

 <b>PHILIPPINE RATING SERVICES CORPORATION</b>	RATING REPORT
	PHILIPPINE BANK OF COMMUNICATIONS

**Date:** September 20, 2024  
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### ISSUER CREDIT RATING ASSIGNED: PRS Aa minus (corp.)

#### OUTLOOK ASSIGNED: Stable Outlook

The Issuer Credit Rating is assigned in relation to Philippine Bank of Communications' (PBCom; the bank) planned Bond Program of up to ₱15.0 billion. The proposed initial tranche is ₱2.0 billion, with an oversubscription option of up to ₱3.0 billion, and a tenor of 1.5 to 3 years. Proceeds from the bond issuance will be used for general corporate purposes, including to refinance debt obligations, diversify funding sources and support loan growth.

A company rated PRS Aa (corp.) differs from the highest rated corporates only to a small degree, and has a **strong capacity** to meet its financial commitments relative to that of other Philippine corporates. The "minus" further qualifies the assigned rating.

On the other hand, a Stable Outlook is defined as: "The rating is likely to be maintained or to remain unchanged in the next 12 months."

#### RATIONALE

- **Enhanced growth potential following the approval of its universal banking license**

In September 2022, PBCom secured its Certificate of Authority to operate as a Universal Bank from the Bangko Sentral ng Pilipinas (BSP). As a universal bank, PBCom will have the authority to exercise powers of an investment house. The upgrade from commercial to universal also provides PBCom with additional capabilities to invest in non-allied enterprises. As such, PBCom could provide a broader range of products and services similar to the country's top lenders, and be a one-stop shop for its clients' banking needs.

As of end-March 2024, PBCom remained a mid-sized player in the Philippine banking industry and ranked 17<sup>th</sup> in terms of total assets.

- **Experienced management, complemented by synergies within major shareholder's ecosystem**

PBCom is led by well-experienced leaders with years of experience in the banking industry. Eric O. Recto, PBCom's Chairman of the Board, has held the position since 2012. He is also an Independent Director of publicly-listed companies, Aboitiz Power Corporation and Manila Water Company, Inc. Prior to his appointment to PBCom, Mr. Recto served as President of Petron Corporation and Undersecretary of the country's Department of Finance. Patricia May T. Siy is PBCom's President and Chief Executive Officer (CEO) since 2015. She has 39 years of banking experience, and held various positions in local and international banks.

The Co Family, led by Lucio L. Co who is the founder of Puregold Price Club, Inc. (Puregold), beneficially owned 57.2% of PBCom as of end-2023. Mr. Co is also the Chairman of the bank's Executive Committee

(ExCom). Mr. Co's portfolio extends to energy, liquor distribution, real estate development, and hospitality. PBCom's aspiration to become a significant financial partner of micro, small and medium-sized enterprises (MSMEs) aligns well with Mr. Co's extensive network of customers and suppliers. This network can support PBCom's expansion efforts and provide the bank with competitive advantage in the MSME and retail markets.

- **Sustained earnings growth, but short-term profitability will be subdued**

PBCom showed sustained growth in its net income, achieving a compound annual growth rate (CAGR) of 13.2% over the past five years, from ₱1.2 billion in 2019 to ₱1.9 billion in 2023. Despite the challenges posed by the pandemic, PBCom also achieved a CAGR of 18.1% from 2020 to 2022, which enabled the bank to turn around its negative retained earnings position of ₱2.8 billion as of end-2019 to a surplus of ₱1.5 billion as of end-2022. Such surplus further increased to ₱3.1 billion as of end-2023.

Net income for the first half of 2024 (1H2024) was relatively unchanged at ₱1.0 billion, reflecting a minimal 2.8% increase compared with the same period in 2023. The 28.4% increase in gross interest income in 1H2024, however, was offset by elevated interest and operating expenses.

Despite anticipating substantial growth in its net interest income in 2024, PBCom expects higher operating expenses to temper profitability for the year. Bottom line is seen to improve significantly going forward, albeit returns will be modest.

- **Notable improvements in asset quality**

The bank's non-performing loans (NPL) ratio—both gross and net—showed continued improvement since the onset of the pandemic. Gross NPL ratio declined from 5.8% in 2020 to 2.7% in 2023. The latter was also lower compared with the 3.7% gross NPL recorded in 2019. Moreover, PBCom's NPL ratio was lower compared with the Philippine banking industry's NPL ratio of 3.2% and the universal and commercial banks' (UKBs) NPL ratio of 3.0%, as of end-2023. The bank's improved NPL ratio was on account of its growing loan portfolio alongside its declining NPL.

PBCom's gross NPL ratio is projected to further improve moving forward, as its loan portfolio expands.

- **Relatively modest share of low-cost current account and savings account (CASA) to total deposits**

Historically, PBCom had modest CASA to total deposits ratio. The share of CASA to total deposits averaged 52.4% from 2019 to 2023. As of end-2023, CASA to total deposits was 46.9%, lower compared with 2019 (47.9%), while time deposit accounted for 51% of the total deposits as of end-2023, an increase from 2019 (48.2%).

While CASA is seen to post double-digit growth, time deposits will continue to be a significant contributor to the bank's deposit base going forward.

As of end-June 2024, total CASA declined from ₱54.7 billion as of end-2023 to ₱52.8 billion. CASA to total deposits, however, improved marginally to 47.0%, as maturity of the bank's long-term negotiable certificates of deposits (LTNCDs) also pulled down the bank's deposit base.

PBCom's loans to deposit ratio (LDR) was 78.6% as of end-2023; such increased to 80.2% as of end-June 2024.

## BUSINESS REVIEW

### Company Profile

PBCom is a publicly-listed universal bank operating in the Philippines. The bank offers a wide range of banking services including basic universal banking services, such as: deposit products, credit and loan facilities, trade and treasury related services, cash management services, and trust services.

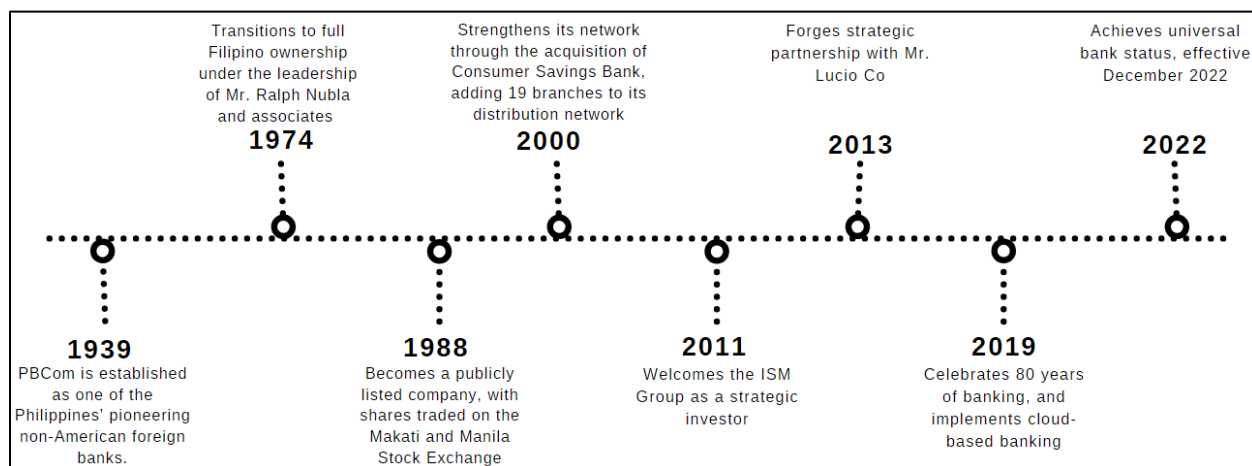
Figure 1. PBCom's Lines of Business



As of end-March 2024, PBCom's nationwide network included 94 branches (four of which are branch-lites or in pop-up format inside select Puregold stores), 166 automated teller machines (ATMs), and 78 cash deposit machines. Of the 94 branches, 51 are located in Metro Manila; the remaining branches are spread across other metropolitan areas in Luzon (23), Visayas (10), and Mindanao (10). PBCom does not have an overseas branch, hence all its revenues are generated domestically. The bank also has internet and mobile banking facilities. PBCom Online Platform (POP) is the bank's electronic banking system which allows its clients to perform banking transactions through the web and the mobile application.

### History and Milestones

Figure 2. PBCom's History and Milestones



PBCom started its operations in Binondo on September 4, 1939 as an overseas branch of the Chinese Bank of Communications, which was headquartered in Taiwan. It is one of the first non-American foreign commercial banks to operate in the country. The bank ceased operations during the Japanese occupation,

and resumed business after the World War II. In 1974, the bank transitioned to full Filipino ownership following Ralph Nubla Sr. and his company's purchase of the majority of PBCom's outstanding capital stock.

The bank was listed in the Philippine Stock Exchange (PSE) in 1988. In 1993, the BSP granted PBCom the license to operate as an expanded commercial bank and operated as such until the bank underwent a strategic transformation in 2000. In the same year, the bank applied for the conversion of its banking license from an expanded commercial bank to a regular commercial bank, which the BSP approved in Resolution No. 508 dated March 31, 2000.

In 2011, ISM Communications Corporation (ISM) became a strategic third-party investor to PBCom. In 2013, PBCom obtained approval from the Securities and Exchange Commission (SEC) to reclassify the bank's existing preferred shares to common shares and to increase the bank's authorized capital stock. Lucio L. Co, the founder of Puregold, subscribed to the new shares and acquired ISM's shares, making him the bank's biggest shareholder and a strategic investor. In 2H2019, PBCom sold its stake in its then subsidiary, PBCOM Rural Bank, Inc. (PRBI). PBCom sold its stake in PRBI to Producers Savings Bank Corp., in line with the bank's strategy to focus on its core businesses and expand its market within the ecosystem of its major shareholders. PBCom also sold its dealer-generated auto loans to EastWest Bank in the same year.

