



Rural Banks' Resilience and Relevance: Rising Above the Challenges

*Rural Bankers Association of the Philippines
69th Annual National Convention and
General Membership Meeting*

26-27 May 2022

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Macroeconomic fundamentals and banking system highlights

2

History and profile of rural banks

3

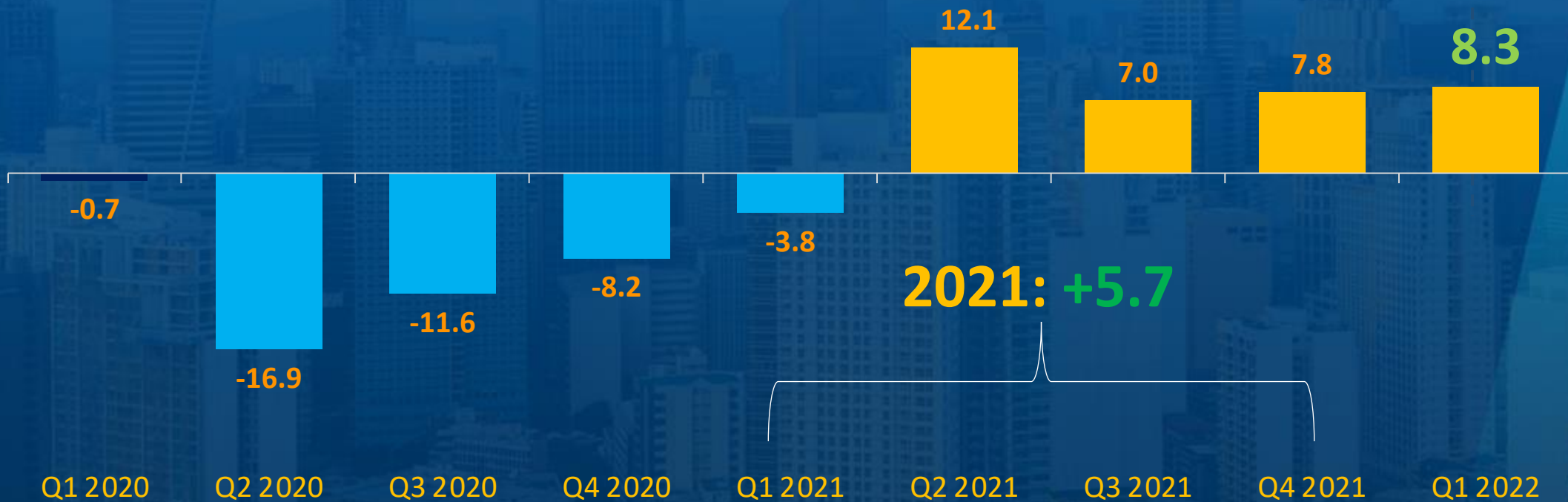
An introduction to the RBSP

4

Policies in the pipeline

Pandemic-driven recession reversed

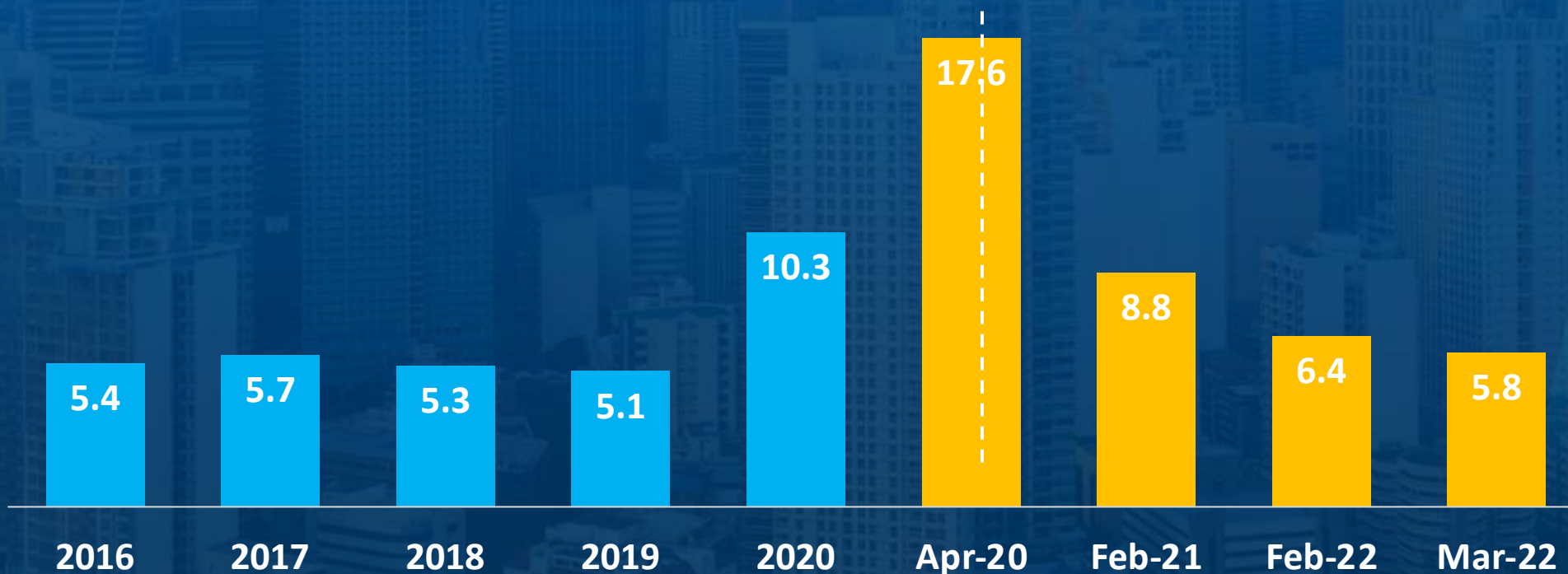
Real GDP growth (%)



Employment gains continue with reopening of the economy

Unemployment continues to trend down

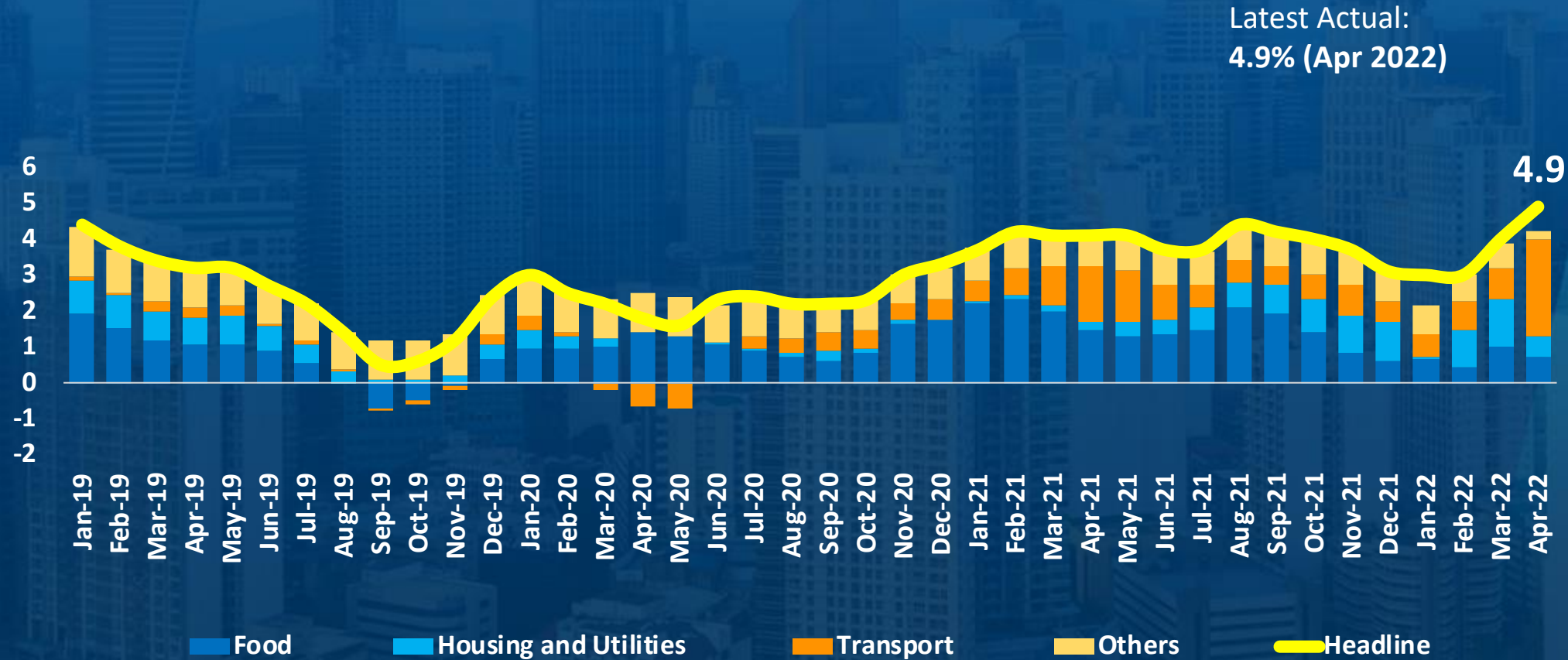
Unemployment rate (%)



