went up in 2020. It is also interesting to note that the averages of the banks' capital adequacy ratios were higher during the pandemic years.

1 Introduction

On March 15, 2020, Metro Manila was put under enhanced community quarantine (ECQ) due to the coronavirus (COVID-19) pandemic, resulting to some 140 confirmed cases nationwide, 12 deaths, and two recoveries at that time (Bueza, 2021). Through its Inter-Agency Task Force for the Management of Emerging Infectious Diseases (IATF), the Philippine government came up with different quarantine measures with varying degrees of rigidity for people's mobility and allowing business establishments to operate at certain capacity (Talabis, et. al., 2021). The local government units (LGUs) were allowed to adopt these measures based on the severity of infections in their respective areas to keep the number of cases low while minimizing the adverse effects on the economy (Talabis, et. al., 2021).

As of August 2020, the Philippines had the highest COVID-19 cases in Southeast Asia despite imposing the longest and the strictest lockdown in the region (Bloomberg, 2020). Consequently, the Philippine gross domestic product (GDP) went down by 9.5%[1] in 2020, the worst fall it had since World War II, considering the strong fundamentals of the country in the last decade (Balisacan and Dela Cruz, 2021). In the second quarter of 2020, the Philippine GDP went down by as low as 16.9%. About five million people lost jobs and three to five years of gains in poverty reduction were eroded by the pandemic as a consequence (Balisacan and Dela Cruz, 2021).

Among the industries, the accommodation and food service activities suffered the most, declining by more than 45% in 2020 alone. Other industries that experienced double digit declines in 2020 included transportation and storage (30.6%), construction (25.5%), mining and quarrying (18.6%), and real estate and ownership of dwellings (16.7%)[2]. The financial and insurance activities industry, which grew by 5.6%, was one of the few that managed to achieve positive growth in 2020[3].

A survey of 13,878 firms was conducted from November 26, 2020 to December 10, 2020 to determine the effects of COVID-19 on businesses in the Philippines. The survey was a component of the Real Time Monitoring of COVID-19 Impacts in the Philippines Project supported by the Australian government. The implementation of the survey was assisted by government agencies which included the Department of Finance (DOF), National Economic Development Authority (NEDA), and the National Telecommunications Commission (NTC), along with Eddy Quach Tran as consultant representing the Poverty and Equity (EEAPV) unit of The World Bank (Piza, et al., 2020). Among the significant findings in the survey were the following (Piza, et al., 2020):

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[1] Source: Philippine Statistics Authority (PSA). https://openstat.psa.gov.ph/PXWeb/pxweb/en/DB/ DB__2B__NA__AN__1SUM/0012B5CEXA1.px/?rxid=e0b50a9d-03d6-4d71-8f53-edea4915807f
[2] Source: Philippine Statistics Authority (PSA). https://openstat.psa.gov.ph/PXWeb/pxweb/en/DB/DB__2B__NA__AN__1SUM/0012B5CEXA1.px/?rxid=e0b50a9d-03d6-4d71-8f53-edea4915807f
[3] *Ibid*

1. Some companies (9%) closed their business in compliance with government regulations, 21% voluntarily closed their operations, and 7% decided to permanently shut down their business. The tourism sector had the biggest number of closures (64%) followed by arts and entertainment (57%). The 45% of the transportation sector and 43% of the food services sector shut down as well.
2. A big number of firms reported serious liquidity problems, with some having fallen behind on their payments.
3. There was no improvement in access to finance from July to November 2020.
4. Micro and small firms were more adversely affected as compared to large firms, forcing some to close businesses.
5. There was clamor for more government financial support, e.g. grants or access to credit facilities
6. Two-thirds of the companies have intensified their adoption of digital platforms in marketing their products and services.

The returns on the Philippine stock market were also not encouraging. From 2019 to 2021, the Philippine stock market index (PSEi) was still down almost 9%. Some companies that were planning to have their initial public offerings (IPOs) had to defer their plans. Thus, the weak stock market limited the ability of big companies to raise equity financing.

These adverse economic developments had affected the firms' ability to pay maturing obligations, which in turn could impact on the operating performance and financial position of financial institutions. While the value of services rendered by the financial sector increased in 2020, the profitability of the companies may be another story. This is what this study investigates, with a focus on listed Philippine banks.

2 Objectives of the Study

The objectives of this research are as follows:

1. Determine the effects of COVID-19 on their operating performance.
2. Identify how the sources of income were affected by the pandemic.
3. Evaluate the impact of the pandemic on their financial position.

3 Methodology

The following procedures were undertaken in conducting this study:

1. The listed Philippine banks were identified from the website of the Philippine Stock Exchange (PSE). For this study, the nine banks listed below which comprised the financials index are grouped separately from the other listed banks.
   a. BDO Unibank, Inc. (BDO)
   b. Bank of the Philippine Islands (BPI)
   c. China Banking Corporation (CHIB)
   d. East West Banking Corporation (EW)
   e. Metropolitan Bank & Trust Company (MBT)
   f. Philippine National Bank (PNB)
   g. Rizal Commercial Banking Corporation (RCB)
   h. Security Bank Corporation (SECB)
   i. Union Bank of the Philippines (UBP)

   The other listed Philippine banks initially considered in this research are:
   a. Asia United Bank Corporation (AUB)
   b. Bank of Commerce (BNCOM)
   c. Citystate Savings Bank, Inc. (CSB)
   d. NextGenesis Corporation (NXGEN)
   e. Philippine Business Bank, Inc. (PBB)
   f. Philippine Bank of Communication (PBC)
   g. Philippine Savings Bank (PSB)
   h. Philippine Trust Company (PTC)

NXGEN and PSB were excluded in the study. An analysis of the financial statements of NXGEN suggests that it did not operate as a bank, but rather appeared to operate primarily as a shell company. PSB is a subsidiary of MBT and is consolidated in the financial statements of its parent company. Therefore, there are a total of fifteen (15) banks analyzed for this research.

2. The financial reports of the banks covered in this study were taken from PSE Edge and from their respective official websites. Financial reports from 2015 to 2021 were collected, with the financial statements from 2015 to 2019 representing the pre pandemic period and those from 2020 and 2021 representing the pandemic period.
3. In determining the operating performance of the banks, the following financial measures were used:
   a. Return on equity (ROE)
   b. Net interest margin
   c. Operating expenses ÷ (net interest income + other income)
   d. (Operating expenses - impairment losses) ÷ (net interest income + other income)
   e. Net profit margin
4. The average interest rates for loans and receivables were estimated by dividing the interest income generated from loans and receivables by the carrying amount of this account, defined as the amortized cost, net of impairment losses. The average interest rates from deposit liabilities were estimated by dividing the interest expenses incurred from deposit liabilities by the deposit liabilities. From the two interest rates, the net interest margins were estimated.
5. For the financial position of the banks, the following measures were used:
   a. Loans to deposits ratio
   b. Debt ratio
   c. Capital adequacy ratio (CAR). This is the ratio between the sum of the bank's tier 1 and tier 2 capital and its risk-weighted assets. The BSP sets a minimum of 10% for this coverage ratio.
   d. Liquidity coverage ratio (LCR).[4] BSP sets a minimum of 100% for this ratio.
   e. Net stable funding ratio (NSFR).[5] BSP requires the ratio to be at least 100%.