In September 2022, the bank acquired the Certificate of Authority to operate as a Universal Bank from the BSP. PBCom commenced its operations as a universal bank on December 1, 2022.

### **Subsidiaries and Affiliates**

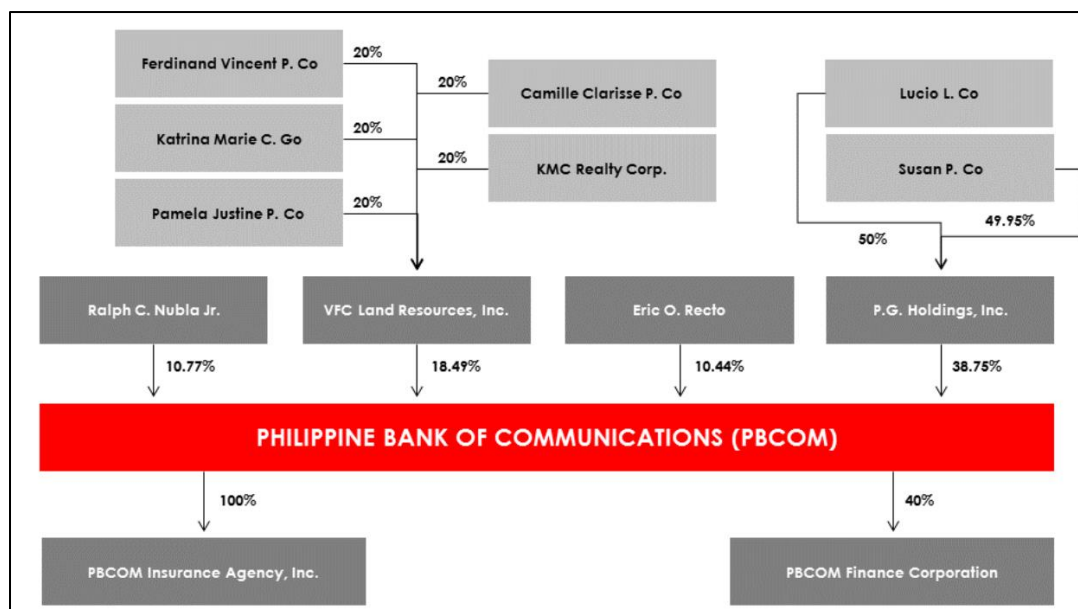
As of end-2023, PBCOM had one subsidiary: PBCom Insurance Services Agency, Inc. (PISAI). PISAI is an insurance company incorporated on May 9, 2014 to primarily engage in the business of soliciting and promoting insurance products and services specific to life and investment-linked products. PISAI has been inactive since 2018. Consequently, in 2021, PBCom's Board of Directors approved the dissolution of PISAI after determining that there was no longer a need for PISAI's business. PISAI's Certificate of Dissolution from the SEC became effective on April 30, 2024.

PBCom also owned 40% of PBCom Finance Corporation (PBCom Finance), which is a financing company. PBCom Finance accounts for less than 1% of the bank's revenue and assets.

### **Ownership and Management**

As of end-2023, P. G. Holdings, Inc. (PGH) and VFC Land Resources, Inc. (VFC) owned 38.75% and 18.49%, respectively, of PBCom's outstanding common shares. PGH and VFC are beneficially owned by the family of Lucio Co.

Figure 3. Ownership Structure as of December 31, 2023



Lucio L. Co is PBCom's Director and Chairman of the bank's ExCom since 2014, when he became a strategic investor of the bank. Mr. Co concurrently serves as Director and Chairman of publicly-listed companies Cosco Capital, Inc. (Cosco) and The Keepers Holdings, Inc. He is also a Director and Chairman of numerous privately-owned companies. Mr. Co also served as Chairman of Puregold from 1998 to 2022, after which the role was transitioned to his wife, Susan P. Co. Mr. Co's business portfolio also includes his energy, liquor distribution, real estate development, and hospitality businesses. Mr. Co led more than 31 companies in his 40-year entrepreneurial experience.<sup>1</sup>

Eric O. Recto is PBCom's Chairman of the Board since 2012. He is an Independent Director of publicly-listed companies, Aboitiz Power Corporation and Manila Water Company, Inc. Mr. Recto also currently serves as Chairman and President of Bedfordbury Development Corporation and Chairman and CEO of Alphaland Corporation and Atok-Big Wedge Co., Inc. Prior to his appointment to PBCom, Mr. Recto served as President of Petron Corporation and Undersecretary of the country's Department of Finance. Mr. Recto holds a Bachelor of Science Degree in Industrial Engineering from the University of the Philippines, and a Master's degree from Cornell University's Johnson Graduate School of Management.

Patricia May T. Siy is the bank's Director, President, and CEO since 2015. She is also a Director of PBCom Finance. Ms. Siy has 39 years of banking experience and held various positions in Security Bank Corporation, Standard Chartered Bank, and Private Development Corporation prior to her present position in PBCom. Ms. Siy obtained her Bachelor of Science Degree in Industrial Management Engineering, minor in Chemical Engineering, from De La Salle University.

Other than Lucio Co (Chairman of ExCom), Susan Co (Director), Katrina Marie Co-Go (Assistant to the ExCom Chairman) and Atty. Michael Stephen H. Lao (Corporate Secretary), the bank's directors and executive officers are not related to each other up to the fourth civil degree either by consanguinity or affinity.

To manage leadership transitions, PBCom had established a succession plan and is actively investing in leadership development. According to management, to ensure that vacated positions will not be left

<sup>1</sup> <https://www.forbes.com/profile/lucio-co/>

unattended, PBCom had identified at least two successors for group, division, and team heads. As of end-2023, the bank had 1,117 employees, including 26 consultants. The employees are composed of 141 executives, 760 officers, and 216 rank and file employees. The bank's rank and file employees are covered by a Collective Bargaining Agreement (CBA) valid for the period 2023 to 2025.

### Strategic Focus

The bank aims to expand its assets, focusing on sustainable industries and capital-light businesses.

To increase its net income, PBCom targets to improve its low-cost funding mix and fee-based income. Fee-based income could become an important source of earnings during economic downturns, when interest rates may fluctuate and capital market activities might slow down. Examples of a bank's fee-based income are account maintenance charges, overdraft charges, ATM fees, and insurance brokerage fees. PBCom also aims to scale up its operations to reduce the bank's average cost of doing business, thereby achieving economies of scale.

As a universal bank, PBCom has the authority to exercise the powers of an investment house. Universal banks can also invest in non-allied undertakings and can own up to 100% of the equity in a thrift bank, a rural bank, a financial allied enterprise, or a non-financial allied enterprise. As such, PBCom could provide a broader range of products and services and become a one-stop shop for its clients' banking needs. To further boost its asset expansion, the bank also intends to open additional branches from 2024 to 2026. A notable increase in the bank's digital customers is likewise expected, moving forward.

PBCom also aims to have a highly-synergistic operational model by leveraging on the data assets and physical network of its ecosystem, particularly through Puregold, a leading retail chain in the country. PBCom also intends to co-brand the bank's financial services with companies in its ecosystem through white-label banking.<sup>2</sup>

As of end-2023, Puregold had 568 retail stores carrying the brand names "Puregold" or "S&R", with a combined 690,800 square meters (sqm) of net selling area. Puregold also had several joint ventures with third parties operating other types of supermarkets, namely "San Roque Supermarkets" (33 supermarkets) and "Merkado" (three supermarkets). In total, Puregold ended 2023 with 604 stores. It was present all over the Philippines: 208 stores in the National Capital Region (NCR, 34% of the total stores); 156 stores, North Luzon (26%); 164 stores, South Luzon (27%); 60 stores, Visayas (10%), and 16 stores, Mindanao (3%). Numbering over 2,000, Puregold's supplier base was diversified between local suppliers (Universal Robina Corporation, Monde Nissin, Century Pacific Food, Inc.) and multinational corporations (Nestle, Unilever, Protector & Gamble). S&R sources the majority of its merchandise from global vendors who have been supplying to membership clubs worldwide. Puregold is not reliant on a single or few customers but on the public in general. The company divides its customers into retail consumers and re-sellers. Puregold targets consumers with an average income of P12,000 to P80,000 per month (Class "C" and "D" market segments), while S&R targets the "A" and "B" segments with an average income of over P80,000 per month. Re-sellers are small to medium-sized sari-sari stores and canteens, restaurants, caterers, bakeries, convenience stores, and drug stores.

