



Philippine Rural and Cooperative Banking System Quarterly Report: 3rd Quarter of 2023

Overview of the Philippine Economy

In the 3rd Quarter of 2023, the Philippine economy showed a higher GDP growth (5.9%) versus Asia's major economies (**Vietnam (5.3%), Indonesia and China (4.9%), Malaysia (3.3%), and Singapore (0.7%)**)¹ with agriculture, industry, and services growing at **0.9%, 5.5%, and 6.8%**, respectively². The Philippine Banking System gained a parallel track during the reported period, growing by **9.17%** compared to the 3rd quarter of 2022.

Figure 1 - Philippine Rural and Cooperative Banking System: Total Assets (Q3: 2019 – 2023)

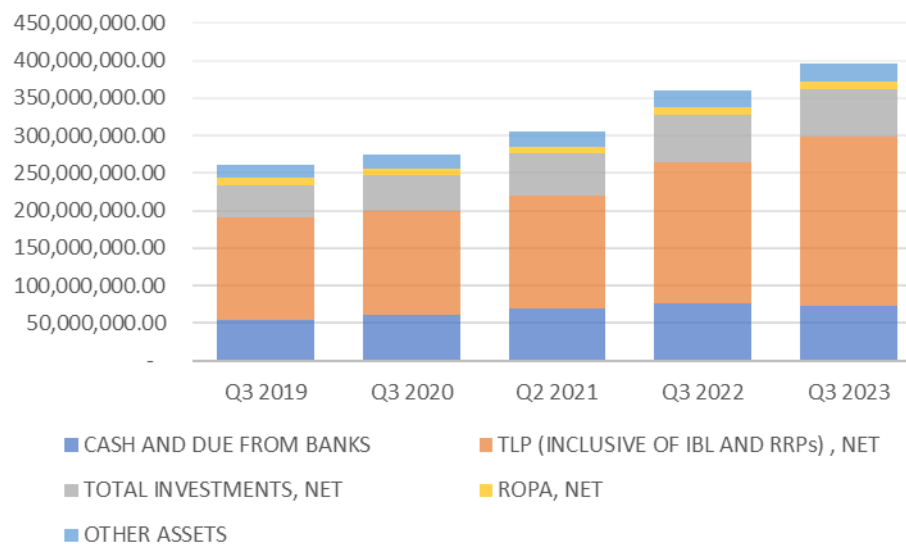


Figure 1. Total Asset of RCBs: Q3: 2019 – 2023 (BSP, 2024)

- The total Assets of the Philippine rural and cooperative banking system (RCBs) grew by **10.06 percent** in the 3rd Quarter of 2023 compared to the same period in 2022. Total assets of **₱ 395.52 billion** as of September 2023 represents **1.65 percent** of the total asset of the Philippine Banking System (PBS) of **₱ 24,006.25 billion**.
- The changes in total asset of Rural and Cooperative banking System for the 3rd quarter of 2023 is mainly attributed to the growth in **Total Loan Portfolio (net) (TLP-n)**, which represents **56.94 percent (₱ 225.22 billion)** of the total assets of RCBs, increased by **18 percent** compared to the 3rd quarter of 2022. These changes clearly indicate that, RCBs are playing a vital role in spurring economic development through grant of new credit.

¹ <https://www.dof.gov.ph/ph-economy-posts-higher-5-9-gdp-growth-in-q3-2023-strongest-among-major-asian-economies/>

² <https://www.bsp.gov.ph/Pages/IRG/Philippine%20Economic%20Updates%202023%20Vol%204.pdf>



Figure 2 - Philippine Rural and Cooperative Banking System: Assets Component (Q3: 2019 – 2023)