4 Findings

As shown in Table 1, total revenues of listed Philippine banks continued to grow from 2015 to 2019. Afterwards, the revenues went down by 1.13% in 2020 and went down further by 7.34% in 2021. Note however that other income even went up during the pandemic period covering the years 2020 and 2021. As reported in their respective financial statements, other income includes service charges, fees, and commissions, trading gains, rental income, and dividends, among others.

Table 1. Revenues (In Millions of PHP, Except for the Growth Rates), 2015 – 2021

	2015	2016	2017	2018	2019	2020	2021
Interest income							
Financials-indexed banks	301,867	339,137	400,643	498,586	626,516	601,807	534,395
Other listed banks	22,051	24,141	26,504	31,797	39,671	37,778	34,531
Total	**323,918**	**363,277**	**427,147**	**530,382**	**666,188**	**639,585**	**568,926**
Growth rates		12.15%	17.58%	24.17%	25.61%	-3.99%	-11.05%

[4] The formula for computing liquidity coverage ratio (LCR) is shown below:

$$(\text{LCR}) = \frac{High\ Quality\ Liquid\ Assets\ \ (HQLAs)}{Net\ Cash\ Flows\ Over\ a\ 30\text{−}Day\ Stress\ Period}$$

[5] In June 2018, BSP approved the adoption of NSFR with a six-month observation period from July 1 to December 31, 2018. Starting January 1, 2019, all banks covered by this requirement must maintain at least 100% NSFR (Source: https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=4606).
The formula for computing NSFR is shown below:

$$(\text{NSFR}) = \frac{Total\ Available\ Stable\ Funding\ (ASF)}{Total\ Required\ Stable\ Funding\ (RSF)}$$

	2015	2016	2017	2018	2019	2020	2021
Other income							
Financials-indexed banks	108,977	135,515	136,398	135,259	177,334	191,099	205,721
Other listed banks	5,834	6,113	6,849	5,530	8,244	11,441	5,657
Total	**114,811**	**141,628**	**143,247**	**140,789**	**185,578**	**202,540**	**211,378**
Growth rates		23.36%	1.14%	-1.72%	31.81%	9.14%	4.36%
Total revenues							
Financials-indexed banks	410,844	474,651	537,041	633,845	803,850	792,906	740,117
Other listed banks	27,885	30,254	33,353	37,327	47,915	49,219	40,188
Total	**438,728**	**504,905**	**570,394**	**671,171**	**851,765**	**842,125**	**780,304**
Growth Rates		15.08%	12.97%	17.67%	26.91%	-1.13%	-7.34%

The nine financials-indexed banks accounted for 93% to 94% of both interest income and other income from 2015 to 2021. Based on the data from Table 1, interest income accounted for 72% to 79% of the total revenues generated by listed banks for the 2015 to 2021 period.

Based on these data, the industry is apparently dominated by three companies: BDO, MBT, and BPI, with BDO accounting for 24% to 27% of the total revenues (See Table 2). The combined share of these three banks ranges between 55% to 60% over the 2015 – 2021 period.

Table 2. Share in Listed Philippine Banks' Total Revenues, 2015 – 2021

		2015	2016	2017	2018	2019	2020	2021
	Financials-indexed stocks							
1	BDO	24%	24%	26%	27%	26%	25%	26%
2	BPI	17%	16%	16%	15%	15%	15%	14%
3	CHIB	5%	5%	6%	6%	7%	7%	7%
4	EW	4%	5%	5%	5%	4%	4%	4%
5	MBT	19%	19%	18%	18%	17%	17%	14%
6	PNB	7%	7%	7%	7%	7%	7%	11%
7	RCB	6%	6%	6%	6%	6%	6%	6%
8	SECB	6%	5%	6%	6%	6%	7%	5%
9	UBP	6%	6%	6%	6%	6%	6%	7%
	Other listed Banks							
10	AUB	2%	2%	2%	2%	2%	2%	2%
11	BNCOM	1%	1%	1%	1%	1%	1%	1%
12	CSB	0%	0%	0%	0%	0%	0%	0%
13	PBB	1%	1%	1%	1%	1%	1%	1%
14	PBC	1%	1%	1%	1%	1%	1%	1%
15	Philtrust	1%	1%	1%	1%	1%	1%	1%

In 2019, the year before the pandemic, interest income was 78% of the listed banks' revenues. In 2020, this share went down to 76%, and further went down to 73% in 2021. The banks seemingly were averse to lending in 2020. As shown in Table 3, loans and receivables went down by 4.69% while investments went up by 5.48%. In 2021, investments further increased by 22% while loans and receivables increased by 3.79%.

Table 3. Loans, Investments, and Deposits (In Millions of PHP, Except Growth Rates), 2015 – 2021

	2015	2016	2017	2018	2019	2020	2021
Loans and receivables							
Financials-indexed banks	4,562,810	5,402,559	6,369,493	7,218,389	7,922,576	7,538,222	7,823,716
Other listed banks	261,941	303,913	369,049	391,310	419,672	412,505	428,165
Total	**4,824,751**	**5,706,472**	**6,738,541**	**7,609,699**	**8,342,248**	**7,950,727**	**8,251,880**
Growth rates		18.27%	18.09%	12.93%	9.63%	-4.69%	3.79%
Investments							
Financials-indexed banks	1,609,062	1,574,452	1,744,786	2,125,439	2,400,268	2,534,138	3,074,135
Other listed banks	124,258	119,434	147,706	169,327	177,083	184,380	242,876
Total	**1,733,321**	**1,693,886**	**1,892,493**	**2,294,765**	**2,577,351**	**2,718,518**	**3,317,012**
Growth rates		-2.28%	11.72%	21.26%	12.31%	5.48%	22.02%
Deposit liabilities							
Financials-indexed banks	6,250,341	7,154,274	7,992,046	8,639,120	9,241,437	9,682,101	10,557,505
Other listed banks	463,893	502,728	555,438	609,804	642,861	735,139	783,726
Total	**6,714,234**	**7,657,002**	**8,547,484**	**9,248,925**	**9,884,299**	**10,417,240**	**11,341,231**
Growth rates		14.04%	11.63%	8.21%	6.87%	5.39%	8.87%

The total assets of the listed Philippine banks managed to grow to PHP13.8 trillion in 2020 and PHP14.7 trillion in 2021 amidst the pandemic (See Table 4). While the total assets were growing between 8.76% to 13% before the pandemic, the growth rate slowed to 2.52% in 2020, but then started going up again in 2021, reaching 6.25%. It is interesting to note, as shown in the previous table, that even at the height of the pandemic in 2020, deposit liabilities managed to grow by 5.39%, and by 8.87 in 2021, outpacing the growth rate in total assets.

