

Bank of Philippine Islands (BPI PM)

FUNDAMENTAL VIEW ¹

As of 13 Aug 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 14 Aug 2024

- Any downgrade of the Philippine sovereign ratings (Baa2/ BBB+/ BBB) would have a negative impact on BPI's credit ratings.
- Sustaining or further improving returns in 2024 is a challenge without the rates tailwind, so BPI has focused on unsecured retail growth, which has put pressure on asset quality, and paring down provision reserves. We see further AQ risks given prolonged high interest rates and inflation, but BPI's large corporates-focused book (73% of total loans) provide comfort and its provisioning capacity has improved meaningfully versus during or pre-pandemic.
- The acquisition of Robinsons Bank was completed on 1 January 2024 has weakened BPI's NPL cover and overall asset quality metrics but to a manageable extent. It opens BPI up to new customer segments such as teachers and motorcycle loans. The current footprint is small but we are wary of the brisk intended growth.

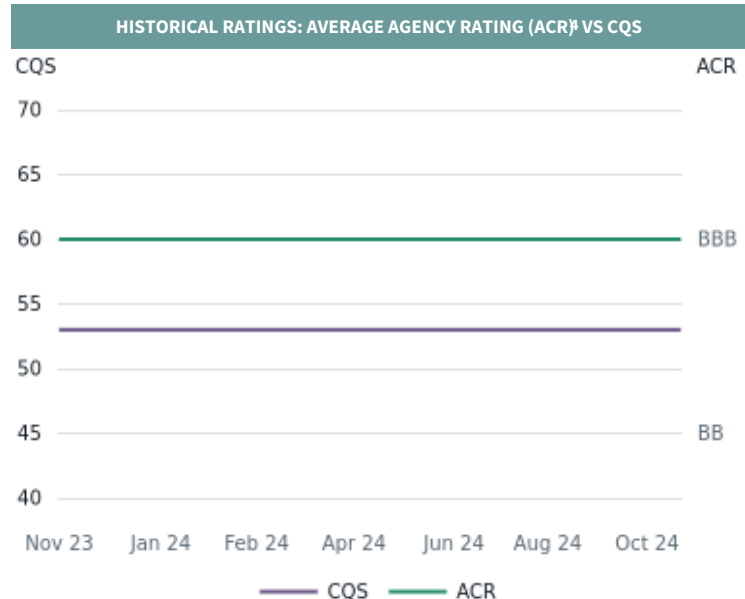
CREDIT QUALITY SCORE (CQS)²

As of 16 Oct 2024

CURRENT CQS



CQS OUTLOOK ³



KEY METRICS

As of 13 Aug 2024

PHP MN	FY20	FY21	FY22	FY23	1H24
PPP ROA	2.42%	2.01%	2.41%	2.52%	2.86%
Reported ROA (Cumulative)	0.98%	1.10%	1.59%	1.93%	2.00%
Reported ROE (Cumulative)	7.7%	8.4%	13.1%	15.4%	15.5%
Net Interest Margin	3.49%	3.30%	3.59%	4.09%	4.26%
CET1 Ratio	16.2%	15.8%	15.1%	15.3%	14.2%
Total Equity/Total Assets	12.5%	12.1%	12.2%	12.4%	13.1%
NPL Ratio	2.68%	2.49%	1.76%	1.84%	2.20%
Provisions/Loans	1.94%	0.91%	0.58%	0.22%	0.31%
Liquidity Coverage Ratio	232%	221%	195%	207%	n/m
Net Stable Funding Ratio	154%	155%	149%	154%	n/m

BUSINESS DESCRIPTION

As of 13 Aug 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 January 2024, it completed the acquisition of the Gokongwei conglomerate's Robinsons Bank.
- The bank is predominantly a corporate bank with 73% of its loan book outstanding to corporates, 1% to MSMEs and 26% to retail as of 2Q24. 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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