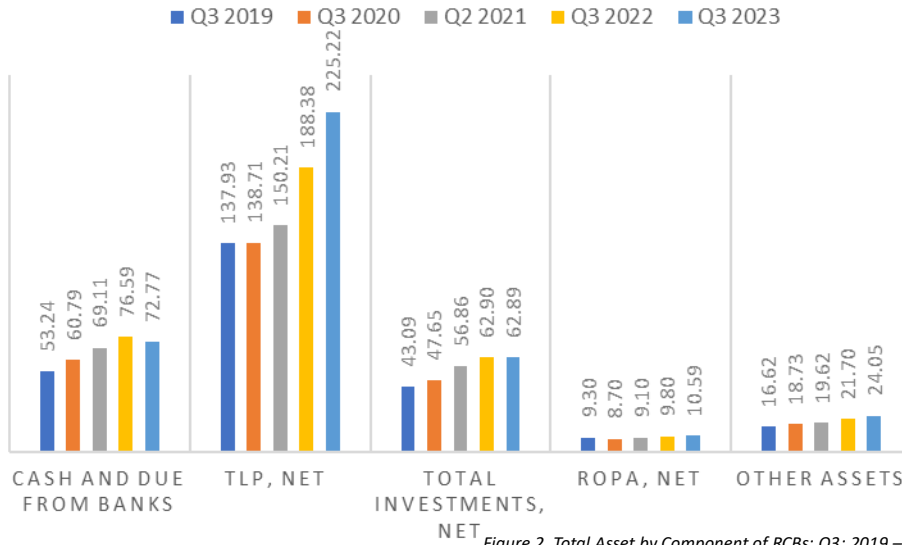


Figure 2. Total Asset by Component of RCBs: Q3: 2019 – 2023 (BSP, 2024)

Figure 3 - Philippine Rural and Cooperative Banking System: YoY TLP-G Growth Rate (Q3: 2019 – 2023)

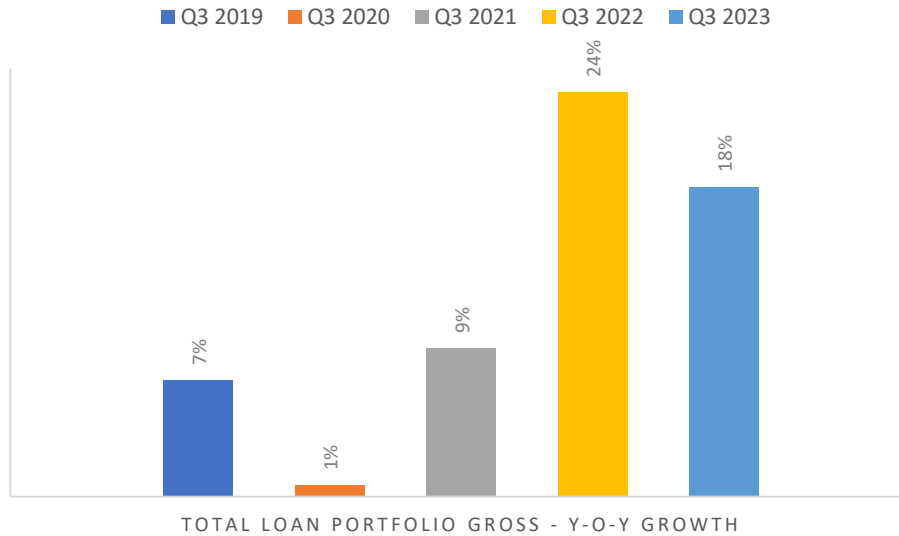


Figure 3. Growth of Total Loan Portfolio (Gross) of RCBs: Q3: 2019 -2023 (BSP, 2024)

- Based on economic activity, the changes in TLP-G of RCBs in Q3 compare to Q2 in 2023 was primarily driven by the loan on the following sectors: **Agriculture, Forestry and Fishery** (up by 7 percent or ₱13.54 billion), **Activities of Households as Employers and Undifferentiated Goods-and-Services-Producing Activities of Households for**



Own Use (up by **33%** or **₱2.6 billion**), and **Wholesale and Retail Trade, Repair of Motor Vehicles, Motorcycles** (up by **2%** or **₱0.71 billion**). Classified as to **major economic activities**, the total loan granted by RCBs for **Production Activities** (Agriculture (19% or ₱45 billion), Industry (4% or ₱10 billion), and Services (37% or ₱89 billion)) accounted for more than half of the industry’s exposure, loan for **Households Activities (Consumption)** making up the remaining 40 percent (₱101.64 billion), as seen in figure 4.