Table 4. Total Assets, Liabilities, and Equity ((In Millions of PHP Except Growth Rates), 2015 to 2021

	2015	2016	2017	2018	2019	2020	2021
Total assets							
Financials-indexed banks	8,237,592	9,346,308	10,490,455	11,649,195	12,686,415	12,938,269	13,746,191
Other listed banks	573,624	618,519	684,968	744,361	792,725	880,963	936,135
Total	**8,811,216**	**9,964,827**	**11,175,423**	**12,393,556**	**13,479,140**	**13,819,232**	**14,682,326**
Growth rates		13.09%	12.15%	10.90%	8.76%	2.52%	6.25%
Total liabilities							
Financials-indexed banks	7,315,776	8,320,869	9,315,983	10,242,389	11,124,931	11,283,829	12,010,697
Other listed banks	495,507	533,609	592,788	656,148	692,917	775,005	818,890
Total	**7,811,284**	**8,854,478**	**9,908,771**	**10,898,536**	**11,817,848**	**12,058,834**	**12,829,588**
Growth rates		13.35%	11.91%	9.99%	8.44%	2.04%	6.39%
Total equity							
Financials-indexed banks	921,816	1,025,439	1,174,472	1,406,806	1,561,484	1,654,440	1,735,494
Other listed banks	78,116	84,910	92,180	88,213	99,809	105,958	117,245
Total	**999,932**	**1,110,349**	**1,266,652**	**1,495,020**	**1,661,292**	**1,760,398**	**1,852,739**
Growth rates		11.04%	14.08%	18.03%	11.12%	5.97%	5.25%

The next sections provide a deeper analysis and discussion of the performance of the listed Philippine banks and their resulting financial positions.

4.1 Operating Performance

All the listed Philippine banks were still profitable in 2020 and 2021. The financials-indexed banks have consistently generated higher ROEs averaging around 10% in most years, as compared to the other listed banks whose average ROE was below 5% until 2019, when it then went up to 6%. In 2021, PNB's ROE was 20%, but the significant improvement was due to the PHP16.8 billion gain from the loss of control in a subsidiary and PHP16.5 billion gain on the remeasurement of their retained interest. Adjusting for these non-recurring transactions and adjusting for 25% corporate income tax rate, PNB's ROE should only have been 4.17% in 2021. These adjustments are reflected in Table 5.

Table 5. Return on Equity (ROE), 2015-2021

	Financials-indexed banks	2015	2016	2017	2018	2019	2020	2021
1	BDO	12.55%	12.06%	9.42%	9.95%	11.92%	7.19%	10.09%
2	BPI	12.03%	13.28%	12.39%	9.27%	10.65%	7.68%	8.17%
3	CHIB	9.47%	10.19%	8.99%	9.24%	10.48%	11.50%	12.68%
4	EW	6.38%	9.89%	12.95%	10.57%	12.72%	11.73%	7.61%
5	MBT	10.15%	9.88%	10.42%	8.06%	9.07%	4.19%	6.82%
6	PNB[6]	6.03%	6.51%	6.81%	7.43%	6.30%	1.68%	4.17%
7	RCB	8.82%	6.23%	6.43%	5.32%	6.50%	4.95%	6.38%
8	SECB	14.57%	8.81%	9.77%	7.86%	8.54%	6.03%	5.53%
9	UBP	10.11%	14.89%	11.38%	7.93%	14.29%	10.99%	11.21%
	Average	**10.01%**	**10.20%**	**9.84%**	**8.40%**	**10.05%**	**7.33%**	**8.07%**
	Other listed Banks							
10	AUB	7.64%	9.70%	10.53%	11.25%	13.39%	8.59%	10.70%
11	BNCOM	1.97%	3.53%	3.52%	-0.11%	4.06%	4.68%	5.16%
12	CSB	-14.22%	-14.56%	-12.57%	-6.28%	-3.58%	0.83%	0.14%
13	PBB	5.93%	6.99%	6.26%	7.55%	9.76%	6.77%	8.08%
14	PBC	2.28%	3.71%	5.56%	6.06%	10.19%	9.33%	11.10%
15	Philtrust	4.55%	4.68%	6.80%	3.89%	3.04%	3.52%	3.17%
	Average	**1.36%**	**2.34%**	**3.35%**	**3.73%**	**6.14%**	**5.62%**	**6.39%**
	Average for 15 banks	**6.55%**	**7.05%**	**7.24%**	**6.53%**	**8.49%**	**6.64%**	**7.40%**

As also shown in Table 5, BPI and UBP have consistently outperformed almost everyone else throughout the 2015 – 2021 period. Except for 2017 and 2020, BDO also registered double-digit ROE during this same period.

One of the possible reasons for the relatively good performance of the banks, even during the pandemic, is the high net interest margin.[7] As shown in Table 6, the average net interest margin (NIM) even went up in 2020 for both financials-indexed and other listed banks. This is worth emphasizing considering that the prevailing interest rates went down in 2020 as compared to the preceding year (See Table 7). The treasury bill yields on all the tenors went down by more than 50% in 2020. However, the high levels of provisioning in 2020 and 2021 also adversely affected profits.

Table 6. Net Interest Margin (NIM), 2015 - 2021

		2015	2016	2017	2018	2019	2020	2021
	Financials-indexed banks							
1	BDO	3.16%	3.11%	3.28%	3.49%	4.01%	4.25%	3.87%
2	BPI	2.71%	2.65%	2.70%	2.85%	3.16%	3.39%	2.99%
3	CHIB	3.04%	2.80%	2.81%	2.81%	2.89%	3.46%	3.69%
4	EW	5.88%	5.78%	6.50%	5.64%	5.63%	7.12%	5.72%
5	MBT	3.02%	3.13%	3.17%	3.29%	3.39%	3.71%	3.16%
6	PNB	3.34%	3.08%	3.22%	3.27%	3.31%	3.37%	3.30%
7	RCB	3.43%	3.50%	3.83%	3.57%	3.69%	4.24%	3.54%
8	SECB	2.40%	2.34%	2.64%	2.80%	3.54%	4.94%	4.19%
9	UBP	3.21%	3.34%	3.19%	3.40%	3.35%	4.16%	4.14%
	Average	**3.35%**	**3.30%**	**3.48%**	**3.46%**	**3.66%**	**4.29%**	**3.84%**
	Other listed Banks							
10	AUB	3.60%	3.91%	3.59%	3.53%	3.81%	3.72%	3.69%

[6] ROE was adjusted for the non-recurring gains in 2021.

[7] Net interest margin (NIM) = (interest income – interest expense) ÷ interest-earning assets

		2015	2016	2017	2018	2019	2020	2021
11	BNCOM	2.72%	3.12%	2.81%	2.86%	3.46%	3.72%	3.20%
12	CSB	4.12%	5.28%	5.55%	6.12%	5.45%	5.23%	6.24%
13	PBB	4.21%	3.97%	3.80%	4.40%	4.36%	5.03%	4.31%
14	PBC	3.72%	3.49%	3.32%	2.95%	3.38%	4.41%	4.28%
15	Philtrust	2.08%	1.86%	2.00%	1.95%	1.86%	1.35%	1.57%
	Average	**3.41%**	**3.60%**	**3.51%**	**3.64%**	**3.72%**	**3.91%**	**3.88%**
	Average for 15 banks	**3.38%**	**3.42%**	**3.49%**	**3.53%**	**3.69%**	**4.14%**	**3.86%**

EW's NIM was unusually high in 2020 at 7.12%. This could be partly attributed to its consumer loans, where EW is actually known for. Interest rates on consumer loans are generally higher than corporate loans. Table 8 shows that among the financials-indexed banks, EW had the highest average interest rates on loans and receivables throughout the period covered in the study.