Indicative of synergistic possibilities with Lucio Co-led companies, the bank launched pop-up branches inside select Puregold stores in 2019. The goal of the pop-up branches was to offer an easier and more convenient way of banking, while also stimulating foot traffic in the stores.<sup>3</sup> As of June 30, 2024, PBCom had four branch-lite or pop-up branches (two in Valenzuela, one in Cabanatuan, and one in Taguig City). PBCom has also been exploring ways to tap Puregold's network of suppliers and customers, including

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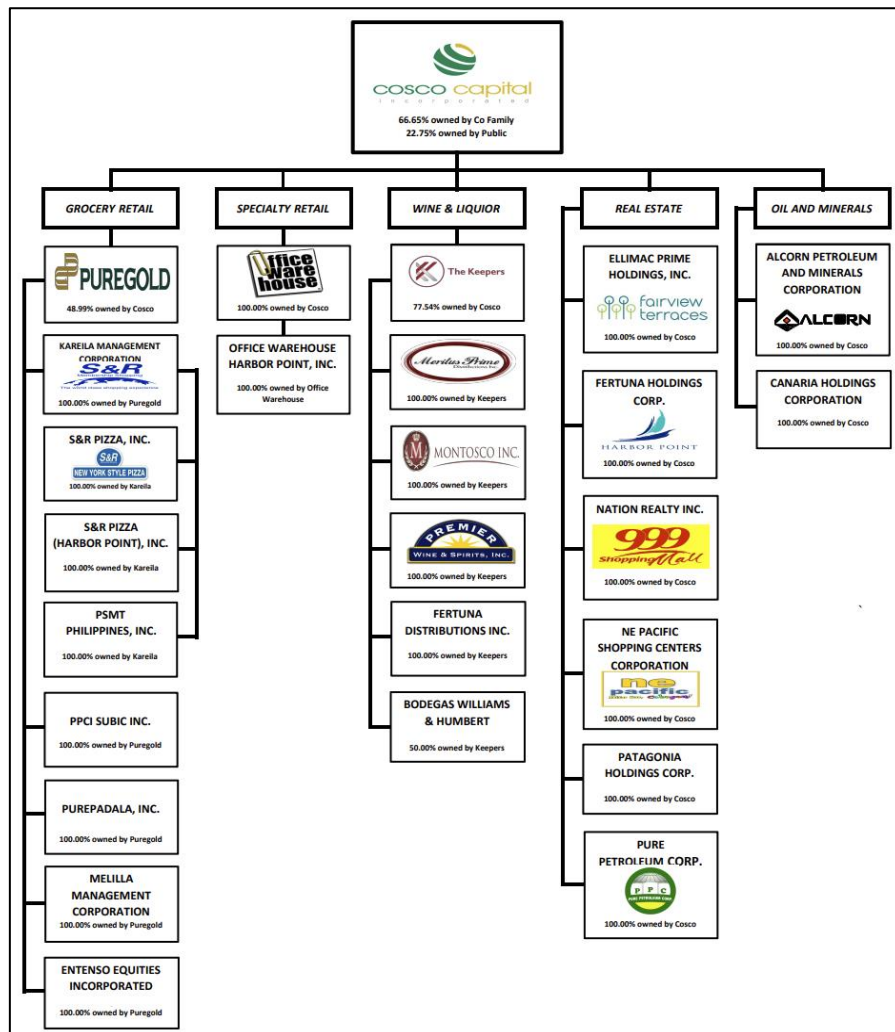
<sup>2</sup> White-label banking involves offering a pre-existing banking product or service under the non-bank partner's brand.

<sup>3</sup> <https://www.pbcom.com.ph/media-center/pbcom-launches-pop-branches-puregold>

participating in programs held by Puregold for its loyal customers. Currently, PBCom is looking at how the bank could utilize Puregold’s ecosystem to strengthen its presence in the consumer market.

Bulk of PBCom’s customers are mid-sized businesses. PBCom intends to continue its focus on this market, aiming to become the preferred financial partner of MSMEs.

Figure 4. PBCom's Ecosystem through Lucio Co and Family (as of end-2023)



Cosco, the Parent company of Puregold, is also majority-owned by the Co family. Cosco has a portfolio of businesses in retail, real estate, wine and liquor, and oil and minerals. Aside from Puregold, its subsidiaries include Office Warehouse, Inc., Ellimac Prime Holdings, Inc., The Keepers Holdings, Inc. and Alcorn Petroleum and Minerals Corporation.

Mr. Co’s focus on the small business segment is well-aligned with the bank’s bid to grow its SME business. Mr. Co’s retail network of vendors, suppliers, and customers could provide significant support to PBCom’s expansion efforts, giving the bank an advantage in the SME and retail space.

**Environmental, Social, and Governmental (ESG)**

PBCom launched its Green campaign in 2021. One of the bank’s ongoing campaigns is “Ayaw ko ng plastic,” which aims to reduce the use of plastics. The bank discourages the use of single-use plastics

within its premises, and promotes eco-friendly alternatives. PBCom partnered with Green Antz Builders Inc. (Green Antz) in 2021 as part of the bank's initiatives to be more environmentally-conscious. Green Antz is a provider of building material solutions which integrate eco-friendly practices and green technology. PBCom collects plastic wastes from its employees which are then cleaned, dried, and turned over to Green Antz. Green Antz repurposes the plastics into eco-casts and bricks for construction use. In 1H2023, the bank turned over more than 64 kilos of plastics wastes for processing, and which translated to about 480 eco casts or bricks.

Several sub programs have also been initiated since the launch of the bank's Green campaign. PBCom participated in projects like tree planting and clean-up programs. The bank also launched the "Wag kang Ma-Papel" program, which rewards teams and departments that significantly reduce the use of copy papers.

PBCom has also been supporting La Liga Mariquina in their various socio-economic and environmental programs. La Liga Mariquina is a non-governmental organization based in Marikina City. The cornerstone initiative of La Liga Mariquina is "Oplan Laban Kontra Gutom", which aims to combat malnutrition. In 2023, PBCom funded this program in order to provide nutritious meals to children aged 6-12 who are in areas with high malnutrition rates.

PBCom also extends its support to various activities that positively impact community welfare. These activities include fundraising efforts to aid victims of natural disasters and social conflicts.

### **Asset Quality**

*Analysts' Note: PhilRatings' calculation of certain ratios may differ from that of PBCom.*

#### **2019-2022**

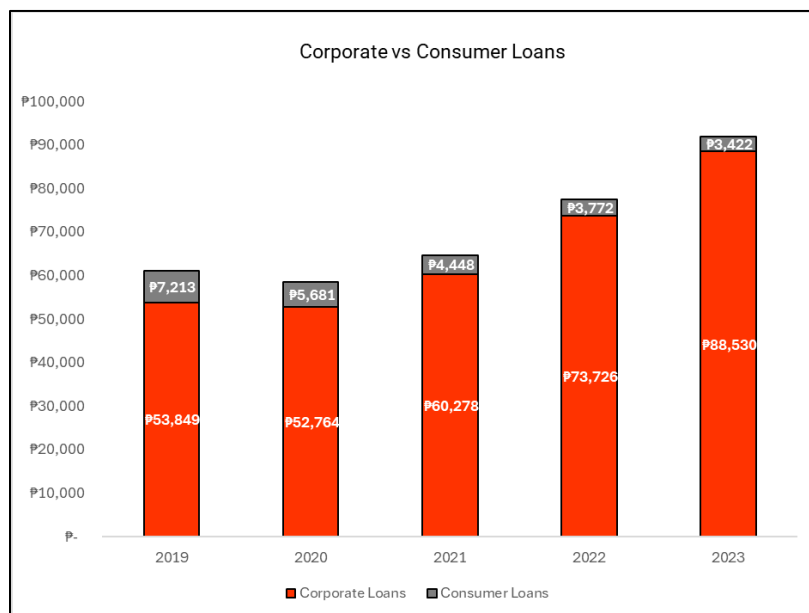
PBCom's loans and receivables grew from ₱61.3 billion as of end-2019 to ₱76.9 billion as of end-2022. With the exception of a marginal 4% decrease in 2020, the bank's loan portfolio recorded a sustained growth from 2019 to 2022. Its share to total assets ranged from 58% to 62% throughout the period.

The bank's loan portfolio was comprised of corporate and home, auto, and personal loans (consumer loans). Corporate loans grew from ₱53.8 billion as of end-2019 to ₱73.7 billion as of end-2022. In contrast, PBCom's consumer loans have been on a decline since 2019. Consumer loans dropped from ₱7.2 billion as of end-2019 to ₱3.8 billion as of end-2022. This was a result of the sale of the bank's dealer-generated auto loans, as the bank shifted its focus to its core market. While the car dealership loans averaged 64% of the bank's auto loan portfolio from 2015 to June 2019, it only accounted for a minimal 5% of the bank's total loan portfolio prior to the sale.<sup>4</sup> Management views its decision to sell the portfolio as a good move, as the automotive industry was heavily impacted by the pandemic. Corporate loans have been the dominant component of the total loan portfolio, even before the sale of the car dealership portfolio.

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<sup>4</sup> <https://www.bworldonline.com/editors-picks/2019/06/27/238752/pbcom-closes-sale-of-car-loans-to-eastwest>

Figure 5. Receivables from Customers



PBCom’s loan portfolio was well-diversified across industries. Bulk of the loans came from Construction and real estate, Wholesale and retail trade, and Manufacturing, with an average share of 28%, 24%, and 20%, respectively, from 2019 to 2022.

As of end-2022, 43.4% of PBCom’s loan portfolio was secured, an increase from the 37.3% share in 2019. Majority of the secured loans were collateralized by real estate, while the rest were collateralized by chattel mortgage, deposit hold-out, and securities and others.