Figure 4 - Philippine Rural and Cooperative Banking System: Loan Per Major Economic Activity Q3 2023

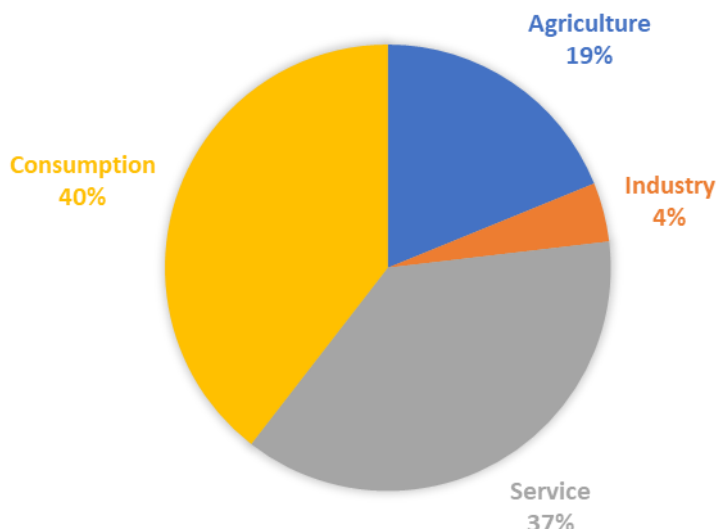


Figure 4. Loan per Major Economic Activity in the 3rd Quarter of 2023 (BSP, 2024)

- RCBs are very supportive to the agriculture sector, where recent data shows that the industry extended 19% of their total loan portfolio to agriculture sector compared to its bigger counter parts (commercial and universal bank (UKBs), thrift (TB), and digital banks (DB)) where they only allotted 0 – 3% of their total loan portfolio to the agriculture sector as seen in the table 1.

Table 1: Loan Portfolio Allocation Based on Economic Activity

| | U/KBs | TBs | RCBs | DBs | PBS |
|--|-------|-----|------|-----|------|
| Share to Philippine Total Loan Portfolio | 93% | 5% | 2% | 0% | 100% |
| Production Activities | 83% | 48% | 61% | 0% | 81% |
| Agriculture | 2% | 3% | 19% | 0% | 2% |
| Industry | 26% | 8% | 4% | 0% | 25% |
| Service | 55% | 36% | 37% | 0% | 54% |
| Consumption | 10% | 48% | 40% | 64% | 13% |
| Others | 7% | 4% | 0% | 35% | 6% |

Table 1: Loan Portfolio Allocation Based on Economic Activity by bank type in the 3rd Quarter of 2023 (BSP, 2024)

- With respect to the mandatory credit to MSME through Republic Act No 6977, RCBs continued to outperform the rest of the banking system. As of September 30, 2023, RCB’s



compliance ratios of 16.39 percent (Micro, Small) and 9.27 percent (Medium), were way better, vis-à-vis, credit compliance ratios of universal and commercial (U/KBs), thrift (TBs) and digital (DBs) banks as seen in Table 2.

Table 2: Compliance with Magna Carta for Micro, Small and Medium Enterprises for the 3rd Quarter of 2023

| | U/KBs | TBs | RCBs | DBs |
|-----------------------------------|-------|-------|---------------|-------|
| Compliance with MS-ME | | | | |
| Percentage of Compliance with MSE | 1.44% | 3.81% | 16.39% | 0.40% |
| Percentage of Compliance with ME | 2.62% | 4.75% | 9.27% | 0.01% |

Table 1: RCB Compliance w/ Magna Carta for MSME: 3rd Quarter pf 2023 (BSP, 2024)

- With the Philippine economy’s stronger performance, the RCBs, asset quality improved gross non-performing loan ratio at 7.9 percent in the third quarter of 2023, far better than last year’s 10.87 percent. if everything is holds constant, we will see an improvement in loan quality by the end of the year as seen in figure 5

Figure 5 - Philippine Rural and Cooperative Banking System: Gross NPL Ratio (Q3 2022 – Q4 2023*).