Table 7. Treasury Bill Rates, 2015 - 2021

T Bills	2015	2016	2017	2018	2019	2020	2021
91-day	1.77%	1.50%	2.15%	3.53%	4.67%	2.02%	1.11%
182-day	1.92%	1.58%	2.50%	4.25%	5.07%	2.26%	1.43%
364-day	2.08%	1.76%	2.88%	4.82%	5.23%	2.43%	1.69%

Source: Bureau of Treasury (https://www.treasury.gov.ph/)

The average interest rates on loans and receivables were computed by dividing the interest income generated from loans and receivables by the carrying values of loans and receivables (See Table 8).

Table 8. Estimated Interest Rates on Loans and Receivables, 2015 - 2021

		2015	2016	2017	2018	2019	2020	2021
	Financials-indexed banks							
1	BDO	5.09%	5.03%	5.11%	5.79%	6.56%	6.29%	5.33%
2	BPI	4.83%	4.69%	4.70%	5.12%	5.91%	5.85%	4.89%
3	CHIB	5.13%	4.62%	4.84%	5.57%	6.34%	6.31%	5.57%
4	EW	8.96%	8.74%	9.58%	9.40%	10.18%	11.49%	9.88%
5	MBT	4.98%	4.83%	5.01%	5.73%	6.46%	6.84%	5.30%
6	PNB	4.69%	4.60%	4.51%	5.15%	6.06%	6.23%	5.63%
7	RCB	5.84%	6.35%	6.20%	6.79%	7.27%	6.90%	5.93%
8	SECB	4.58%	4.60%	4.69%	5.75%	7.50%	7.75%	6.26%
9	UBP	6.58%	6.29%	6.20%	7.19%	7.12%	8.50%	7.69%
	Average	**5.63%**	**5.53%**	**5.65%**	**6.28%**	**7.04%**	**7.35%**	**6.28%**
	Other listed Banks							
10	AUB	5.05%	5.85%	5.18%	5.89%	6.78%	6.77%	5.87%
11	BNCOM	5.85%	5.66%	4.35%	5.08%	6.67%	6.76%	5.76%
12	CSB	6.95%	8.02%	9.71%	10.40%	8.74%	9.47%	9.06%
13	PBB	6.34%	5.35%	5.21%	7.03%	7.59%	7.30%	6.09%
14	PBC	7.12%	6.30%	6.03%	6.20%	7.29%	7.51%	6.47%
15	Philtrust	4.39%	3.30%	3.40%	5.58%	9.09%	5.57%	4.66%
	Average	**5.95%**	**5.75%**	**5.65%**	**6.70%**	**7.69%**	**7.23%**	**6.32%**
	Average for 15 banks	**5.76%**	**5.61%**	**5.65%**	**6.44%**	**7.30%**	**7.30%**	**6.29%**

Note that the average interest rates on loans and receivables for the financials-indexed banks even went up in 2020. Significant increases in interest rates were also observed particularly for EW and UBP.

The average interest rates on deposit liabilities were also estimated by dividing the interest expense on deposits by the deposit liabilities (See Table 9). There were significant declines on the interest rates on the deposit liabilities in 2020 and 2021 which resembled the decline in treasury bill rates. Unfortunately, such considerable declines were not observed on the interest rates on loans and receivables that were shown in Table 8. For some banks, the average interest rates on loans and receivables even went up in 2020. Consequently, the net interest income of banks even went up by 14.43% in 2020, which is the height of the pandemic (See Table 10).

Table 9. Estimated Interest Rates on Deposit Liabilities, 2015 – 2021

		2015	2016	2017	2018	2019	2020	2021
	Financials-indexed banks							
1	BDO	0.75%	0.72%	0.70%	1.06%	1.29%	0.59%	0.25%
2	BPI	1.04%	1.07%	1.07%	1.34%	1.70%	1.11%	0.52%
3	CHIB	0.91%	0.89%	1.03%	1.61%	2.39%	1.15%	0.59%
4	EW	1.00%	1.02%	1.22%	1.57%	2.23%	1.08%	0.54%
5	MBT	0.89%	0.71%	0.83%	1.22%	1.37%	0.63%	0.29%
6	PNB	0.61%	0.66%	0.75%	1.07%	1.70%	0.83%	0.54%
7	RCB	0.87%	0.93%	1.02%	1.49%	1.89%	0.99%	0.60%
8	SECB	1.10%	1.01%	1.27%	1.68%	2.11%	1.18%	0.56%
9	UBP	1.06%	1.14%	1.33%	2.10%	2.10%	1.06%	0.52%
	Average	**0.92%**	**0.91%**	**1.02%**	**1.46%**	**1.86%**	**0.96%**	**0.49%**
	Other listed Banks							
10	AUB	0.99%	0.89%	0.94%	1.28%	1.82%	0.80%	0.48%
11	BNCOM	0.72%	0.73%	0.73%	1.15%	1.89%	0.76%	0.38%
12	CSB	0.98%	1.15%	0.87%	1.27%	1.39%	0.93%	0.54%
13	PBB	1.37%	1.25%	1.12%	2.10%	2.45%	1.25%	0.57%
14	PBC	1.49%	1.36%	1.18%	1.57%	1.98%	1.10%	0.50%
15	Philtrust	2.33%	2.20%	2.11%	2.46%	3.04%	2.34%	1.33%
	Average	**1.31%**	**1.26%**	**1.16%**	**1.64%**	**2.09%**	**1.20%**	**0.63%**
	Average for 15 banks	**1.08%**	**1.05%**	**1.08%**	**1.53%**	**1.96%**	**1.05%**	**0.55%**

Table 10. Net Interest Income (In Millions of PHP, Except Growth Rates), 2015 – 2021

	2015	2016	2017	2018	2019	2020	2021
Financials-indexed banks	229,819	259,124	306,399	353,534	414,342	473,898	456,266
Other listed banks	15,480	17,016	19,017	20,733	24,051	27,776	28,747
Total	**245,299**	**276,141**	**325,416**	**374,267**	**438,393**	**501,674**	**485,012**
Growth rates		12.57%	17.84%	15.01%	17.13%	14.43%	-3.32%

The deterioration in the country's economy definitely and adversely affected banks' performance. More borrowers faced liquidity problems that affected their paying capacity. And consequently, banks had to then recognize more impairment losses (See Table 11).

Table 11. Impairment Losses (In Millions of PHP, Except Growth Rates), 2015 – 2021

	2015	2016	2017	2018	2019	2020	2021
Financials-indexed banks	18,080	30,014	27,629	28,248	45,017	178,726	85,077
Other listed banks	1,260	2,082	1,918	1,594	1,920	8,711	4,683
Total	**19,340**	**32,096**	**29,547**	**29,842**	**46,937**	**187,437**	**89,760**
Growth rates		66%	-8%	1%	57%	299%	-52%

As shown, impairment losses increased by almost 300% in 2020. Based on the banks that disclosed the breakdown of their impairment losses, a significant portion of the impairment losses were related to loan loss provisioning. Shown in Table 12 are five banks which disclosed the amount of provisions for credit losses in 2019 to 2021. The increases in loan loss provisioning in 2020 ranged from 245% to 532% as compared to the 2019 levels.

