PhilRatings
PHILIPPINE RATING SERVICES CORPORATION

RATING REPORT

BANK OF COMMERCE

Date: February 7, 2025
Analysts: Aline Lei A. Abon
Joan Grace P. Bual

5th Floor, ALGO Center
162 LP Leviste St., Salcedo Village
Makati City, Metro Manila
1227 Philippines

+632 812 3210
+632 812 3215
www.philratings.com.ph

ISSUER CREDIT RATING: PRS Aa plus (corp.)
OUTLOOK: Stable Outlook

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 "plus" 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

1. Opportunities arising from universal banking license

   Bank of Commerce (BankCom) is one of the newest universal banks (unibanks) in the Philippines, having received its certificate of authority to operate as a unibank in November 2022. Its unibank license is seen as a key catalyst in BankCom's long-term growth and further diversification of its income streams, given the new products and services that the bank can now offer.

   BankCom established its Investment Banking Group in 2022 as its first venture under its unibank license. Since then, the bank has been participating as a selling agent in capital market transactions, with the intention of increasing its involvement in these transactions in order to establish its track record and expertise in the market. Moving forward, the bank also plans to foray into bancassurance, with fee income from this business expected to come in in the near future. Given that BankCom would be able to carry a wider range of products particularly catering to companies under expansion (e.g., financial advisory, initial public offerings, mergers and acquisitions, project finance), the bank anticipates enhanced marketing relationships with its existing and prospective clients in the large corporate and middle market segments.

2. Synergies with the San Miguel Group

   BankCom is an affiliate and the banking arm of San Miguel Corporation (SMC), one of the country's largest and most diversified conglomerates. SMC's portfolio includes companies with strong brand recognition and well-entrenched market leadership in their respective industries. For the past five years, the SMC Group's revenues comprised at least 4% of the country's Gross Domestic

Product (GDP). As of report writing date, SMC's P141.6 billion outstanding bonds have issue credit ratings of PRS Aaa, with a Stable Outlook.

As part of its growth strategy, BankCom plans to continue to leverage its access to SMC's ecosystem. Acknowledging the need to control its exposure to SMC affiliates, the bank has developed new loan programs that cater to SMC's network of customers, trade partners, suppliers, vendors, distributors, contractors, and employees, among others. As of end-September 2024, loans to the SMC ecosystem accounted for a modest share of BankCom's loan portfolio, indicating that there is ample room to further tap this particular market. Going forward, the bank aims to further deepen its penetration of the SMC ecosystem via loan products that are uniquely tailored for such borrowers.

3. Satisfactory asset quality

BankCom's gross non-performing loans (NPL) ratio further improved, from 2.3% as of end-2022 to 1.7% as of end-September 2024. The latter also compared favorably against the 2019 pre-pandemic ratio of 2.1%. The improvement was supported by a favorable combination of declining NPLs and loan portfolio expansion. In addition, the share of investment properties to total assets was relatively stable and minimal at 1.6% as of end-2023 and 1.7% as of end-September 2024.

The bank's loan portfolio remained well-diversified based on industry concentration, as of end-September 2024. BankCom's largest exposures were in: electricity, gas, steam and air-conditioning supply; real estate activities; and construction. The loan book was also highly-diversified in terms of individual borrowers, with the biggest exposure having a minimal share. PhilRatings also positively notes that the loans of the bank's top ten borrowers were all current, as of end-September 2024.

4. Sustained improvement in profitability

BankCom sustained its bottom line growth and posted a record-breaking net income of P2.8 billion in 2023. This was a significant growth of 55.8% from the net income of P1.8 billion in 2022. The surge in the bank's earnings was supported by higher revenues, coupled with controlled growth in operating expenses. Revenues jumped by 22.9% to P10.0 billion driven by the lending business, backed by the high-interest rate environment and higher loan volume. Operating expenses (excluding provision for credit and impairment losses) posted a slower growth of 12.3%. In addition, BankCom's provision for credit and impairment losses was significantly reduced to P78.8 million from P166.2 million in the previous year, in line with the improvement in the bank's asset quality. BankCom's return on average assets (ROAA) rose to 1.2% in 2023 from 0.9% in 2022, and was also the bank's highest since 2015.

Net income posted a sustained, albeit modest, growth of 10.0% in the first nine months of 2024 (9M2024). Net income in 9M2024 amounted to P2.2 billion, up from P2.0 billion in 9M2023. The increase was similarly backed by the combination of revenue growth and controlled increase in operating expenses. The bank registered a higher ROAA of 1.3% for the period.