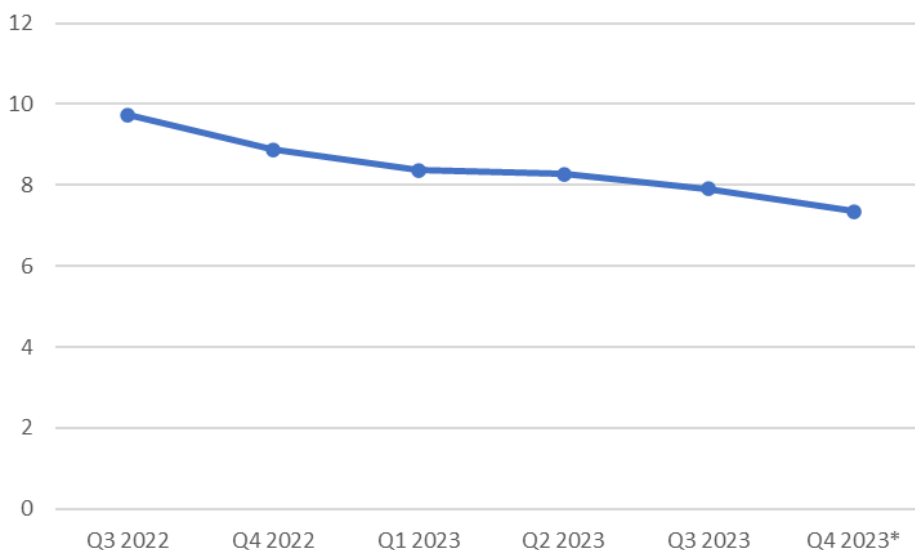


Figure 5. Philippine RCBs: Gross NPL ratio (Q3 2022 – Q4 2023 (BSP, 2024)*

- In relation to savings mobilization, the total deposit liabilities of RCBs continue to expand. Total deposit liabilities of RCBs in the quarter grew by **6.23 percent** compared to the same period of the previous year. In terms of type of Deposits, in the 3rd Quarter of 2023, Savings Deposit had the biggest share which represents **71 percent (₱ 201.71 billion)** of the total deposit, followed by Time Deposit which represents **26 percent (₱ 74.31 billion)** of total deposit and Demand Deposit which represents **3 percent (₱ 7.21 billion)** of the total deposit as seen in figure 6



Figure 6 - Philippine Rural and Cooperative Banking System: Deposit Liability as of Q3 2023

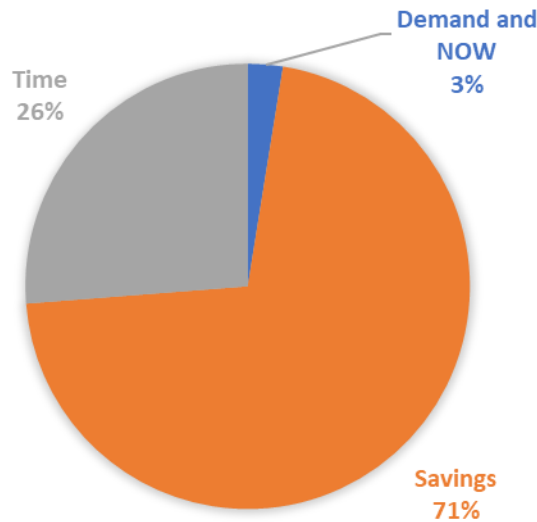


Figure 6. Philippine RCBs: Deposit Liabilities in the 3rd Quarter of 2023 (BSP, 2024)

- There are a total of **19.27 million deposit accounts** serviced by the RCBs, which represents **16.37 percent** of total deposit accounts handled by the Philippine Banking System. The total deposit account in the 3rd quarter of 2023 grew by **11.36 percent** compared to last year's number of accounts with **17.31 million deposit accounts**. Majority of account handled by the RCBs have an account size of "**₱15,000 and below**" which represents **94.17 percent (18.15 million deposit accounts)** of the total number of accounts as seen in figure 7.