Table 12. Loan Loss Provisioning (In Millions of PHP, Except Growth Rates), 2019 – 2021

		2019	2020		2021	
			Amount	Growth Rate	Amount	Growth Rate
1	BDO	5,986	29,519	393%	17,222	-42%
2	BPI	5,822	27,999	381%	13,103	-53%
3	CHIB	2,570	8,869	245%	8,877	0%
4	MBT	9,627	39,320	308%	10,982	-72%
5	SECB	4,174	26,383	532%	5,281	-80%

Table 13 shows the total operating expenses to net interest income plus other income ratio. These total operating expenses include the impairment losses recognized by the banks. For PNB, for instance, this ratio went up to as high as 98.79% in 2020.

Table 13. Operating Expenses to Net Interest Income and Other Income Ratios, 2015 – 2021

		2015	2016	2017	2018	2019	2020	2021
	Financials-indexed banks							
1	BDO	65.37%	68.82%	70.88%	70.50%	67.21%	75.63%	71.06%
2	BPI	60.39%	59.72%	59.60%	61.80%	59.26%	74.72%	65.57%
3	CHIB	67.24%	65.18%	64.97%	63.66%	66.40%	69.30%	64.12%
4	EW	83.53%	79.49%	71.91%	75.01%	71.25%	78.08%	76.52%
5	MBT	65.27%	75.40%	74.79%	66.96%	64.11%	83.21%	70.68%
6	PNB	71.41%	78.28%	67.87%	65.97%	70.25%	98.79%	50.69%
7	RCB	78.32%	83.80%	79.50%	80.40%	81.42%	82.87%	78.54%
8	SECB	58.09%	59.23%	54.97%	56.67%	63.40%	91.49%	72.16%
9	UBP	59.54%	52.71%	57.37%	68.93%	60.48%	70.68%	66.79%
	Average	**67.68%**	**69.18%**	**66.87%**	**67.77%**	**67.08%**	**80.53%**	**68.46%**
	Other listed Banks							
10	AUB	71.36%	64.89%	59.77%	58.10%	55.49%	74.41%	61.03%
11	BNCOM	83.16%	79.76%	75.06%	98.63%	80.80%	84.84%	80.78%
12	CSB	146.17%	142.23%	130.97%	116.68%	106.44%	95.13%	101.34%
13	PBB	73.46%	71.27%	73.35%	69.98%	68.34%	59.02%	96.63%
14	PBC	83.71%	84.34%	76.31%	80.56%	63.68%	76.26%	64.02%
15	Philtrust	55.32%	64.63%	56.98%	66.78%	58.99%	54.76%	62.90%
	Average	**85.53%**	**84.52%**	**78.74%**	**81.79%**	**72.29%**	**74.07%**	**77.78%**
	Average for 15 banks	**74.82%**	**75.32%**	**71.62%**	**73.38%**	**69.17%**	**77.95%**	**72.19%**

The considerable increases in operating expenses in 2020 and 2021 were due to high impairment losses, especially for loan loss provisioning. To determine if the banks were efficient in managing their other operating expenses, a variation of this ratio was made where the impairment losses were taken out from total operating expenses (See Table 14).

Table 14. Other Operating Expenses[8] to Net Interest Income and Other Income Ratios, 2015 – 2021

		2015	2016	2017	2018	2019	2020	2021
	Financials-indexed banks							
1	BDO	62.03%	65.26%	65.81%	66.25%	63.80%	59.63%	62.21%
2	BPI	53.69%	52.50%	54.26%	55.53%	53.08%	47.25%	52.08%
3	CHIB	62.30%	61.27%	62.04%	63.17%	58.94%	49.08%	45.89%
4	EW	59.67%	53.53%	54.50%	59.69%	57.17%	48.62%	61.16%
5	MBT	62.21%	66.06%	65.80%	58.49%	54.60%	49.59%	58.95%
6	PNB	69.26%	67.41%	65.16%	61.47%	63.17%	61.53%	33.96%
7	RCB	67.74%	76.05%	70.92%	73.23%	60.79%	58.15%	61.92%

[8] The amounts do not include impairment losses.

		2015	2016	2017	2018	2019	2020	2021
8	SECB	54.66%	54.73%	52.36%	53.87%	51.11%	39.11%	57.82%
9	UBP	56.28%	46.41%	53.87%	65.57%	55.41%	50.77%	53.90%
	Average	**60.87%**	**60.36%**	**60.52%**	**61.92%**	**57.56%**	**51.52%**	**54.21%**
	Other listed Banks							
10	AUB	61.51%	51.64%	50.01%	49.77%	46.12%	38.39%	42.44%
11	BNCOM	83.16%	79.76%	75.06%	98.63%	79.91%	70.83%	80.78%
12	CSB	146.17%	128.02%	117.89%	116.68%	106.21%	95.09%	101.34%
13	PBB	66.98%	66.11%	65.74%	62.85%	57.85%	48.02%	58.10%
14	PBC	73.23%	72.54%	68.60%	74.58%	61.10%	52.19%	57.68%
15	Philtrust	52.08%	50.58%	46.43%	55.08%	57.96%	51.21%	56.07%
	Average	**80.52%**	**74.77%**	**70.62%**	**76.26%**	**68.19%**	**59.29%**	**66.07%**
	Average for 15 banks	**68.73%**	**66.13%**	**64.56%**	**67.66%**	**61.81%**	**54.63%**	**58.95%**

The 2020 average operating expenses (excluding impairment losses) to net interest income plus other income ratios even went down from the 2019 levels. The average ratios were relatively higher in 2021, but still below the pre-pandemic years.

The unusually high levels of credit provisioning in 2020 significantly affected the profitability of most listed banks as reflected by the average net profit margins from 16.04% in 2019 to 13.15% in 2020 (See Table 15). It must be noted, however, that the average decline in the indexed banks' net profit margin is more pronounced as compared to that of the other banks. This is most likely due to the reversal of Citystate's (CSC's) net profit margin from -6.74% in 2019 to 1.69% in 2020. The improvement in CSC's net profit was attributed to higher interest income, lower interest expense, and significant decline in impairment loss in 2020 as compared to the 2019 levels. In 2020, CSC's impairment loss declined to PHP119,758 from PHP668,308 in 2019.

Table 15. Net Profit Margins, 2015 – 2021

		2015	2016	2017	2018	2019	2020	2021
	Financials-indexed banks							
1	BDO	24.08%	21.23%	19.12%	18.26%	19.97%	13.31%	20.78%
2	BPI	25.17%	27.00%	25.59%	22.68%	22.38%	17.19%	21.44%
3	CHIB	23.54%	23.94%	23.05%	19.86%	17.95%	21.12%	26.93%
4	EW	10.77%	13.77%	17.28%	14.74%	16.88%	17.31%	15.44%
5	MBT	24.58%	21.65%	20.76%	19.51%	19.88%	9.78%	19.79%
6	PNB	20.69%	20.87%	21.38%	19.94%	16.47%	4.65%	37.48%
7	RCB	18.20%	12.79%	13.38%	11.70%	10.55%	10.33%	15.85%
8	SECB	31.97%	30.81%	29.76%	22.22%	19.69%	12.37%	16.37%
9	UBP	24.63%	32.90%	26.30%	18.53%	26.57%	22.26%	24.36%
	Average	**22.62%**	**22.77%**	**21.85%**	**18.60%**	**18.93%**	**14.26%**	**22.05%**
	Other listed Banks							
10	AUB	20.28%	25.17%	27.26%	26.33%	26.71%	16.80%	27.46%
11	BNCOM	5.90%	11.29%	10.95%	-0.28%	7.93%	9.75%	17.43%
12	CSB	-35.43%	-37.43%	-30.34%	-13.30%	-6.74%	1.69%	0.54%
13	PBB	14.70%	17.69%	15.00%	14.62%	15.92%	11.35%	16.93%
14	PBC	3.91%	7.86%	13.18%	10.97%	16.26%	16.79%	28.20%
15	Philtrust	18.00%	16.27%	22.20%	11.62%	10.12%	12.48%	14.60%
	Average	**4.56%**	**6.81%**	**9.71%**	**8.32%**	**11.70%**	**11.48%**	**17.53%**
	Average for 15 banks	**15.40%**	**16.39%**	**16.99%**	**14.49%**	**16.04%**	**13.15%**	**20.24%**