PROFILE

BankCom, an affiliate of SMC, is one of the country's recently-licensed unibanks. It received its certificate of authority to operate as a unibank in November 2022. The bank has been operating since 1963, tracing its origins to the Overseas Bank of Manila. In 2008, SMC bought into the bank and became a major stakeholder through the voting stake of San Miguel Properties, Inc. (SMPI). The entry of the San Miguel Group, one of the largest and most diversified conglomerates in the Philippines, is seen as positively contributing to BankCom's credit profile.

The bank successfully made its stock market debut in March 2022 with a P3.4 billion initial public offering (IPO). Ramon S. Monzon, President of the Philippine Stock Exchange (PSE), commented during BankCom's listing that the IPO was to comply with BankCom's unibank license application, as there was really no pressing need for BankCom to raise capital, given that the bank's Common Equity Tier 1 and Capital Adequacy Ratio (CAR) far exceeded the minimum requirements of the Bangko Sentral ng Pilipinas (BSP).[1]

With the upgrade of BankCom's commercial banking license to a unibank license, the bank can now: (a) exercise the powers of investment houses; (b) invest in the equity of businesses not related to banking; and (c) own up to 100% of the equity in a thrift bank, rural bank or a financial allied or non-allied enterprise. Given that it will be able to carry a wider range of products that will particularly cater to companies under expansion (e.g., financial advisory, IPOs, mergers and acquisitions, project finance), the bank anticipates enhanced marketing relationships with its existing and prospective clients in the large corporate and middle market segments.

BankCom established its Investment Banking Group in 2022 as its first venture under its unibank license. Since then, the bank has been participating as a selling agent in capital market transactions, with the intention of further increasing its involvement in these transactions. Going forward, the bank also plans to foray into bancassurance, with fee income from this business expected to come in in the near future.

BankCom offers an extensive range of products and services in deposits, commercial loans, credit card services, consumer banking, transaction banking, corporate banking, investment banking, treasury, asset management, and trust and investments. These products and services are delivered through the bank's nationwide network of 140 branches and 267 automated teller machines (ATMs), as of end-September 2024. In addition, BankCom has retail and corporate internet banking facilities, which were relaunched with enhanced features to encourage consumers and corporate clients to transact regular banking services via the bank's internet banking platform.

In 2023, the bank completed the re-fleeting of its ATM network using part of the proceeds from its IPO. The new machines offer advanced security features and user-friendly touch screen interface. The ATM re-fleeting project is one of the priority items under BankCom's five-year information technology (IT) investment and digitalization program.

Of the bank's branches, 62 are located in Metro Manila, 43 in Luzon (outside of Metro Manila), 22 in Visayas, and 13 in Mindanao. The expanse of its geographical footprint is in line with the nationwide reach of the SMC ecosystem, allowing the bank to maximize its synergies and cross-sell with the SMC Group and the broader SMC ecosystem. Moreover, 56% of BankCom's branches are located outside Metro Manila,

[1] https://mb.com.ph/2022/3/31/bankcom-marks-successful-debut-at-pse

particularly in emerging high growth regions, enabling the bank to capitalize on the flourishing economies of these areas.

BankCom does not have any subsidiaries. The bank, however, has a 24.3% equity investment in BIC Management and Consultancy, Inc. (formerly BIC Investment and Capital Corporation). BIC, which had an asset size of P159.0 million as of end-2023, is primarily engaged in financial management and consultancy. BankCom has significant influence but no control and participation in the operations of BIC.

Currently, BankCom also has a 3.1% equity interest in Banco National de Guinea Equatorial (BANGE). Similar to BIC, BankCom does not have control nor participation in BANGE's operations. BANGE, established as a universal commercial bank, is a banking entity present in a large part of the Equatorial Guinean geography. The State of the Republic of Equatorial Guinea is the predominant shareholder of the bank.[2]

Market Share and Competition
Analysts' Note: Unless otherwise stated, ratios stated in the report are based on PhilRatings' calculations and may differ from those of the respective banks.