Figure 7 - Philippine Rural and Cooperative Banking System: Deposit Account by Size as of Q2 2023

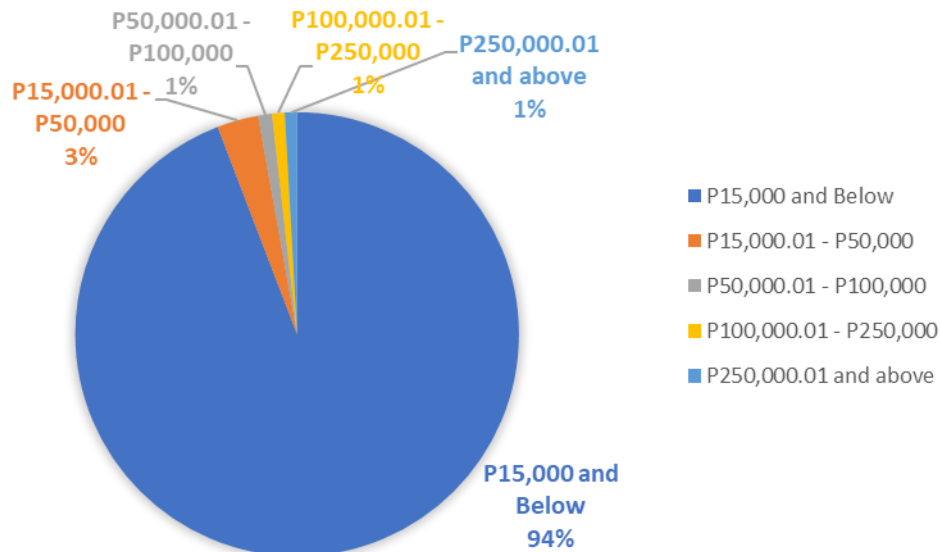


Figure 7. Philippine RCBs: Deposit Liabilities in the 3rd Quarter of 2023 (BSP, 2024)



- The liquidity ratios of Rural and Cooperative Banking System for the 3rd quarter of 2023 were on a downward trend, the expected result of the increase in RCBs loan portfolio. The ratio for Cash & Due from Banks to Deposits was **25.69 percent** in the 3rd of 2023, which decreased by 303 basis points compared to last. Liquid Assets to Deposits Ratio of **47.62 percent** decreased by **448 basis points** compared to last. As mentioned, these decreases were correlated to the increase in RCBs loan portfolio with the loans (gross) to deposits liquidity ratio in the 3rd quarter of 2023 at **81.97 percent**, an increase of **851 basis points** compared to last year's **76.36 percent**.
- RCBs' Capital Adequacy Ratio (CAR) remains well above international and regulatory standards. The RCB Industry CAR during the period slightly increased by **32 basis points** to **18.59 percent** from **18.27 percent** same period of the previous year.
- The RCBs increased lending activity translate to more profit; as a result, annualized net profit during the reported period went up by **18.69 percent** Y-o-Y to **₱ 7.67 billion**, as seen in figure 8.

Figure 8 - Philippine Rural and Cooperative Banking System: Annualized Net Profit (Q3 2022 – Q3 2023)

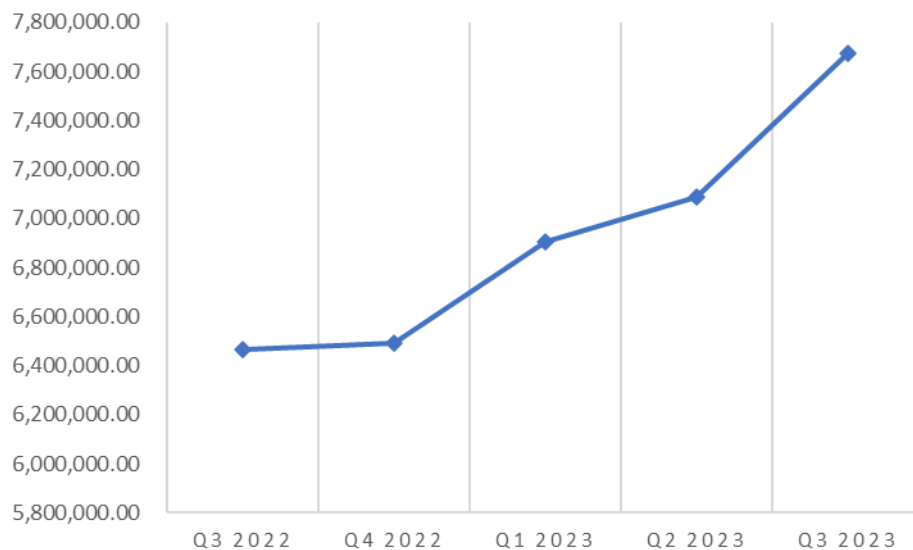


Figure 8. Philippine RCBs: Annualized Net Profit Q3 2022 – Q3 2023 (BSP, 2024)