Inflation within target range

Inflation contribution by major component

Headline CPI (yoy, %), 2018=100





Adequate liquidity buffer

\$105.40B

Gross international reserves

As of April 2022



Ratings affirmations: the economy's seal of confidence

Stable fundamentals, adequate buffers against shocks, and sound macroeconomic management cited by debt watchers



Affirmed at A-
/Stable
Sep 2021



Rating and Investment Information, Inc.

Affirmed at
BBB+/Stable
Apr 2021



Affirmed at
BBB+/Stable
May 2021



Affirmed at
BBB/Negative
Feb 2022



Affirmed at
Baa2/Stable
Jul 2020



Banks in solid footing

6.9%

Assets further
expanded

7.2%

Deposits fueled bank
operations

5.8%

Credit activity up

As of end-March 2022



Banks in solid footing

Satisfactory loan quality

4.1%

NPL Ratio

88.4%

NPL Coverage Ratio

As of end-March 2022



Banks in solid footing

Capital adequacy ratio of universal and commercial banks (%)

16.5%

CAR- Solo Basis

17.1 %

CAR- Consolidated
Basis



Informal Cross-Country Comparison of Bank Capital among Asian Countries

Comparison of Bank Capital, including RBs (in billion pesos)

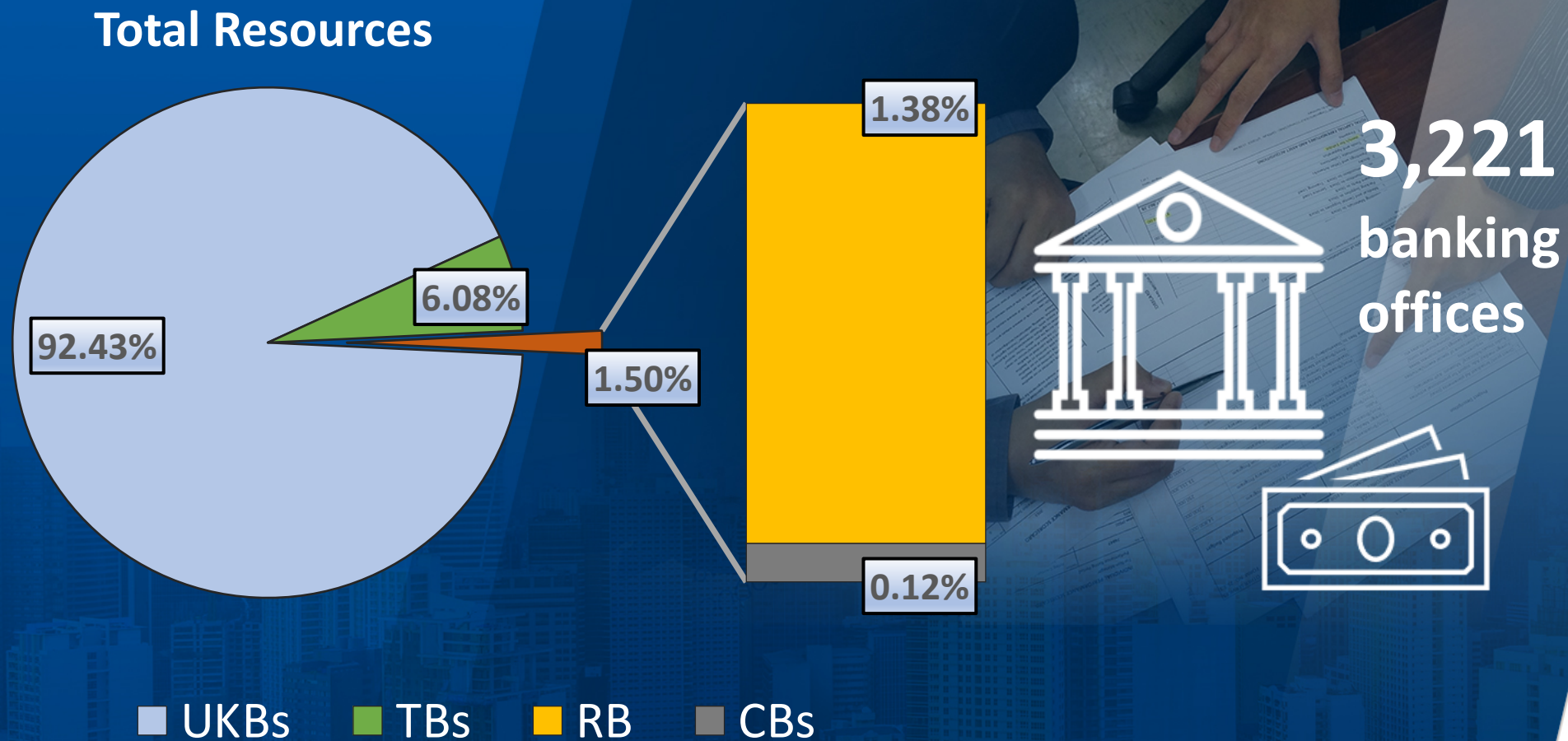
Country	Capital			Percentage Difference from the Philippines			Average Percentage Difference
	2018	2019	2020	2018	2019	2020	
Philippines	2,068	2,319	2,431	-	-	-	
China	146,207	161,628	180,421	6,970%	6,871%	7,321%	7,054%
Korea	9,814	9,602		375%	314%		344%
India	9,105	10,052	10,208	340%	334%	320%	331%
Singapore	4,584	4,817		122%	108%		115%
Indonesia	4,371	4,932	4,597	111%	113%	89%	104%
Malaysia	3,895	4,052	4,097	88%	75%	69%	77%