Table 1. Ranking and Market Share of BankCom (Universal and Commercial Bank Group)

	December 31, 2022		December 31, 2023		September 30, 2024	
	Rank	% Share	Rank	% Share	Rank	% Share
Total Assets	14	1.00	15	0.98	15	0.93
Total Stockholders' Equity	14	1.10	13	1.06	13	1.04
Total Deposit Liabilities	14	1.05	14	1.04	14	1.03
Total Loans and Receivables, net	13	1.03	13	1.01	14	0.94

Source: Bangko Sentral ng Pilipinas (BSP)

BankCom's ranking among universal and commercial banks in the Philippines has generally been stable since 2022, while its market share marginally declined. As of end-September 2024, BankCom was the 15th and 13th largest bank in terms of assets and capital, respectively. It ranked 14th in terms of deposits as well as loans (net). BankCom's market share—in terms of assets, capital, deposits, and loans (net)—hovered at a minimal 1.0%. It should be noted that the domestic banking industry's resources are concentrated in the top four banks in the country, which together accounted for 57.0% of the aggregate assets of universal and commercial banks as of end-September 2024. Moreover, the top ten banks accounted for 87.4% of the sector's combined assets. BankCom's assets was equivalent to 5.1% of the total assets of the country's largest bank, BDO Unibank Inc., which had an asset base of P4.6 trillion as of end-September 2024.

Table 2. PRS-Rated Universal Banks

Bank	Total Assets as of September 30, 2024 (in millions PHP)	Assigned Issuer Credit Rating
China Banking Corporation (Chinabank)	1,595,307	PRS Aaa (corp.)
East West Banking Corporation (EastWest)	497,032	PRS Aa plus (corp.)
Bank of Commerce (BankCom)	235,051	PRS Aa plus (corp.)
Philippine Bank of Communications (PBCOM)	158,387	PRS Aa minus (corp.)

[2] https://es.wikipedia.org/wiki/Banco_Nacional_de_Guinea_Ecuatorial

Among the four PRS-rated unibanks, BankCom had the second smallest asset base, ahead of PBCOM which ranked last. EastWest was larger than BankCom, while Chinabank was notably much bigger than the others. In terms of ROAA, BankCom also lagged with 1.2% in 2023 and 1.3% in 9M2024, although such were close to those of its PRS-rated peers: Chinabank (1.6% for both periods), EastWest (1.4% and 1.6%), and PBCOM (1.4% and 1.6%).

BankCom's ROAA inched up closer to that of its peers beginning in 2022, in line with an observed uptrend in the bank's net loans to deposits ratio (LDR). As of end-September 2024, BankCom's LDR stood at 66.8%. Chinabank's LDR was slightly lower at 65.7%, while the LDR of PBCOM and EastWest were higher at 76.6% and 86.7%, respectively.

Current and savings accounts (CASA) deposits accounted for a more significant chunk of the total deposits of BankCom, with a share of 87.2% as of end-September 2024. EastWest followed with 78.6%, while PBCOM and Chinabank had relatively low CASA ratios of 43.9% and 43.7%, respectively.

Based on information from the BSP website, Chinabank and BankCom had relatively low gross NPL ratios as of end-September 2024: Chinabank at 1.5% and BankCom at 1.7%. Gross NPL ratios of PBCOM and EastWest were higher at 3.4% and 5.1%, respectively.

All PRS-rated unibanks ended September 2024 with a CAR that is well-above the 10.0% minimum set by the BSP. BankCom had the highest CAR of 18.3%. PBCOM, Chinabank, and EastWest registered CARs of 17.1%, 15.7%, and 13.7%, respectively.

OWNERSHIP

As of end-September 2024, SMPI and San Miguel Corporation Retirement Plan (SMCRP) maintained their ownership of 31.9% and 30.8%, respectively, of BankCom's common shares. SMPI, which is 99.9%-owned by SMC, is primarily engaged in the acquisition, development, sale or lease of properties. On the other hand, SMCRP is the registered retirement plan of SMC Group employees. SMC Equivest Corporation (SMCEC), a wholly-owned subsidiary of SMC, held 100% ownership of the bank's non-voting preferred shares.

SMC is one of the largest and most diversified conglomerates in the Philippines. Having started as a single-product brewery in 1890, it has since expanded its business interests to various sectors, such as food and beverage, packaging, energy, fuel and oil, infrastructure, cement, property, and banking services. Moreover, SMC's portfolio includes companies with strong brand recognition and well-entrenched market leadership in their respective industries. In 2023, the SMC Group's P1.4 trillion revenues represented approximately 6% of the country's GDP. For the past five years, SMC's GDP share had been at least 4%.[3] Consolidated assets of the SMC Group stood at P2.6 trillion as of end-September 2024. As of report writing date, SMC's P141.6 billion outstanding bonds have issue credit ratings of PRS Aaa, with a Stable Outlook.