- Return on Assets (ROA) for the 3rd quarter of 2023 improved to **2.03 percent** ROA from **1.95 percent** recorded ROA a year ago. Return on equity (ROE) increased to **11.04 percent** during the period compared to **10.56 percent** recorded a year ago. However, the net interest margin (NIM) went down to **9.14 percent** during the period compared to **9.83 percent** recorded in the previous year. Cost-to-Income ratio stood at **71.23 percent** during the period compared to **72.64 percent** recorded in the previous year.



- Rural & Cooperative Banks' Physical network continue to grow, although total number of RCB head offices declined from **403** Head offices at the beginning of the period to **391** at the end of the 3rd quarter of 2023. **7 Rural Banks** were closed, **4 rural banks** merged with other bank, **3 cooperative banks** consolidated and **1 new rural bank** was licensed. Total number of other offices, which includes branches and branch-lite units, was **3,527** for the period ended September 30, 2023 up from **3,450** offices recorded in the 3rd Quarter of 2022 and **3,478** offices recorded at the beginning of 2023.

| | Head Offices | Branches | Branch-lite | Total |
|---------------------|--------------|-------------|-------------|-------------|
| NCR | 13 | 37 | 51 | 101 |
| CAR | 15 | 51 | 37 | 103 |
| Ilocos Region | 29 | 128 | 108 | 265 |
| Cagayan Valley | 25 | 135 | 92 | 252 |
| Central Luzon | 63 | 258 | 129 | 450 |
| CALABARZON | 73 | 264 | 230 | 567 |
| MIMAROPA | 20 | 56 | 100 | 176 |
| Bicol Region | 19 | 79 | 209 | 307 |
| Western Visayas | 38 | 92 | 164 | 294 |
| Central Visayas | 25 | 111 | 122 | 258 |
| Eastern Visayas | 13 | 47 | 67 | 127 |
| Zamboanga Peninsula | 13 | 37 | 35 | 85 |
| Northern Mindanao | 21 | 60 | 63 | 144 |
| Davao Region | 11 | 93 | 64 | 168 |
| SOCCSKSARGEN | 8 | 62 | 35 | 105 |
| CARAGA | 5 | 68 | 48 | 121 |
| BARMM | 0 | 0 | 4 | 4 |
| Nationwide | 391 | 1578 | 1558 | 3527 |

Table 2. RCB: Total number of Branches per region as of Q3 2023 (BSP, 2024)

Regional Distribution of Rural and Cooperative Banks in the Philippines

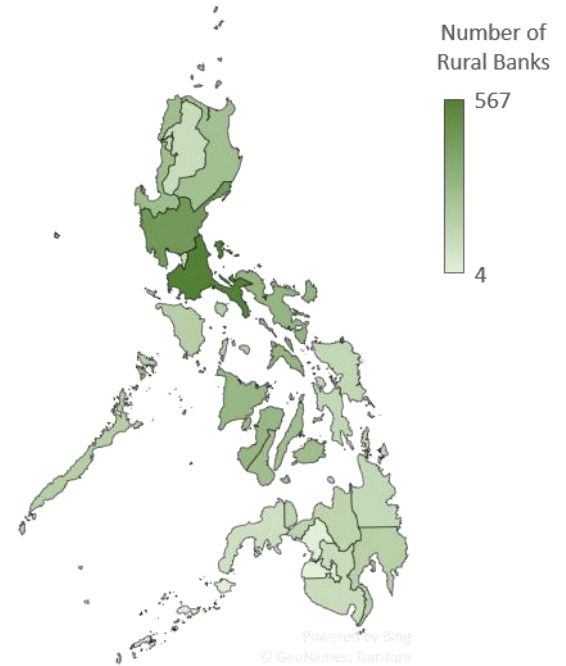


Figure 9. RCB: Regional Distribution of Bank Offices and Branches as of Q2 2024 (BSP, 2024)