

Bank of Philippine Islands (BPI PM)

FUNDAMENTAL VIEW ¹

As of 04 Mar 2024

- Bank of the Philippine Islands (BPI), the 3rd largest bank in the Philippines by assets, is rated Baa2(stable)/BBB+(stable)/ BBB-(stable).
- We view the bank as too big to fail given its systemic importance in the country. There is also a strong probability of support from the government in addition to its main shareholder, the Ayala Corporation if needed.
- BPI has a long history, and we view it as a fundamentally sound bank with prudent capitalization, well-managed asset quality, stable profitability, and comfortable liquidity.

RISKS & CATALYSTS

As of 04 Mar 2024

- Any downgrade of the Philippine sovereign ratings (Baa2/ BBB+/ BBB) would have a negative impact on BPI's credit ratings.
- BPI's asset quality has remained fairly resilient from risks posed by high interest rates. The recent focus on unsecured retail growth in order to gain market share and support the NIM when the interest rate cycle turns has put pressure on asset quality, but within acceptable levels thus far. Loss absorption buffers as well as provisioning capacity are strong, and the predominantly large corporate-focused loan book (~77% of total loans) is a key credit strength.
- Loan growth appears to be gaining momentum after a sluggish 9M23, particularly in the corporate capex space. The acquisition of Robinsons Bank opens BPI up to new customer segments such as teachers and motorcycle loans, although the current footprint is small.
- The rate cutting cycle is likely to commence in 2H24 which will have a net negative impact on the NIM, but the effect is likely to come through only in 2025.

CREDIT QUALITY SCORE (CQS)²

As of 22 Apr 2024

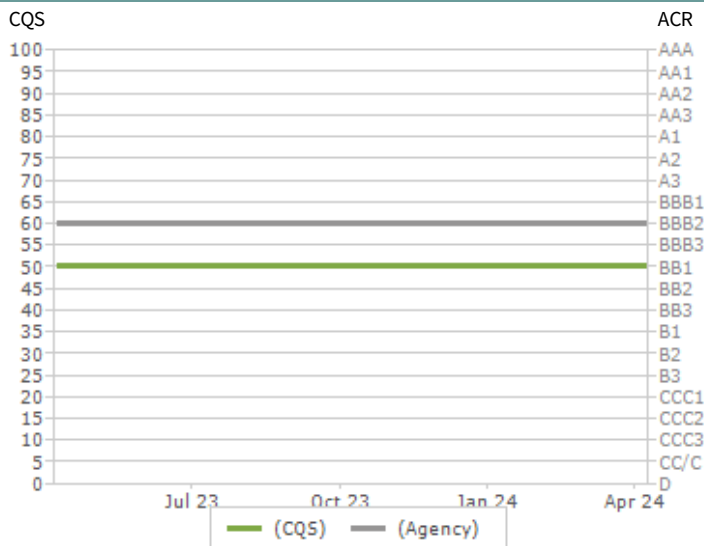
CURRENT CQS

50

CQS OUTLOOK³

NEGATIVE STABLE POSITIVE

HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR)⁴ VS CQS



KEY METRICS

As of 18 Mar 2024

PHP MN	FY19	FY20	FY21	FY22	FY23
PPP ROA	2.05%	2.42%	2.01%	2.41%	2.52%
Reported ROA (Cumulative)	1.38%	0.98%	1.10%	1.59%	1.93%
Reported ROE (Cumulative)	11.0%	7.7%	8.4%	13.1%	15.4%
Net Interest Margin	3.30%	3.49%	3.30%	3.59%	4.09%
CET1 Ratio	15.2%	16.2%	15.8%	15.1%	15.3%
Total Equity/Total Assets	12.2%	12.5%	12.1%	12.2%	12.4%
NPL Ratio	1.66%	2.68%	2.49%	1.76%	1.84%
Provisions/Loans	0.39%	1.94%	0.91%	0.58%	0.22%
Liquidity Coverage Ratio	167%	232%	221%	195%	207%
Net Stable Funding Ratio	131%	154%	155%	149%	154%

BUSINESS DESCRIPTION

As of 04 Mar 2024

- The history of the Bank of the Philippine Islands traces back to 1851. It is the oldest bank in the Philippines and South East Asia. It was first listed on the Philippine Stock Exchange in 1971, and became a universal bank in 1982.
- Ayala Corporation, one of the biggest conglomerates in the country, became BPI's dominant shareholder in 1969. Ayala Corp still holds a 49% stake in the bank.
- BPI has been acquisitive across the years. It merged with Far East Bank and Trust Company and acquired Ayala Insurance Holdings Corp in 2000. It acquired DBS Bank Philippines in 2001 and Prudential Bank Philippines in 2005. DBS was a shareholder of BPI but exited its position in 2013. More recently in 2022, it announced the acquisition of the Gokongwei conglomerate's Robinsons Bank.
- The bank is predominantly a corporate bank with 77% of its loan book outstanding to corporates, 1% to SMEs and 22% to retail as of YE23. The longer term target is to grow the retail and SME segment to a 30% share of loans.

GLOSSARY

- The Fundamental View** is our current assessment of credit quality and our expectation of how credit quality will trend over the next year or longer.
 - The Credit Quality Score (CQS)** is a number between 5 and 100. It is a medium-term credit score for corporates and financial institutions that utilizes a combination of sector fundamental scores and equity market signals. Values of CQS above 50 generally indicate investment grade credit quality.
 - The Credit Quality Score (CQS) Outlook** is the near-term (3 month) outlook for the CQS, based on its trend, volatility and distance from the adjacent CQS risk bucket.
 - The Agency Composite Rating (ACR)** is the average senior unsecured rating from one or more major rating agencies.
- Quantitative scores provided by CreditSights Analytics, LLC. Scores are shown are for the lesser of (1) 2 years and (2) date of CreditSights inception of quantitative coverage.

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