Based on its latest publicly available financial statements, SMPI ended 2023 with an asset size of P60.5 billion, slightly up by 2.2% from a year ago. Consolidated net income grew by 13.5%, from P372.0 million in 2022 to P422.3 million in 2023. Bottom line growth was backed by the 29.6% jump in revenues, from P2.1 billion to P2.8 billion. While operating margin improved from 23.4% in 2022 to 25.6% in 2023, net profit margin inched down from 17.4% to 15.3%. ROAA, on the other hand, was unchanged at 0.7%.

[3] SMC's Annual Reports

Interest coverage ratio was 1.5x, lower than the previous year but still more than adequate. Current ratio stood at 1.0x, while debt to equity ratio remained conservative at 0.3x as of end-2023.[4]

Loans to directors, officers, stockholders, and related interests (DOSRI) amounted to a minimal P0.1 million as of end-September 2024, indicating BankCom's compliance with BSP regulations on DOSRI loans and transactions.

MANAGEMENT

Ambassador Francis C. Chua remains as Chairman of BankCom's Board of Directors. Ambassador Chua has been a member of the Board since May 2008, and was Vice Chairman of the Board from 2013 until his appointment as Chairman in February 2022. He has reportedly been instrumental in promoting BankCom in the business community and in marketing its products and services. Ambassador Chua remains as the Chairman Emeritus of the Philippine Chamber of Commerce and Industry, Inc. (PCCI), and is the Honorary Consul General of Peru to the Philippines. He also currently sits as a Board member of various companies such as BA Securities Inc. and National Grid Corporation of the Philippines (NGCP).

The bank's management is led by Michelangelo R. Aguilar, its President and Chief Executive Officer (CEO) since July 2018. Mr. Aguilar has over 40 years of banking experience, particularly in the areas of Corporate and Investment Banking, Global Markets and Treasury. He held senior management positions in various international and domestic banks before joining BankCom.

Effective June 2024, Annalyn Delos Santos is Head of the Branch Banking Group (BBG), following the resignation of Joel T. Carranto due to personal reasons. Ms. Delos Santos has been with BankCom since 2011. She was Area Head of the BBG for the Manila Central Area (2011–2015), Makati Area (2015–2018), and Metro Manila Area (2019–2020). In March 2020, she was promoted to Division Head of the Metro Manila Division II of the bank's BBG.

Melanie P. Santos is the new Head of Human Resources Management and Development Division (HRMDD), effective September 2024. She took over the position following the early retirement of Marie Kristin G. Mayo. Ms. Santos was the Chief Human Resource Officer of Union Digital Bank, a wholly-owned subsidiary of UnionBank of the Philippines. She has over 25 years of HR experience in domestic banking as well as in the Association of Southeast Asian Nations (ASEAN) region.

Don Carlo P. Hernandez was also recently appointed as Chief Trust Officer, effective November 2024. He replaced Gamalielh Ariel O. Benavides, who resigned to pursue other initiatives in the asset management industry. Prior to joining BankCom, Mr. Hernandez was Vice President and Head of Trust in Maybank Philippines beginning 2023. From 2010 to 2023, he was with Metrobank in various capacities, starting his career as Treasury Trader and eventually becoming Global Markets Department Head for Trust Investments. Mr. Hernandez is a Chartered Financial Analyst (CFA), Securities and Exchange Commission (SEC)-licensed Fixed Income Salesman, and Certified Treasury Professional. In 2017, he obtained a Certificate in Trust Operations and Investment Management from the Trust Institute Foundation of the Philippines.

BankCom had a total of 1,984 employees as of end-September 2024. Of the total, 1,017 were engaged in a professional management capacity and classified as bank officers, while 967 were rank and file

[4] Ratios are based on PhilRatings' calculations, which may differ from that of the company.

employees. Staff employees are members of the Bank of Commerce Employees Union (BCEU). None of the bank's employees have been on strike in the past three years. To the best knowledge of management, there are no outstanding threats to strike from BCEU, as of report writing date.

While BankCom is involved in various pending legal proceedings, claims, and investigations, none of these are seen by the bank as having a material adverse effect on its operations or financial position.