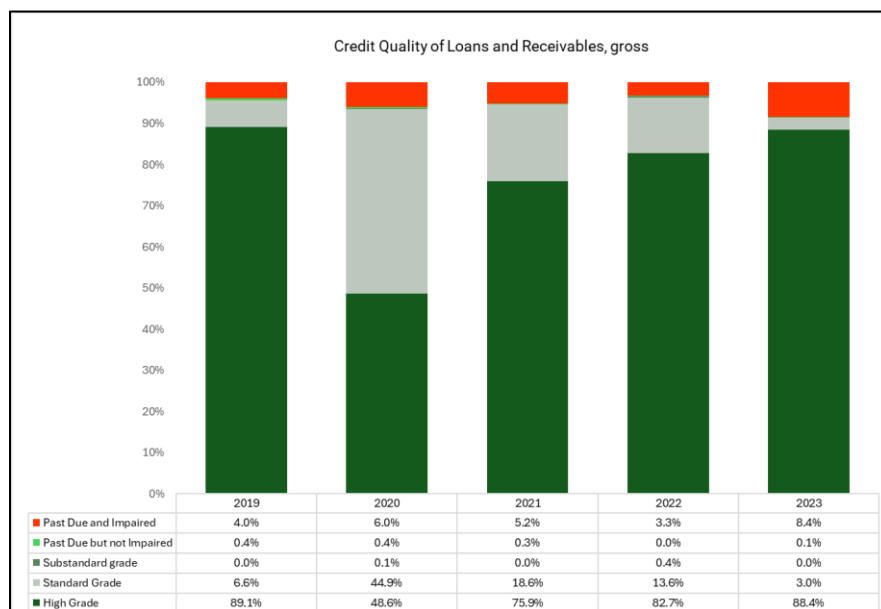
The share of DOSRI and Related Party loans to the bank’s total loans was very minimal at less than 1.0% from 2019 to 2022. Restructured loans were also minimal, but significantly increased to ₱1.0 billion as of end-2022, from ₱47 million as of end-2019. According to management, the jump was a consequence of the pandemic.

The bank’s NPL ratio—both gross and net—showed continued improvement after the onset of the pandemic. Gross NPL ratio declined from 5.8% in 2020 to 3.2% in 2022. The latter was also lower compared with the 3.7% gross NPL ratio in 2019, owing to the significant growth in the bank’s loan portfolio, particularly in 2022. Gross NPL as of end-2022 stood at ₱2.6 billion. Albeit still higher than the NPL in 2019, this was an improvement from the ₱3.6 billion NPL in 2020.

Due to the lower NPL in 2022 and increasing allowance for credit losses, NPL coverage reached 114% in 2022. This was an improvement from previous years, when allowance for credit losses was less than the bank’s NPL.

PhilRatings notes that while the ratio of non-performing consumer loans to total loans was minimal at less than 2% from 2019 to 2022, the share of non-performing consumer loans to total consumer loans was more than 10% in the past years. Among the bank’s consumer loans, personal loans had the highest NPL ratio. Non-performing personal loans to total personal loans averaged 39.6% from 2019-2022. Nonetheless, non-performing personal loans, which amounted to ₱26.2 million as of end-2022, comprised only 0.03% of the ₱77.5 billion total receivables from customers. (Please refer to Appendix I for the detailed breakdown of NPLs per product line.)

Figure 6. Credit Quality of Loans under receivables from customers



Prior to the pandemic, 89.1% or ₱54.3 billion of the bank’s receivables from customers were high grade or had no history of default, and 6.6% or ₱4.0 billion were regarded to have good credit quality despite being 1-30 days past due (i.e., standard grade).<sup>5</sup> In 2020, however, high grade receivables dropped to ₱28.4 billion, accounting for only 48.6% of the total receivables, while standard grade jumped to ₱26.2 billion or 44.9% of the total receivables. As of end-2022,

the share of high-grade receivables to total receivables improved to 82.7%, while the share of standard grade stood at 13.6%. Past due and impaired accounts comprised a minimal 3.3% of the bank’s total loans and receivables, as of end-2022.

PBCom's foreclosed properties had been consistently increasing, from ₱588 million in 2019 to ₱962 million in 2022. Nonetheless, its share to total assets was marginal at less than 1.0% throughout the period. Additionally, management noted that while the ending balance of foreclosed properties increased, the additional foreclosed properties were lower in value compared with 2019. The slowdown in disposals of foreclosed properties had contributed to the higher balance.

**2023**

In 2023, the bank’s loans and receivables grew by 19.3%, from ₱76.9 billion as of end-2022 to ₱91.8 billion. Its share to total assets likewise increased to 62.2%, from 61.6% in the previous year. Corporate loans climbed by 20.1% to ₱88.5 billion, and accounted for 96.3% of the bank’s receivables from customers. On the other hand, consumer loans continued to decline in 2023. Consumer loans slipped from ₱3.8 billion as of end-2022 to ₱3.4 billion as of end-2023.

Construction and real estate (24%) and Wholesale and retail trade (22%) continued to account for a substantial chunk of the bank’s loan portfolio. While loans from these industries recorded an increase in 2023, their contribution to total declined. Such was due to the notable increase of loans from “Others”, from ₱9.5 billion as of end-2022 to ₱19.5 billion as of end-2023, making it the third largest contributor in

<sup>5</sup> The credit quality classification is from the bank’s annual audited financial statements.

High Grade - current receivables with no history of defaults and delayed payments

Standard Grade - 1 to 30 days past due, but are still regarded as good credit quality

Substandard Grade or Past Due - exhibit unfavorable record or unsatisfactory characteristic which makes collection improbable

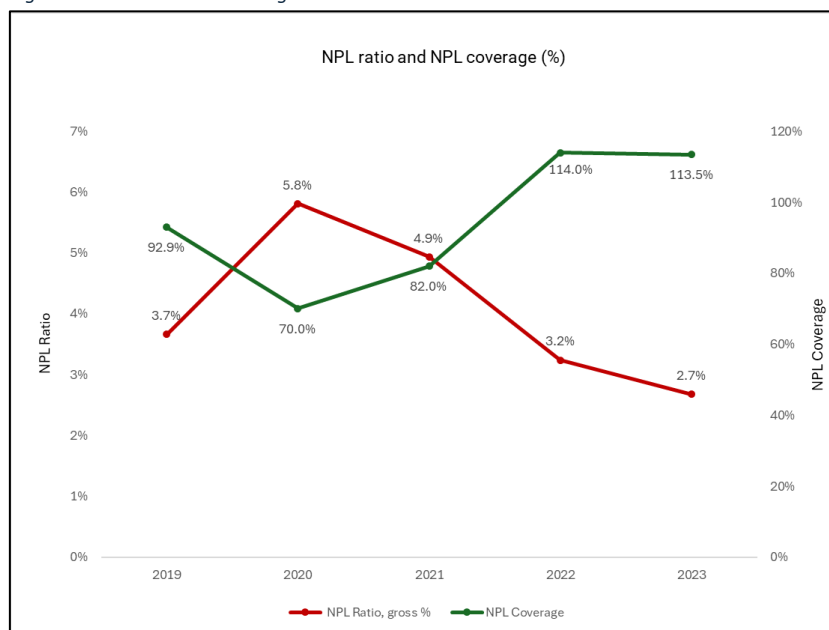
Past Due but not Impaired - default of 31 to 90 days

Past Due and Impaired - default of more than 90 days; NPL

terms of industry.<sup>6</sup> The increase was due to the additional loans from accommodation and integrated resort/casino companies. Manufacturing came in fourth.

Loans secured by collateral, mostly by real estate, recorded an uptick from 43.4% as of end-2022 to 44.3% as of end-2023. Restructured loans, on the other hand, decreased to ₱661.1 million in 2023. Such was on account of the lower outstanding principal as one of the restructured accounts made repayments in 2023. The reclassification of another restructured account as an NPL, likewise, contributed to the lower restructured loans in 2023. The share of restructured loans as well as DOSRI and Related Party loans to the bank's total loans remained minimal, at less than 1.0%.

Figure 7. NPL Ratio and Coverage



Gross NPL ratio continued to improve in 2023 to 2.7%, the bank's lowest since 2019. The ratio was also lower compared with the Philippine banking industry's NPL ratio of 3.2%, and UKBs' NPL ratio of 3.0%, as of end-2023. The improvement was driven by the significant increase in gross loans and receivables to ₱94.7 billion, as well as the marginally lower gross NPLs of ₱2.5 billion. NPL coverage remained sufficient at 113.5%, relatively flat compared to the previous year.

As of end-2023, 88.4% or ₱81.2 billion of the bank's receivables were high grade or had no history of default, an improvement from 82.7% or ₱64.0 billion a year ago. Past due and impaired receivables, however, increased from ₱2.6 billion as of end-2022 to ₱7.7 billion as of end-2023, accounting for 8.4% of the total receivables from customers.

In 2023, the bank's foreclosed properties recorded a slight uptick of 1.4% to ₱976 million, due to higher foreclosures. Share of foreclosed assets to total assets remained minimal at 0.7%.

### 1Q2024

As of end-March 2024, PBCom's loans and receivables amounted to ₱87.9 billion, a 4.3% decrease from end-2023. The contraction in loan volume was on account of lower outstanding receivables, mainly commercial loans, account receivables and import bills.

In 1Q2024, there was a slight increase in the shares of loans from Construction and real estate, Wholesale and retail trade, and Manufacturing, which accounted for 26%, 24%, and 16% of total loans, respectively. In contrast, the share of loans from "Others" declined to 16%.

<sup>6</sup> "Others" includes Accommodation and food service activities, Human health and social work activities, and other services activities.

The share of secured loans to total loans further increased to 46.1% as of end-March 2024. Of the secured loans, 41.6% had real estate as collateral.

Gross NPL ratio increased from 2.7% as of end-2023 to 3.1% as of end-March 2024. Such was on account of higher NPLs of ₱2.8 billion coupled with lower loans and receivables.

PBCom's total past due accounts stood at ₱2.9 billion as of end-March 2024. Such accounted for 3.4% of the bank's total loans and receivables.