Source: IMF

- ***Philippine banks have the lowest aggregate capital among Asian countries surveyed.***
- *Malaysia, which has the second-least capital, is almost double the average size of Philippine banks from 2018-2019.*
- *China, which has the highest aggregated capital, is eighty (80) times bigger than the Philippines, during the period covered.*



RB's contribution to financial inclusion



History and relevant developments

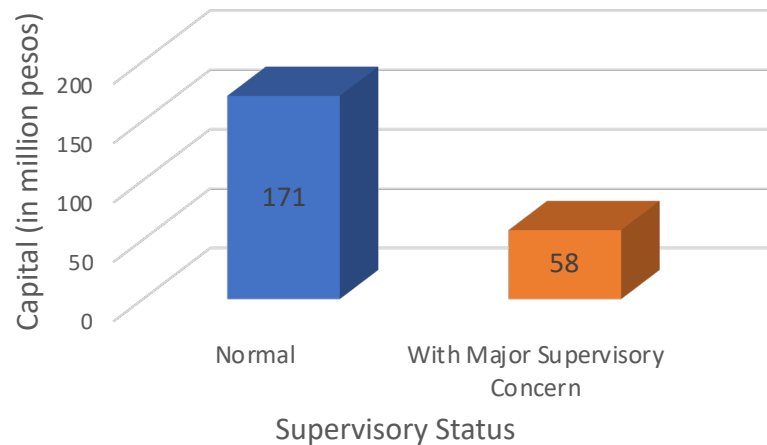
- RBs created by law in 1950s under philosophy of “supply-driven credit” that subsidized, directed loans using public funds will spur countryside development.
- “Supply-driven credit” proved to be inefficient and ineffective, generating massive public debt.
- Since the 1980s, rural banks have been challenged by the shift of government strategy from “supply-driven credit” to market-oriented approaches, protection of depositors, and “safe and sound” bank operations.
- The adoption of risk management measures and strengthening of prudential standards highlighted the significant gaps or weaknesses in the RBs’ governance and oversight functions as well as the operational and technical functions.