Given the significant increases in the impairment losses in 2020 and 2021 as compared to the pre-pandemic years, a sensitivity analysis was made where the impairment losses for the latter years were adjusted using 2019 impairment losses as a percentage of loans and receivables, gross of allowance for doubtful accounts (ADA), as reference. In estimating the adjusted net income for 2020 and 2021, the following steps were undertaken:

1. The 2019 impairment loss as a percentage of loans and receivables, gross of ADA, was computed.
2. The computed 2019 percentage was applied to loans and receivables, gross of ADA, in 2020 and 2021 to estimate the adjusted impairment losses for these years.
3. To determine the effect on net income, the difference between the reported impairment losses in 2020 and 2021 and the adjusted impairment losses were computed for each year. For 2020, the difference was multiplied by 70% to take into account the 30% corporate tax rate that year. For 2021, the difference was multiplied by 75% to take into account the reduced corporate tax rate of 25% in 2021. The difference, net of applicable tax rates, were added to the reported net income for each year.
4. The adjusted net incomes were used to determine the adjusted net profit margin.

A comparison of the adjusted and actual net profit margins is shown in Table 16.

Table 16. Adjusted and Actual Net Profit Margins for 2020 and 2021

		As Adjusted		As Reported	
		2020	**2021**	**2020**	**2021**
	Financials-indexed banks				
1	BDO	21.20%	24.55%	13.31%	20.78%
2	BPI	29.61%	26.25%	17.19%	21.44%
3	CHIB	28.87%	35.09%	21.12%	26.93%
4	EW	28.59%	17.56%	17.31%	15.44%
5	MBT	25.46%	21.93%	9.78%	19.79%
6	PNB	22.22%	46.44%	4.65%	37.48%
7	RCB	12.08%	11.07%	10.33%	15.85%
8	SECB	38.19%	18.13%	12.37%	16.37%
9	UBP	31.36%	30.29%	22.26%	24.36%
	Average	**26.40%**	**25.70%**	**14.26%**	**22.05%**
	Other listed Banks				
10	AUB	33.46%	33.85%	16.80%	27.46%
11	BNCOM	17.68%	9.98%	9.75%	17.43%
12	CSB	1.56%	-3.27%	1.69%	0.54%
13	PBB	12.71%	35.75%	11.35%	16.93%
14	PBC	29.81%	30.70%	16.79%	28.20%
15	Philtrust	13.53%	17.47%	12.48%	14.60%
	Average	**18.13%**	**20.75%**	**11.48%**	**17.53%**
	Average for all banks	**23.09%**	**23.72%**	**13.15%**	**20.24%**

As shown in Tables 15 and 16, the adjusted net profit margins in 2020 and 2021 were even better than those of the pre-pandemic years. The banks, however, could not be blamed for making more provisions at the onset of the pandemic given the number of business closures which adversely affected the paying capacity of borrowers. For example, a very popular food chain company suffered negative operating cash flows in 2020, a situation that is considered inconceivable prior to the pandemic given its track record. Hence, the adjusted net incomes were used in estimating the adjusted ROEs for 2020 and 2021 (See Table 17).

Table 17. Adjusted ROEs Based on 2019 Impairment Loss Levels for 2020 and 2021

		As Adjusted		As Reported	
		2020	2021	2020	2021
	Financials-indexed banks				
1	BDO	11.45%	11.92%	7.19%	10.09%
2	BPI	13.23%	10.00%	7.68%	8.17%
3	CHIB	15.71%	16.52%	11.50%	12.68%
4	EW	19.37%	8.65%	11.73%	7.61%
5	MBT	10.92%	7.56%	4.19%	6.82%
6	PNB	8.04%	24.35%	1.68%	4.17%
7	RCB	5.79%	4.45%	4.95%	6.38%
8	SECB	18.60%	6.13%	6.03%	5.53%
9	UBP	15.49%	13.94%	10.99%	11.21%
	Average	**13.18%**	**11.50%**	**7.33%**	**8.07%**
	Other listed Banks				
10	AUB	17.12%	13.19%	8.59%	10.70%
11	BNCOM	8.48%	2.96%	4.68%	5.16%
12	CSB	0.77%	-0.88%	0.83%	0.14%
13	PBB	7.58%	17.06%	6.77%	8.08%
14	PBC	16.56%	12.08%	9.33%	11.10%
15	Philtrust	3.82%	3.79%	3.52%	3.17%
	Average	**9.06%**	**8.03%**	**5.62%**	**6.39%**
	Average for all banks	**11.53%**	**10.11%**	**6.64%**	**7.40%**

Like the net profit margins, the adjusted ROEs for 2020 and 2021 were even higher than the pre-pandemic years (See Tables 5 and 17 for comparison). This is despite the significant declines in the general levels of interest rates in 2020 and 2021 (See Table 7).

4.2 Financial Position

In measuring the financial position of the banks, the following financial ratios were used for this study: loans to deposit ratio (LDR), debt ratio, the capital adequacy ratio (CAR),[9] liquidity coverage ratio (LCR), and net stable funding ratio (NSFR).

As shown in Table 18, the average LDR of both the financials-indexed and other listed banks went down in 2020 and further went down in 2021, indicating their risk aversion to granting more loans during the pandemic. As stated previously, many of the listed banks opted to put the cash generated from additional deposits to safer investments, rather than lending to borrowers. SECB was an exception, whose LDR even exceeded 1.0 in 2020. However, the bank has consistently maintained a relatively higher LDR as compared to the other listed banks even before the pandemic.

Table 18. Loans to Deposit Ratio, 2015 – 2021

		2015	2016	2017	2018	2019	2020	2021
	Financials-indexed banks							
1	BDO	0.71	0.72	0.77	0.76	0.82	0.80	0.78
2	BPI	0.70	0.73	0.77	0.87	0.89	0.85	0.78
3	CHIB	0.72	0.73	0.72	0.71	0.75	0.69	0.72
4	EW	0.86	0.85	0.86	0.87	0.89	0.77	0.68
5	MBT	0.70	0.76	0.82	0.89	0.86	0.73	0.67
6	PNB	0.69	0.69	0.69	0.69	0.69	0.69	0.69
7	RCB	0.80	0.80	0.82	0.89	0.74	0.75	0.67
8	SECB	0.83	0.84	0.90	0.86	0.91	1.04	0.89

[9] CAR = (Tier 1 Capital + Tier 2 Capital) ÷ Risk-Weighted Assets. For this study, the CARs were based on the disclosures provided by the banks.