PhilRatings notes that the bank had adversely classified accounts amounting to ₱5.2 billion. Such accounts are performing or current but were classified as Stage 3 loans because it was either part of the accounts under BSP relief or were downgraded based on the bank's approved staging criteria. Accounts under BSP relief were previously tagged as NPL but were later tagged as current after BSP's advice to use the actual performance status (as of January 2023).<sup>7</sup> According to management, these accounts are already being reviewed to ensure that the rating/classifications are reflective of the most recent performance.

According to management, PBCom has a loyal customer base, primarily from the Filipino-Chinese community. PBCom's Filipino-Chinese customers are also mostly first-generation depositors whose relationship with PBCom dates back as far as 1975. Also, the bank's clients mostly come from referred family and friends of existing accounts.

The growth in the bank's loans and receivables over the projected period is expected to be marginally lower than the CAGR in the past three years (2020-2023). Such was attributed to base effects. With the continuous expansion of its loan portfolio, the bank expects its gross NPL ratio to improve by the end of the projected period.

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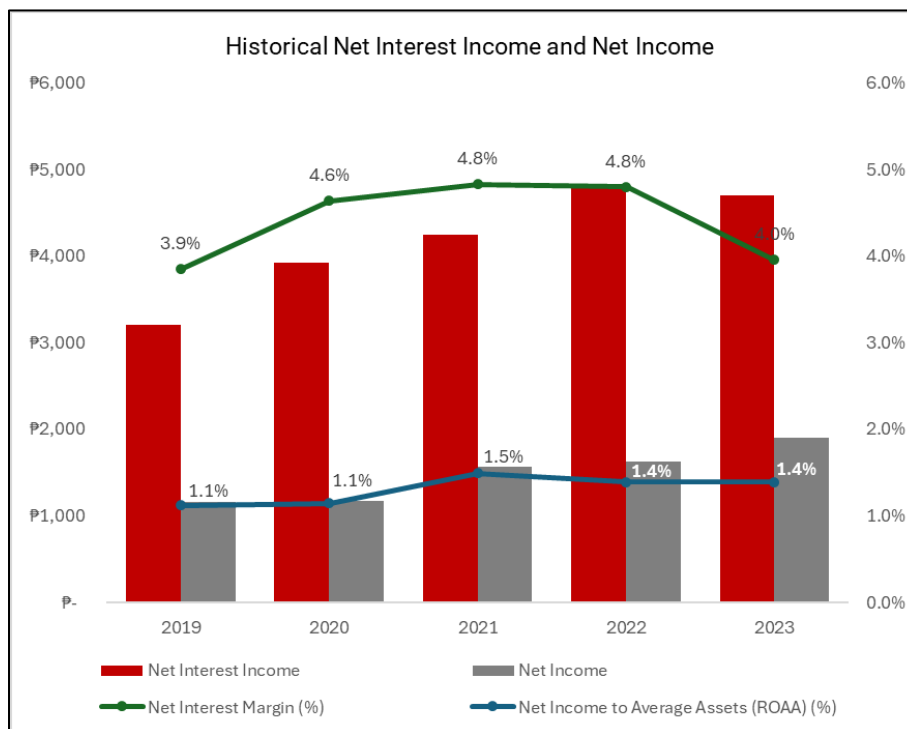
<sup>7</sup> Stage 3: Loans considered as credit-impaired or non-performing.

## FINANCIAL REVIEW

*Analysts' Note: PhilRatings' calculation of certain ratios may differ from that of PBCom.*

### Profitability

Figure 8. Historical and Projected Net Interest Income and Net Income



### 2019-2022

Despite the decline in gross interest income in 2020 and 2021, PBCom's net interest income grew by 22.5% and 8.1%, respectively. The latter was on account of the notable decline in interest expense due to the lower cost of funds and lower volume. As a result, net interest income was on an uptrend, from ₱3.2 billion in 2019 to ₱4.8 billion in 2022. Similarly, net interest margin (NIM) improved from 3.9% in 2019 to 4.8% in 2022. The share of net interest income to total operating income grew from 63.4% in 2019 to 86.5% in 2022.

In contrast, the bank's non-interest income declined over the years, from ₱1.8 billion in 2019 to ₱751.8 million in 2022. The declining trend was primarily driven by the trading loss recorded in 2021 and 2022 of ₱241.6 million and ₱366.3 million, respectively. Nonetheless, the bank's total operating income in 2022 reached ₱5.6 billion, higher than the ₱5.1 billion recorded in 2019.

Except for 2020, when a substantial provision for credit losses (₱1.4 billion) was recognized due to the anticipated deterioration of loan quality given the pandemic, the bank's operating expenses were well controlled. Excluding provision for credit losses, the bank's expenses to average assets ratio improved from 3.0% in 2019 to 2.7% in 2022. PBCom's ratio of non-interest expenses (excluding provision) to total revenues, likewise, improved from 61.1% in 2019 to 56.0% in 2022.<sup>8</sup>

Amid the peak of the pandemic in 2020, the bank was still able to book a marginal increase in earnings of 1.0%. PBCom sustained a healthy bottom line growth afterwards with net income reaching ₱1.6 billion in

<sup>8</sup> The ratio of non-interest expense (excluding provision) to total revenue is referred as the efficiency ratio in the report.

2022, and which was higher than the ₱1.2 billion recorded in 2019. It should also be noted that in 2019, the bank recognized a ₱228.4 million net income from discontinued operations in relation to the sale of PRBI to Producers Savings Bank.

### 2023

In 2023, the bank booked a record-high growth in its gross interest income. Gross interest income grew by 41.6% from ₱5.6 billion in 2022 to ₱7.9 billion, on the back of higher yields and growth on both loans (from the corporate portfolio) and securities portfolios (from hold-to-collect (HTC) and fair value through other comprehensive income (FVOCI)). This growth, however, was offset by the higher cost of funds and increase in high-cost deposits amid the elevated interest rate environment. Interest expense accelerated by 308.8% from ₱788.3 million to ₱3.2 billion. As such, for the first time in the last five years, the bank recorded a decline in net interest income, albeit at a marginal 2.3%. Net interest income in 2023 amounted to ₱4.7 billion. NIM also dropped to 4.0% from 4.8% in the previous year, as the increase in cost of funds outweighed the increase in asset yields. Net interest income to operating income likewise declined to 78.9%.

On the other hand, non-interest income grew to ₱1.3 billion in 2023, on account of the ₱128.8 million trading and securities gain; such was an improvement from the ₱366.3 million loss in 2022. As a result, total revenues for 2023 inched up by 7.2% to ₱6.0 billion. Operating expenses were relatively flat at ₱3.4 billion. Due to expansion in asset base, however, expense (excluding provision) to average assets ratio improved to 2.5%. The efficiency ratio, in contrast, slightly deteriorated to 57.8%.

In 2023, PBCom's net income grew by 16.3% on account of higher non-interest income, which offset the impact of the elevated interest rates. Return on average assets (ROAA) was unchanged at 1.4%.

### Interim June 2024

Gross interest income grew by 28.4% in 1H2024 to ₱4.6 billion, from ₱3.6 billion in the same period of 2023. This was attributed to higher asset growth and yields in both loan and securities portfolios. The bank's net interest income, however, posted a slower growth of 13.7% to ₱2.6 billion due to the higher cost of funds, and which was still attributed to the high interest rate environment. NIM declined marginally to 4.0% in 1H2024, from 4.1% in 1H2023.

Non-interest income in 1H2024 slightly declined to ₱662.5 million, from ₱668.0 million in 1H2023, given lower trading gains and a decrease in rent income due to lease terminations. Operating income amounted to ₱3.3 billion, up by 10.5%.

The bank's operating expenses grew by 13.6%, from ₱1.7 billion in 1H2023 to ₱1.9 billion in 1H2024. Such increase was attributed to higher taxes and license expenses, particularly volume-driven costs such as gross receipt tax (GRT) and documentary stamp tax (DST). Higher manpower costs due to increase in headcount and salary adjustment also contributed to the increase in operating expenses for the period. Expenses (excluding loss provision) to average assets marginally declined to 2.5%, while efficiency ratio inched up to 57.2%.

Net income for 1H2024 was relatively unchanged at ₱1.0 billion. Similarly, ROAA was stable at 1.4%.

### Projected Period (2024-2026)

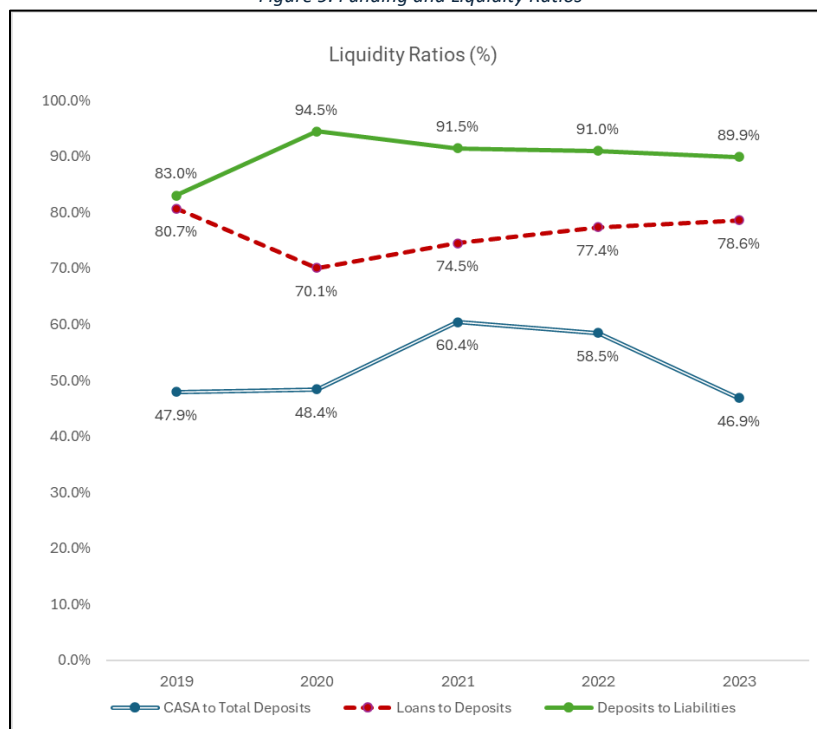
Interest income is expected to remain the primary driver of earnings growth. A notable increase in net interest income is expected in 2024 due to the growth in its loan portfolio. This increases, however, will be offset by elevated non-interest expenses.