A closer view of rural banks

Results of surveys and analysis

Comparison of Average Capital
(Normal vs Banks with Supervisory Concern)

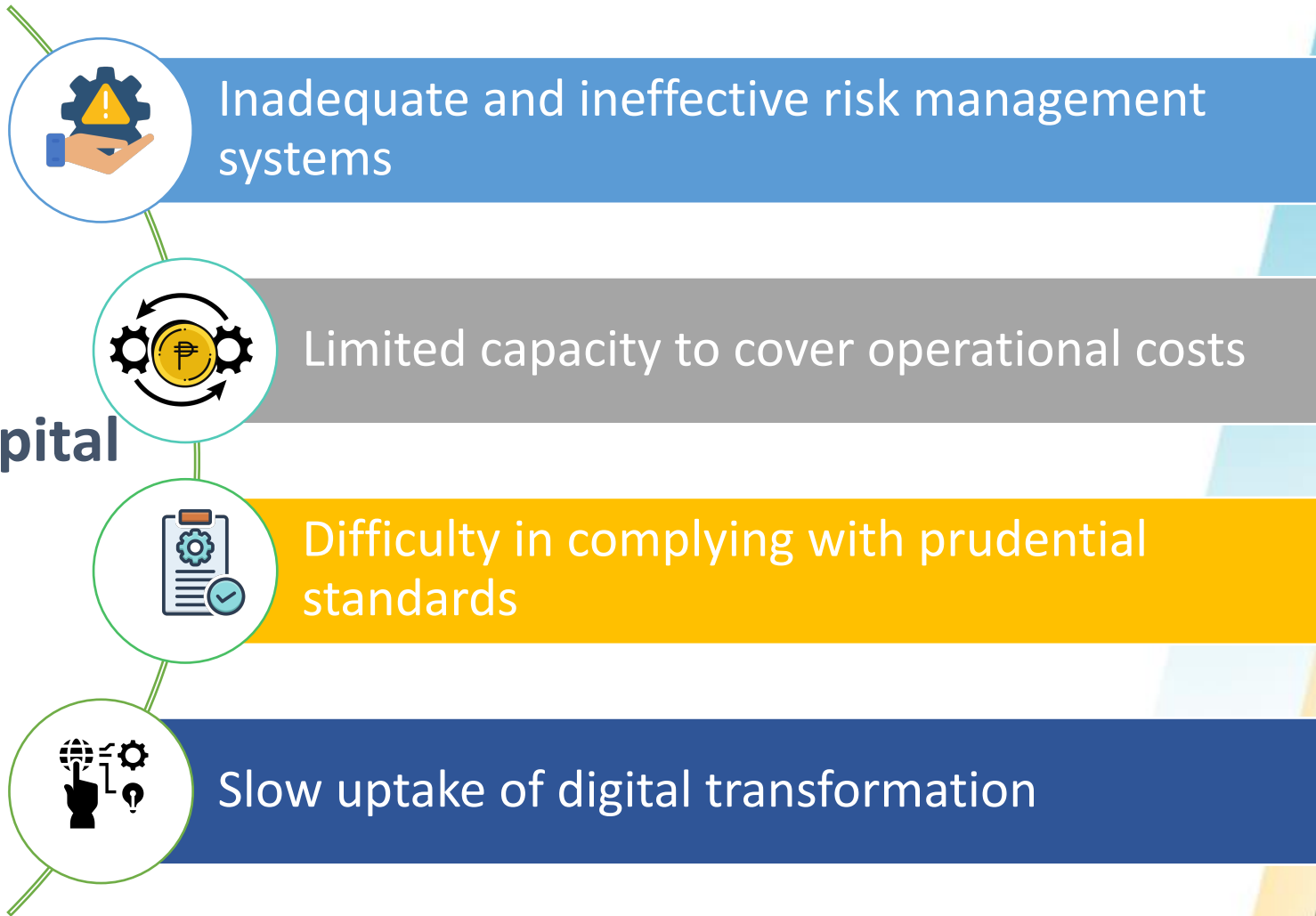


- Overall asset and profit growth are driven by the top few banks in terms of capital
- Majority have capital less than P50 M
- About 80 percent are composed of single-unit RBs and RBs with up to 5 branches
- RBs with major supervisory issues are generally observed among those with smaller capital bases.