		2015	2016	2017	2018	2019	2020	2021
9	UBP	0.57	0.60	0.58	0.71	0.71	0.59	0.57
	Average	**0.73**	**0.75**	**0.77**	**0.81**	**0.81**	**0.77**	**0.72**
	Other listed Banks							
10	AUB	0.75	0.72	0.80	0.78	0.80	0.66	0.64
11	BNCOM	0.31	0.41	0.52	0.54	0.58	0.48	0.43
12	CSB	0.53	0.68	0.58	0.59	0.66	0.57	0.58
13	PBB	0.67	0.80	0.91	0.91	0.86	0.86	0.82
14	PBC	0.58	0.71	0.74	0.82	0.81	0.70	0.75
15	Philtrust	0.42	0.45	0.38	0.23	0.20	0.19	0.18
	Average	**0.54**	**0.63**	**0.66**	**0.64**	**0.65**	**0.58**	**0.57**
	Average for 15 banks	**0.66**	**0.70**	**0.72**	**0.74**	**0.74**	**0.69**	**0.66**

In terms of debt ratios, the pandemic years were no different from the pre pandemic years. While the average ratios went down in 2020 as compared to the 2019 levels, the changes were not significant (See Table 19). In 2020, the equity of 15 banks grew by 5.97% while total liabilities grew only by 2.04%. This can potentially explain the slight improvement in the debt ratio in 2020 (see Table 4).

Table 19. Debt Ratios, 2015 - 2021

		2015	2016	2017	2018	2019	2020	2021
	Financials-indexed banks							
1	BDO	0.90	0.91	0.89	0.89	0.88	0.88	0.88
2	BPI	0.90	0.90	0.90	0.88	0.88	0.87	0.88
3	CHIB	0.89	0.90	0.89	0.90	0.90	0.90	0.89
4	EW	0.87	0.88	0.88	0.88	0.88	0.86	0.85
5	MBT	0.88	0.89	0.90	0.87	0.87	0.86	0.87
6	PNB	0.85	0.85	0.86	0.87	0.86	0.87	0.86
7	RCB	0.89	0.88	0.88	0.87	0.89	0.87	0.88
8	SECB	0.90	0.86	0.86	0.86	0.85	0.81	0.82
9	UBP	0.87	0.87	0.88	0.87	0.87	0.86	0.86
	Average	**0.88**	**0.88**	**0.88**	**0.88**	**0.88**	**0.87**	**0.87**
	Other listed Banks							
10	AUB	0.87	0.86	0.87	0.88	0.88	0.89	0.88
11	BNCOM	0.88	0.88	0.87	0.90	0.89	0.90	0.88
12	CSB	0.87	0.84	0.83	0.83	0.84	0.87	0.77
13	PBB	0.87	0.86	0.88	0.88	0.89	0.88	0.89
14	PBC	0.88	0.88	0.87	0.90	0.89	0.88	0.87
15	Philtrust	0.83	0.85	0.85	0.86	0.84	0.84	0.85
	Average	**0.87**	**0.86**	**0.86**	**0.87**	**0.87**	**0.88**	**0.86**
	Average for 15 banks	**0.88**	**0.87**	**0.87**	**0.88**	**0.87**	**0.87**	**0.86**

The average capital adequacy ratios (CARs) of both financials-indexed and other listed banks went up in 2020 (See Table 20). The observed general risk aversion to loans and the flight to government securities during the pandemic could be one of the possible explanations for this positive development. As shown previously in Table 3, investments grew by 5.48% and 22.02% in 2020 and 2021, respectively, while loans and receivables grew by -2.21% and 3.85% over the same period. Loans and receivables generally have higher weighted risk than the investments in government securities.

Table 20. Capital Adequacy Ratios (CAR), 2015 – 2021

		2015	2016	2017	2018	2019	2020	2021
	Financials-indexed banks							
1	BDO	13.30%	12.40%	14.50%	13.80%	14.20%	14.40%	14.70%
2	BPI	13.60%	13.00%	12.74%	16.09%	16.07%	17.10%	16.70%
3	CHIB	13.50%	12.21%	14.22%	13.09%	13.67%	14.73%	15.75%
4	EW	15.59%	13.28%	14.04%	12.80%	13.00%	13.80%	15.60%
5	MBT	17.75%	15.45%	14.35%	16.98%	17.49%	20.15%	20.13%
6	PNB	19.24%	16.65%	15.35%	14.35%	14.80%	15.14%	13.66%
7	RCB	15.72%	16.16%	15.46%	16.13%	13.76%	16.14%	15.23%
8	SECB	15.20%	20.53%	17.72%	18.70%	17.88%	20.09%	19.75%
9	UBP	16.20%	15.70%	14.40%	15.20%	15.30%	17.00%	18.40%
	Average	**15.57%**	**15.04%**	**14.75%**	**15.24%**	**15.13%**	**16.51%**	**14.97%**
	Other listed Banks							
10	AUB	13.83%	18.10%	15.68%	15.11%	17.99%	18.01%	15.89%
11	BNCOM	21.90%	18.10%	17.10%	15.06%	15.93%	16.60%	21.57%
12	CSB	22.41%	22.53%	15.77%	15.51%	13.29%	13.21%	26.48%
13	PBB	17.70%	16.99%	14.00%	14.99%	13.70%	14.52%	11.82%
14	PBC	14.97%	14.67%	15.85%	14.56%	16.47%	18.87%	18.18%
15	Philtrust	38.20%	37.65%	44.56%	34.12%	45.55%	50.74%	45.55%
	Average	**21.50%**	**21.34%**	**20.49%**	**18.23%**	**20.49%**	**21.99%**	**23.25%**
	Average for 15 banks	**17.94%**	**17.56%**	**17.05%**	**16.43%**	**17.27%**	**18.70%**	**18.28%**

What should be highlighted here in particular is the role of regulation. As part of the Basel III agreements and through BSP Circular No. 905 dated March 10, 2016, the BSP required universal and commercial banks to disclose liquidity coverage ratios (LCR), which is set at a minimum of 100%. On the other hand, smaller institutions such as stand-alone thrift banks and rural banks are subject to the Minimum Liquidity Ratio (MLR)[10] requirement, which better suits their simpler liquidity risk profile. In addition, these smaller institutions were required to have a minimum of 20% MLR. However, because of the pandemic, the BSP issued Memorandum No. M-2020-020, which temporarily reduced this requirement from 20% to 16% until December 2020, and was further extended to December 2022. Citystate Savings Bank (CSB) and Philippine Business Bank (PBB), which are thrift banks, are covered by this particular MLR requirement. More on these LCRs and MLRs are shown in Table 21.

Table 21. Liquidity Coverage Ratios (LCR) and Minimum Liquidity Ratio (MLR), 2019 -2021

		2019	2020	2021
	Financials-Indexed Banks			
1	BDO	108%	127%	145%
2	BPI	167%	232%	221%
3	CHIB	128%	117%	121%
4	EW	195%	379%	496%
5	MBT	245%	303%	327%
6	PNB	127%	175%	188%
7	RCBC	142%	182%	154%
8	SECB	115%	166%	150%
9	UBP	131%	207%	272%

[10] The formula for MLR is shown below:

$$\text{MLR} = \frac{Eligible\ Stock\ of\ Liquid\ Assets}{Total\ Qualifying\ Liabilities}$$

Source: 145 Liquidity Risk Management (https://morb.bsp.gov.ph/145-liquidity-risk-management/)

	Other listed Banks			
10	AUB	160%	171%	167%
11	BNCOM	150%	165%	212%
12	*CSB (Citystate Bank)* MLR*	*27%*	*43%*	*38%*
13	*PBB* MLR*	*26%*	*27%*	*29%*
14	PBC	157%	284%	244%
15	Philtrust	708%	777%	1723%

It is worth noting that the banks's LCRs were all better in 2020 and 2021 as compared to their 2019 levels, except for Chinabank, which was still compliant with the 100% minimum requirement. The same was observed for the MLRs of CSB and PBB. The decline in lending activities could have potentially contributed to this improvement.