Net income is then seen to improve significantly going forward owing to the sustained, albeit tempered, growth in net interest income, as well as the relatively flat level of operating expenses.

ROAA and NIM, however, are forecasted to be modest throughout the projected period.

**Asset-Liability Management**

Figure 9. Funding and Liquidity Ratios



**2019-2022**

Deposits were the bank’s primary funding base, with deposits to liabilities ratio averaging 90.0% from 2019 to 2022. Total deposits consistently grew, from ₱75.9 billion as of end-2019 to ₱99.4 billion as of end-2022.

CASA or low-cost deposits accounted for 58.5% of the bank’s total deposits as of end-2022. This was an improvement from the CASA to total deposits ratio of 47.9% as of end-2019. The average share of time deposits to total deposits was 42.8% over the period. As of end-2022, time deposits accounted for 38.6% of total deposits.

More than 70% of the bank’s deposits were used to finance its lending activities. Pre-pandemic LDR was at 80.7%. The ratio dipped to 70.1% in 2020 but went up in the succeeding years. As of end-2022, LDR was at 77.4%.

Historically, majority of the bank’s loans were short term or maturing within one year. As of end-2022, 34.4% of the loan portfolio would mature in more than a month to less than three months, while 16.8% would mature in three to 12 months. Loans which would mature in more than one year accounted for 45.9% of the bank’s loan portfolio.

PBCom’s loan portfolio had minimal exposure to foreign exchange risk, with net exposure at less than 1% of the bank’s total assets.

## 2023

Deposits remained as the bank's core funding source. As of end-2023, deposits to liabilities ratio was 89.9%, down from 91.0% a year ago. Total deposits grew from ₱99.4 billion as of end-2022 to ₱116.7 billion as of end-2023. Total liabilities, however, increased from ₱109.3 billion to ₱129.8 billion. Aside from deposits, the 27.6% hike in bills payable, primarily to private firms and individuals, also contributed to the increase in liabilities.

CASA to total deposits dropped to 46.9% as of end-2023. CASA declined by 5.9% to ₱54.7 billion in 2023 on account of lower volume of demand deposits. Time deposits, on the other hand, grew by 53.9%, from ₱39.4 billion as of end-2022 to ₱59.1 billion as of end-2023. Time deposits therefore accounted for 50.6% of total deposits—its highest share in the last five years.

The bank's LDR inched up from 77.4% as of end-2022 to 78.6% as of end-2023. As of end-2023, 55.2% or ₱50.6 billion of the bank's total loans would mature within one year, while 44.8% or ₱41.1 billion would mature in more than one year.

PBCom continued to have very minimal exposure to foreign exchange risk, with net exposure at 1% of the bank's total assets.

## Interim June 2024

While deposits continued as the bank's main funding source, its deposits to liabilities ratio had been on a downtrend since 2020. Deposits to liabilities ratio further declined to 86.2% as of end-June 2024. Total deposits declined by 3.8% to ₱112.3 billion, driven by lower CASA deposits and the settlement of the bank's LTNCDs in 1H2024. The bank's ₱2.9 billion LTNCDs matured and were fully settled on April 8, 2024.

Total liabilities were relatively unchanged at ₱130.3 billion. As deposits declined, the bank borrowed from private firms, individuals, banks and other financial institutions to fund the growth in its investment securities. Bills payable grew by 51.5%, from ₱9.7 billion as of end-2023 to ₱14.7 billion as of end-June 2024, driven by the increase in dollar-denominated bills payable, primarily from repurchase agreements (repos).

Total CASA further declined from ₱54.7 billion as of end-2023 to ₱52.8 billion as of end-June 2024. CASA to total deposits, however, improved marginally to 47.0%, as the maturity of the bank's LTNCDs also pulled down its deposit base.

Despite a 1.9% contraction in the loan portfolio, LDR increased to 80.2% due to the decline in deposit base.

## Projected Period (2024-2026)

Deposits will remain the main source of funding for the bank, and will predominantly be used in financing the bank's lending activities. CASA is projected to grow over the projected period. CASA to total deposit ratio will remain relatively unchanged, however, as time deposits are seen to remain as a major contributor to the bank's deposit base.

## Capital Adequacy

### 2019-2022

PBCom's total assets as of end-2022 amounted to ₱124.9 billion. Loans and receivables accounted for the majority (about 60%) of the bank's total assets. As such, the growth in the past years was also driven by the movement in loans and receivables. Investment securities at amortized cost, which constituted more than 10% of total assets, also contributed to the bank's historical asset expansion.

On the other hand, the movement in the bank's capital in the past years was driven by its outstanding deficit. The bank's deficit reached ₱9.6 billion as of end-2011. PBCom was able to reduce the deficit through the conversion of preferred shares back in 2013, and the continued plow back of earnings. As of end-2019, the bank's deficit decreased to ₱2.8 billion. PBCom was able to complete its capital build up and turnaround its ₱2.8 billion deficit in 2019 to a surplus of ₱1.5 billion as of end-2022. As such, total equity increased from ₱11.4 billion as of end-2019 to ₱15.6 billion as of end-2022.

Average equity to assets ratio was 12.2%, from 2019 to 2022. Since 2019, PBCom's capital adequacy ratio (CAR) remained well above the minimum 10% regulatory requirement. CAR as of end-2022 was 17.1%, slightly higher compared to the 16.5% as of end-2019.

The bank's non-performing assets (NPA) to equity, on the other hand, was minimal at 3.5% as of end-2022. Such was primarily attributed to the notable decrease in NPL in 2022.

There were no dividends declared since 2019.

## 2023

As of end-2023, PBCom's total assets further grew to ₱147.5 billion, an 18.1% increase from a year ago. Such was the highest asset growth for the past five years. The growth remained driven by the increase in loans and receivables to ₱91.8 billion, as well as the by the hike in investment securities at amortized cost to ₱27.8 billion.

Similarly, the bank's equity continued to expand as of end-2023, recording a 13.4% increase to ₱17.7 billion. Equity to assets as of end-2023 was 12.0%, marginally lower compared to 12.5% in 2022. The bank's NPA to equity ratio improved from 3.5% in 2022 to 3.3% in 2023.

CAR as of end-2023 was 16.6%, slightly lower compared to the 17.1% as of end-2022, but still exceeding minimum regulatory requirements.

## Interim June 2024

As of end-June 2024, the bank's equity to assets ratio improved to 12.4%. Total assets increased to ₱148.6 billion, from ₱147.5 billion as of end-2023. While the bank recorded a notable decline in investment securities at amortized cost due to the maturity of HTC investments, such was offset by the purchase of financial assets classified at FVOCI. Loans and receivables stood at ₱90.0 billion, as of end-June 2024.

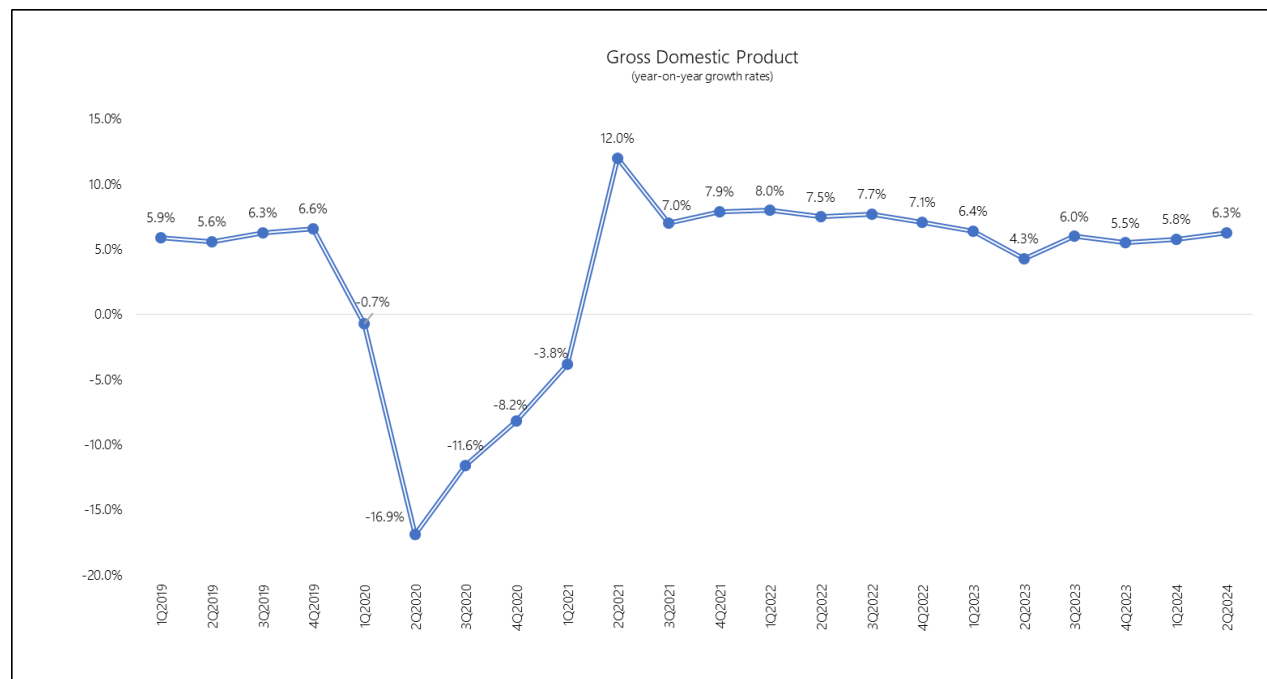
Total equity inched up by 4.1% to ₱18.4 billion owing to the continued plowback of earnings to operations. The bank's CAR also inched up to 16.4%, as of end-June 2024.