Supervisory issues

Limited Capital



Rural Bank Strengthening Program

Key elements

01

Strengthened Capital Base



02

Five Time-Bound Tracks



03

Incentives and Capacity-Building Interventions

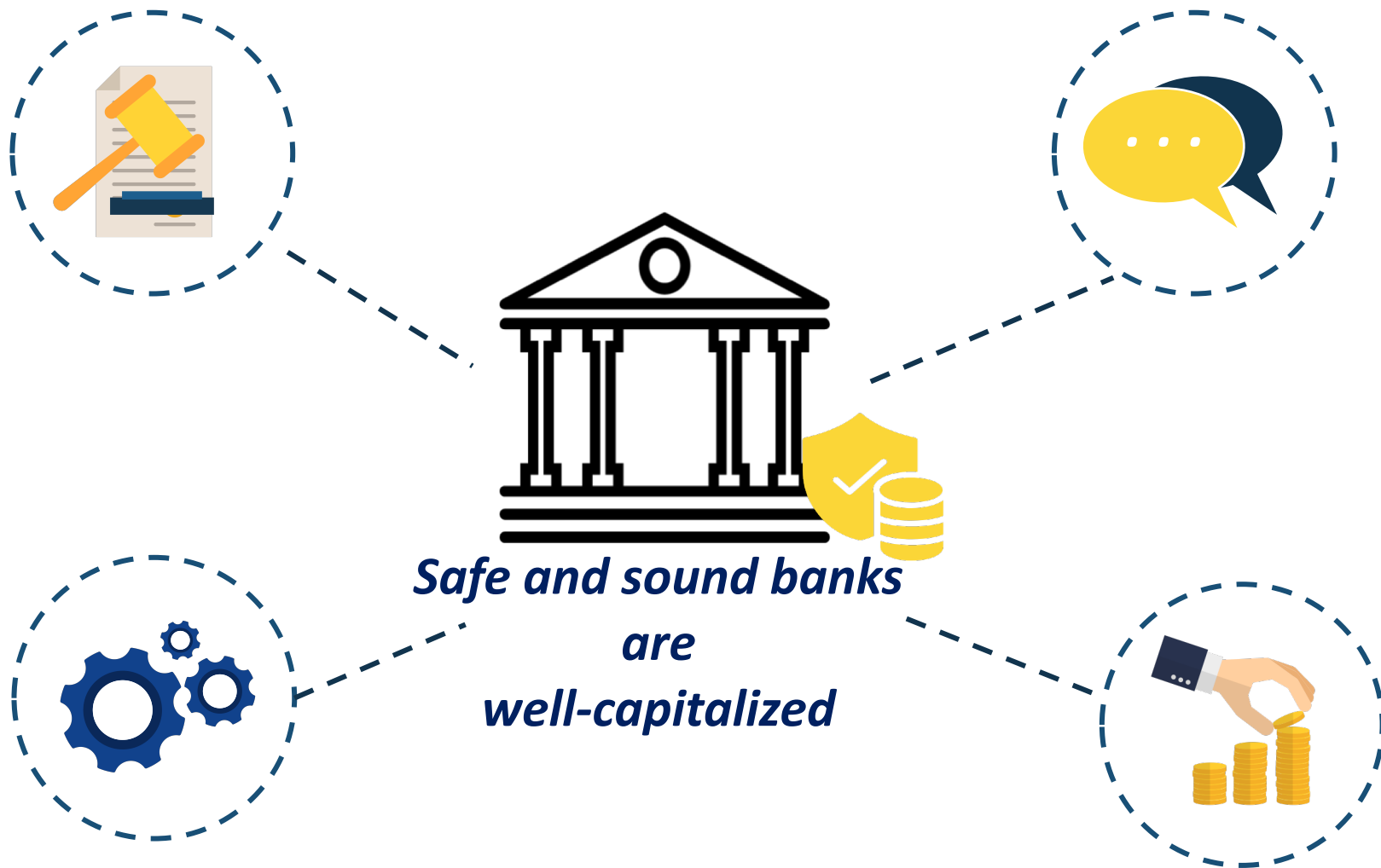


04

Review and Enhancement of Existing Regulations



Rural Bank Strengthening Program



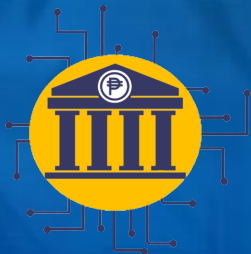
Accelerating digitalization



**Institutionalization of BSP
Test-and-Learn Approach**



**Amendments to the
Guidelines on E-money**



**Prudential Requirements
Applicable to Digital Banks**



**Enhancements to IT Risk
Management Standards and
Guidelines**



**Digital Financial
Marketplace Model**



**Cybersecurity Maturity
Model Framework**



Phased approach to issuance of enabling regulations





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