What is also worth highlighting is that on June 4, 2018, the Monetary Board approved the adoption of net stable funding ratio (NSFR) as part of the Basel III reform package. This applies to universal and commercial banks. It was initially set at 80% during an observation period of six months (from July 1 to December 31, 2018). On January 1, 2019, BSP increased the minimum NSFR to 100%. Table 22 shows the NSFR of the banks covered in this research.

Table 22. Net Stable Funding Ratio (NSFR),2019 – 2021

		2019	2020	2021
	Financials-Indexed Banks			
1	BDO	117%	122%	124%
2	BPI	131%	154%	155%
3	CHIB	121%	119%	117%
4	EW	111%	137%	148%
5	MBT	149%	170%	176%
6	PNB	124%	137%	138%
7	RCBC	111%	117%	119%
8	SECB	115%	132%	138%
9	UBP	106%	133%	149%
	Other listed Banks			
10	AUB	139%	155%	147%
11	BNCOM	137%	161%	190%
12	CSB (Citystate Bank)	N/A	N/A	N/A
13	PBB	N/A	N/A	N/A
14	PBC	133%	159%	146%
15	Philtrust	4%	4%	4%

All the banks' NSFR were higher in 2020 and 2021 as compared to their 2019 levels. These higher NSFR ratios demonstrated the local banks' ability to identify and tap reliable sources of funds relative to their funding requirements. The decline in lending activities could have also contributed to these higher ratios.

5 Concluding Remarks

It is very much evident that the listed Philippine banks were not spared from the adverse effects of the pandemic, given the significant changes in the country's various economic activities that involved some form of banking activity. However, based on the analysis of their respective operational and financial performances, the effects were not as severe as the other industries described at the start of this research. The listed Philippine banks also demonstrated more bargaining power vis-à-vis their borrowers and depositors. This observation was evident in the widening gap between the interest rates on loans and deposit liabilities during the pandemic, when the prevailing interest rates went down based on the treasury bill rates. The economic slowdown brought about by COVID-19 increased the demand for credit facilities which led the banks to keep their lending rates basically unchanged.

As previously shown in Table 10, net interest income even went up by more than 14% in 2020 despite a 2.21% decrease in loans and receivables (which were shown in Table 3) and a significant decline in the general level of interest rates triggered by the declining yields on treasury bills by at least 50% for all tenors in the same year (which were detailed in Table 7). Furthermore, as shown in Table 8, the average interest rates on loans and receivables went down slightly to 7.46% in 2020 from 7.62% in 2019, while Table 9 shows that the decline in the interest rates on deposit liabilities was faster, which declined from an average deposit rate of 1.96% in 2019 to 1.05% in 2020. For the indexed-financial banks, the average interest rates on loans even slightly went up in 2020 and interest rates on deposit liabilities declined at a faster rate than the average for all the banks. This situation reflects the higher bargaining power of local banks vis-à-vis their depositors and borrowers. Three banks in particular, BDO, BPI, and MBT, accounted for more than 50% of the listed Philippine banks' revenues and assets for the period of study.

With the increasing uncertainty in the economy in 2020, the banks made unusually high levels of provisioning for potential credit losses and other forms of impairment. This was the main reason for banks' big decline in profitability in 2020. However, it is very important to keep in mind that these provisions were not actual losses. Time will tell if these provisions will be actual losses through write-offs. With less restrictions on people mobility and more business establishments opening up once again in this post-COVID-19 era, it is likely that some of the provisions made in 2020 will be reversed in the future, or less provisions will be made.

To further confirm these findings, a sensitivity analysis was conducted applying the 2019 impairment losses as a percentage of loans and receivables, gross of ADA, to 2020 and 2021 to estimate the adjusted impairment losses during the pandemic. The effect is that for both net profit margins and ROEs, the ratios were better in 2020 and 2021.

During the pandemic, the banks' aversion to lending was also observed as evidenced by the 2% decline in loans and receivables in 2020 while increasing their exposure to safer investments. This partly explains the increase in other income considering the lower levels of interest rates in 2020 and 2021.

For the financial position, the decline in LDRs shows that the banks were even more liquid during the pandemic. The lower debt ratios and the higher CARs also indicate that the banks were better capitalized relative to their liabilities and risk-weighted assets during the pandemic. Loans and receivables have higher risk-weights than the investment in government securities.

Dr. Veronica Bayangos, the director and a principal researcher of the BSP Research Academy, stated that the resilience of the listed Philippine banks during the pandemic can be attributed to the following factors, among others (Bayangos, 2022):

1. Intense "forces of change" in the financial sector prior to COVID-19. These changes include: (a) financial sector reforms such shifting to interest rate corridor (IRC) system in 2016[11] and the crafting of the Digital Bank Licensing Framework; (b) fulfillments of Basel regulatory requirements, such as maintaining a certain capital adequacy ratio (CAR), development of a Business Continuity Framework, and enforcement of liquidity standards such as LCR, NSFR, and MLR; (c) strategizing on the use of financial technologies, such as the development of the digital payments transformation roadmap; and (d) the introduction of new payment methods, e.g. InstaPay and PesoNet.
2. Issuance of BSP Circular 951 in March 2017, which provides guidelines on business community management for BSP-supervised financial institutions and amendments in the Manual of Regulations for Banks (MORB) and Manual of Regulations for Non-Bank Financial Institutions (MORNBFI). Banks came up with their respective business community plans (BCP) at the onset of the pandemic, which is a "a documented plan detailing the orderly and

[11] An interest rate corridor (IRC) is a system for guiding short-term market interest rates towards the central bank (CB) target/policy rate. It consists of a rate at which the CB lends to banks (typically an overnight lending rate) and a rate at which it takes deposits from them (deposit rate). In a standard corridor, the lending rate will be above the CB target/policy rate (thereby forming an upper bound for short term market rates), and the deposit rate will be below the CB rate, thereby forming the lower bound (Source: https://www.bsp.gov.ph/Price%20Stability/IRC.pdf).

expeditious process of recovery, resumption, and restoration of business functions in the event of disruptions, including a health crisis".

3. Management of deterioration in asset quality, which then became a strategic priority following the pandemic. Offering flexible payment terms and debt restructuring programs to borrowers were made to help borrowers cope with the situation.
4. Flight to safer investments. This was observed in the change of asset mix of the banks during the pandemic which was biased towards government securities.

To conclude, the listed Philippine banks had better financial position and operating performance than most industries during the pandemic because of a convergence of factors: better bargaining power vis-à-vis their borrowers and depositors, regulatory reforms that were instituted even before pandemic that allowed the local banks to be more prepared during critical times, and proper monitoring from the BSP.

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