## Projected Period (2024-2026)

The bank's equity to assets ratio is expected to remain relatively unchanged over the projected period. Equity will continue to increase on account of the steady plowback of earnings, while asset expansion will continue on the back of loan portfolio growth. PBCom is also seen to remain compliant with the CAR requirements.

**ECONOMY**

Figure 10. Historical Gross Domestic Product (%)



**2023**

In 2023, the Philippine economy grew by 5.6%. This is slower compared with the 7.6% growth in 2022, and short of the government’s growth target of 6.0% to 7.0%.

Agriculture, Forestry, and Fishing grew by 1.2%, a significant improvement from the sector’s minimal growth of 0.5% in 2022. The Industry and Services sectors, on the other hand, recorded slower growths compared to 2022, expanding by 3.6% and 7.2%, respectively.

The top contributors to the 2023 growth were Wholesale and retail trade, repair of motor vehicles and motorcycles (+5.5%); Financial and insurance activities (+8.9%); and Construction (+8.8%).

Household Final Consumption Expenditure (HFCE) expanded by 5.6% in 2023, slower compared with the 8.3% growth in 2022. HFCE growth slowed down for seven consecutive quarters, from 10.0% in 1Q2022 to 5.1% in 3Q2023. Household consumption then recorded a slight uptick to 5.3% in 4Q2023, backed by robust growth in spending for restaurants and hotels, transport, and recreation. Slow growth in food spending persisted however, despite the moderation in inflation, due to still elevated food prices.

Government Final Consumption Expenditure (GFCE) was relatively flat, recording a 0.4% growth in 2023. This was much lower than the growth recorded in 2022 of 4.9%. The slower growth was attributed to the fiscal consolidation program as well as the absence of election-related spending in 2023.

Nonetheless, the country was Southeast Asia’s fastest-growing economy in 2023, surpassing Vietnam and Malaysia which held the top spots in 2022.<sup>9</sup>

<sup>9</sup> <https://www.bloomberg.com/news/articles/2024-01-31/philippine-economy-grows-faster-than-expected-5-6-last-quarter>

## 2Q2024

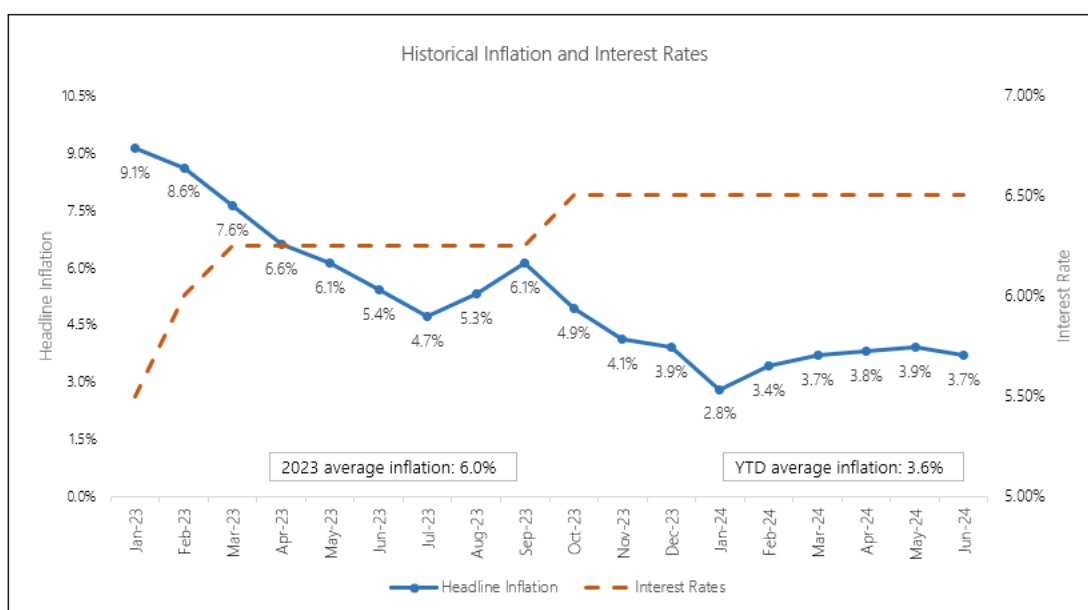
In second quarter 2024 (2Q2024), Gross Domestic Product (GDP) expanded by 6.3% year-on-year (YoY), higher than the 5.8% growth in the previous quarter. Such puts the average GDP growth at 6.0%, on track to meet the government’s full-year target of 6.0% to 7.0%. The main contributors to the quarter’s growth were: Construction (16%); Wholesale and retail trade, repair of motor vehicles and motorcycles (5.8%); and Financial and insurance activities (8.2%). The 2Q2024 growth was higher compared to the 4.3% growth in 2Q2023 and the 6.2% consensus estimate in a Reuters poll.

While HFCE expanded by 4.6% in 2Q2024, it was lower compared to the 5.5% growth in 2Q2023 and unchanged from the previous quarter. According to National Economic and Development Authority (NEDA) Secretary Arsenio Balisacan, the growth in household spending is not as strong as expected since consumers still felt the effects of high inflation and interest rates.

Government spending increased by 10.7%, a notable improvement from the 1.7% growth recorded in the previous quarter owing to the infrastructure projects, defense equipment upgrades and preparations for the upcoming 2025 midterm polls.

### Inflation and Interest Rates<sup>10 11</sup>

Figure 11. Historical Inflation and Interest Rates



Headline inflation for the month of June 2024 stood at 3.7%, easing from 3.9% in the previous month. Such was also below the median of analysts’ forecasts for the month of June. The slowdown in prices in June 2024 were due to lower inflation rates for housing, water, electricity, gas and other fuels, transportation, as well as restaurants and accommodation services.

Food inflation, the primary contributor to headline inflation with a share of 60.3%, inched up to 6.5% in June 2024, from 6.1% in the previous month. Such increase was attributed to the faster price hikes of vegetables, tubers, plantains, cooking bananas and pulses.

<sup>10</sup> <https://psa.gov.ph/price-indices/cpi-ir>

<sup>11</sup> <https://www.bworldonline.com/top-stories/2024/07/08/606536/bsp-still-hints-at-rate-cut-in-august/>

The year-to-date (YTD) headline inflation for 2024 settled at 3.6%, falling within the government’s full-year target range of 2% to 4%. According to NEDA Secretary Arsenio Balisacan, overall inflation is expected to continue to decelerate and remain within the target range in the coming months. He further stated that the end of El Niño would help moderate the prices. Bank of the Philippine Islands (BPI) Lead Economist Emilio S. Neri, Jr. also shared the same sentiment, stating that inflation could have reached its peak and would remain within target range. He added that a price decrease could be expected given the lowered tax regime for agricultural products which will be implemented in July 2024.<sup>12</sup>

The Bangko Sentral ng Pilipinas (BSP) implemented a series of increases in the policy rate from 2.25% in May 2022 to 6.5% in October 2023 to mitigate the impact of inflation. In June 2024, the Monetary Board kept the policy rate unchanged at 6.5%—the highest in over 17 years. On August 15, 2024, the BSP finally cut the interest rate by 25 basis points to 6.25%. This was the first rate cut since November 2020. According to BSP Governor Eli Remolona, the country’s headline inflation is expected to be on a downtrend and remain within the 2% to 4% target range of the government.

## Outlook

The Development Budget Coordination Committee (DBCC) targets an economic growth ranging from 6.0% to 7.0% in 2024 and 6.5% to 7.5% in 2025. The BSP, however, expects GDP to settle below the government’s target due to higher global crude oil prices and the impact of high interest rate on domestic demand. Nonetheless, the BSP expects economic growth to improve in 2025, on account of stronger net exports and improved global conditions.<sup>13</sup>

Table 1. GDP Outlook/Estimate

Institution	2024E	2025E
Development Budget Coordination Committee's (DBCC) Target	6.0% - 7.0%	6.5% - 7.5%
Asean Macroeconomic Research Office (AMRO)*	6.1%	6.3%
Asian Development Bank (ADB)	6.0%	6.2%
International Monetary Fund (IMF)	6.0%	6.2%
World Bank	5.8%	5.9%

\*Projections were revised downwards

In July 2024, ASEAN+3 Macroeconomic Research Office (AMRO) cut its 2024 GDP outlook from 6.3% to 6.1%. Such was a result of the slower-than-expected economic expansion in 1Q2024. AMRO Chief Economist Hoe Ee Khor, however, noted that the lower forecasts is not just for the Philippines but also for other countries in the regions. He explained that the recovery in the external environment was weaker than expected.<sup>14</sup>

On the other hand, the Asian Development Bank (ADB) projected that the Philippine economy would grow by 6.0% in 2024 and 6.2% in 2025—the highest estimate for Southeast Asia. The moderating inflation and possible easing of monetary policy are expected to boost investment and household consumption. Moreover, government consumption is seen to rebound with the improvement in budget execution and procurement delays.<sup>15</sup>

Similarly, the International Monetary Fund’s (IMF) 2024 GDP forecast was unchanged at 6.0%. Such was on the back of stronger consumption demand, higher public and private investment, and a recovery in

<sup>12</sup> <https://www.pna.gov.ph/articles/1228450>

<sup>13</sup> <https://mb.com.ph/2024/5/28/article-2320>

<sup>14</sup> <https://business.inquirer.net/468967/ph-gdp-growth-estimate-for-%CA%BC24-cut-but-still-2nd-fastest-in-asean>

<sup>15</sup> <https://www.adb.org/news/adb-raises-developing-asia-and-pacific-economic-growth-forecast-2024>

exports. IMF, however, noted that high interest rates and climate-related shocks could negatively affect economic growth, while stronger foreign investment and improved competitiveness could lead to long-term growth. For 2025, IMF estimated a GDP growth of 6.2% for the Philippines.<sup>16</sup>

World Bank also retained its growth projection for the country at 5.8% in 2024 and 5.9% in 2025, lower than the government's target. Such expectation hinged on the possible inflation deceleration which would support domestic consumption.<sup>17</sup>

## BANKING INDUSTRY<sup>18</sup>

As of end-February 2024, the Philippines had 22 universal banks, 22 commercial banks, 42 thrift banks, 366 rural banks, 22 cooperative banks, and 6 digital banks. UKBs continued to account for more than 93.9% and 92.7% of the banking system's total assets and loans, respectively.

According to the BSP's latest report on the Philippine Financial System, the banking industry showed robust performance in 2023, recording sustained growth in assets, loans, deposits, and earnings. The industry also remained healthy with capital and liquidity ratios well above minimum BSP and international standards, providing adequate cushion against unexpected economic shocks.

Table 2. Philippine Banking System's Balance Sheet Items

in Billion Pesos	2021	2022	2023	2022 vs 2023 variance
Total Assets	₱20,828	₱23,048	₱25,166	₱ 2,118
Investment, gross	₱ 5,221	₱ 6,208	₱ 6,786	₱ 579
Loans, gross	₱11,391	₱12,625	₱13,860	₱ 1,235
Total Liabilities	₱18,254	₱20,342	₱22,097	₱ 1,755
Deposits	₱16,241	₱17,770	₱19,033	₱ 1,262
Total Capital Accounts	₱ 2,574	₱ 2,706	₱ 3,069	₱ 363

The banking sector's total assets grew by 9.2%, from ₱23.0 trillion as of end-2022 to ₱25.2 trillion as of end-2023. Such growth, however, was slower compared with the 10.7% expansion recorded in 2022 and the 11% pre-pandemic average. The 2023 asset growth was on account of stable domestic deposits which were channeled to banks' lending and investing activities. Loans and investments comprised approximately 80.0% of the industry's total assets.

As of end-2023, deposits grew by 7.1% to ₱19.0 trillion, while lending and investing activities grew by 9.8% to ₱13.9 trillion and 9.3% to ₱6.8 trillion, respectively. Due to the higher growth of lending and investment activities, gross loans to deposit ratio of the banking sector inched up from 71.0% as of end-2022 to 72.8% as of end-2023.

### Capital Adequacy

CAR of the UKBs on a solo and consolidated bases were above the minimum thresholds of 10% and 8.0% set by the BSP and the Bank for International Settlements (BIS), respectively. In particular, CAR of UKBs (including their subsidiaries) increased from 16.1% as of end-2022 to 16.9% as of end-2023. Stand-Alone

<sup>16</sup> <https://www.imf.org/en/News/Articles/2024/06/10/pr-24211-philippines-imf-staff-concludes-visit>

<sup>17</sup> <https://www.gmanetwork.com/news/money/economy/908945/world-bank-retains-5-8-economic-growth-outlook-for-ph-in-2024/story/>

<sup>18</sup> [https://www.bsp.gov.ph/Media\\_And\\_Research/Publications/ReportonRecentTrends2023-12.pdf](https://www.bsp.gov.ph/Media_And_Research/Publications/ReportonRecentTrends2023-12.pdf)

CAR likewise increased in 2023, from 15.4% to 16.4%. The domestic banking system therefore was seen as adequately capitalized.

### Asset Quality

The banking industry continued to have a low NPL ratio of 3.2% as of end-2023, unchanged from a year ago. This was despite the 12.6% increase in NPLs due to the elevated interest rate. Such increase in NPLs was offset by the growth in total loans. UKBs' NPL ratio, however, inched up to 3.0% as of end-2023, marginally higher than last year's 2.9%.

Table 3. PH Banking System and UKB's NPL ratio and coverage

NPL Ratio	2021	2022	2023
Banking Industry	4.0%	3.2%	3.2%
UKBs	3.6%	2.9%	3.0%
NPL coverage	2021	2022	2023
Banking Industry	105.7%	107.0%	101.7%
UKBs	92.8%	113.8%	107.5%

In terms of coverage, the industry had ample NPL coverage at 101.7%, albeit lower than the 107.0% coverage recorded in 2022. Similarly, UKBs' NPL coverage ratio declined from 113.8% to 107.5%, as NPL growth outpaced the increase in UKBs' loan loss reserves.

### Profitability

The banking industry also remained profitable, with a net profit of ₱356.7 billion in 2023, a 15.0% increase from the previous year. This growth, however, was slower compared to the 38.0% increase in 2022. The increase in interest income was primarily on account of lending to private corporations/households and investments in securities. In 2023, interest income grew by 41.2% to ₱1.3 trillion. Such, however, was offset by the 137.2% increase to ₱371 billion in interest expense amid the high interest environment.

Return on assets and return on equity stood at 2.0% and 11.4%, respectively, as of end-2023. Such was lower compared to the 3.0% and 16.9% recorded in 2022.

### Outlook<sup>19,20</sup>

According to Fitch, the country's banking sector is expected to remain broadly stable in the next 12 to 18 months. The agency projects the sector's 2024 revenue to be buoyed by high NIMs, sustained increase in higher-yielding consumer lending and rollout of key infrastructure projects.

Fitch also expects loan growth to remain healthy for 2024, following the expected implementation of infrastructure projects with private sector participation. The agency expects an 11.5% growth on the sector's credit activities in 2024. Such also hinged on the agency's economic growth outlook of 5.8%.

Asset quality is also expected to remain manageable despite the higher interest rate environment. Consumer lending is seen to continue to show strong growth, and although such will increase risk on banks' loan portfolio, the healthy economy could temper near-term impairment of loan portfolios. Moreover, big corporates continue to hold adequate financial buffers for their projected debt-servicing needs.

<sup>19</sup> <https://www.fitchratings.com/research/banks/philippine-banks-sector-outlook-improving-on-slower-rate-cuts-faster-loan-growth-10-06-2024>

<sup>20</sup> <https://business.inquirer.net/456707/2024-shaping-up-to-be-another-banner-year-for-philippine-banks>

## APPENDICES

## Appendix I. Breakdown of Non-Performing Loans

Type of Loans (millions)	2019	2020	2021	2022	2023
Corporate Loans	₱53,849	₱52,764	₱60,278	₱73,726	₱88,530
Consumer - Home	₱4,841	₱4,469	₱3,637	₱3,244	₱2,927
Consumer - Auto	₱1,249	₱772	₱598	₱460	₱454
Consumer - Personal	₱1,123	₱440	₱213	₱67	₱41
Total Receivables from customers	₱61,062	₱58,445	₱64,726	₱77,498	₱91,952

Non-Performing Loans	2019	2020	2021	2022	2023
Corporate Loans	₱1,090	₱2,728	₱2,547	₱2,104	₱2,208
Consumer - Home	₱270	₱527	₱559	₱392	₱299
Consumer - Auto	₱436	₱185	₱127	₱63	₱19
Consumer - Personal	₱529	₱116	₱98	₱26	₱11

NPL to Total Loans	2019	2020	2021	2022	2023
Corporate Loans	1.8%	4.7%	3.9%	2.7%	2.4%
Consumer Loans	2.0%	1.4%	1.2%	0.6%	0.4%
Consumer - Home	0.4%	0.9%	0.9%	0.5%	0.3%
Consumer - Auto	0.7%	0.3%	0.2%	0.1%	0.0%
Consumer - Personal	0.9%	0.2%	0.2%	0.0%	0.0%

NPL ratio per product line	2019	2020	2021	2022	2023
Corporate Loans	2.0%	5.2%	4.2%	2.9%	2.5%
Consumer - Home	5.6%	11.8%	15.4%	12.1%	10.2%
Consumer - Auto	34.9%	23.9%	21.3%	13.6%	4.2%
Consumer - Personal	47.1%	26.3%	46.1%	38.9%	28.1%

Loans and Receivables (millions)	2019	2020*	2021*	2022	2023
Gross	₱63,418	₱61,192	₱67,518	₱79,871	₱94,653
Allowance for credit losses	₱2,161	₱2,490	₱2,732	₱2,947	₱2,879
Net	₱61,257	₱58,702	₱64,785	₱76,924	₱91,774

NPL Ratio to total loans	2019	2020*	2021*	2022	2023
Gross	₱2,325	₱3,555	₱3,332	₱2,585	₱2,537
%	3.7%	5.8%	4.9%	3.2%	2.7%
NPL Allowance	₱1,250	₱1,780	₱1,900	₱1,740	₱1,690
Net	₱1,075	₱1,775	₱1,432	₱845	₱847
%	1.8%	3.0%	2.2%	1.1%	0.9%

NPL Coverage	92.9%	70.0%	82.0%	114.0%	113.5%
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