Strategy

BankCom's strategic vision is to grow in the coming years in order to achieve economies of scale, improve efficiency, and be at par with the country's leading domestic banks. The bank envisions a new era of growth with the upgrade of its status, maximizing opportunities in relation to additional products, services, and functions allowed under its unibank license. BankCom identified the following strategies to achieve its objectives:

1. Achieve scale and sustainable growth/client expansion by leveraging the broader SMC ecosystem
2. Leverage its universal banking license to expand product suites and service offerings
3. Invest in IT infrastructure and financial technology to improve customer service and touchpoints
4. Increase profitability though return-on-equity expansion as well as growth of its fee income business
5. Build deeper relationships and activate cross-sell opportunities by focusing on customer needs
6. Commitment by shareholders to environment, social and governance (ESG) framework, regulatory compliance, and the culture of "malasakit"

The bank will continue to leverage its access to the SMC ecosystem as part of its growth strategy. Acknowledging the need to control the bank's exposure to SMC affiliates, BankCom developed new loan programs intended to cater to SMC's network of customers, trade partners, suppliers, vendors, distributors, contractors, and employees, among others. Examples of these new loan programs include Petron Dealers' Financing Program, Haulers' Financing Program, and SMC Ecosystem Financing. According to the bank, it continues to onboard dealers of different SMC subsidiaries as well as their suppliers. As of end-September 2024, loans to the SMC ecosystem accounted for a modest share of BankCom's loan portfolio, indicating that there is ample room to further tap this particular market. Moving forward, the bank aims to further deepen its penetration of the SMC ecosystem via loan products that are uniquely tailored for such borrowers.

Environmental, Social and Governance (ESG)

BankCom has established an ESG Framework according to its Board-approved transition plan. Its ESG priority areas are as follows:

1. Business Model and Innovation – The bank commits to deliver banking services through competent and attentive individuals, innovative digital solutions, and segment-driven programs that put customers' needs first.
2. Human Capital – BankCom provides skills training and focuses on employee engagement, with the aim of nurturing an innovative, customer-focused, and resilient team.
3. Leadership and Governance – The bank strives to be vigilant in maintaining sound banking practices through a rigorous system of checks and balances based on risk management programs that are continually reassessed and updated.

4. Environment – BankCom aims to responsibly manage resources and continue to improve its operational efficiency. With its improved operational efficiency, it will minimize the impact of its internal processes to the environment.
5. Social – The bank endeavors to make banking inclusive, fair, and accessible to financial consumers while ensuring that its products and services are developed and operated in the best interest of its depositors and other stakeholders.

ASSET QUALITY

Analysts' Note: PhilRatings' calculation of certain ratios may differ from that of the bank.

BankCom's gross NPL ratio further improved from 2.3% as of end-2022 to 1.7% as of end-September 2024. The latter also compared favorably against the 2019 pre-pandemic ratio of 2.1%. The improvement was supported by a favorable combination of declining NPLs and loan portfolio expansion. Gross NPLs went down from P2.5 billion as of end-2022 to P2.1 billion as of end-September 2024. Investment properties, on the other hand, increased by 8.1% to P3.7 billion as of end-2023, and by an additional 5.7% to P3.9 billion as of end-September 2024. Its share to total assets was nevertheless relatively stable and minimal at 1.6% as of end-2023 and 1.7% as of end-September 2024.

Following a significant expansion of 41.3% in 2022, loans and receivables (net) grew at a more muted pace of 4.3% to P109.6 billion as of end-2023. Such further expanded by 15.0% to P126.0 billion as of end-September 2024. Loans to corporates comprised bulk of BankCom's total loans as of end-September 2024. Consumer loans were comprised of housing loans, auto loans and credit cards.

Based on industry concentration, the bank's loan portfolio was well-diversified as of end-September 2024. BankCom's largest exposures were in the following industries: electricity, gas, steam and air-conditioning supply; real estate activities; and construction.

BankCom's loan book was also highly-diversified in terms of individual borrowers, with the biggest exposure having a minimal share of the portfolio. PhilRatings also positively notes that the loans of the bank's top ten borrowers were all current, as of end-September 2024.

As of end-September 2024, bulk of the bank's total loans was unsecured. Collaterals for the secured loans were in the form of: real estate, deed of pledge, continuing surety agreement, deposit hold-out, chattel, deed of assignment, corporate guaranty, post-dated checks, and various collaterals on omnibus loan and security agreements.

Going forward, BankCom anticipates the sustained expansion of its loan book, supported by corporate and consumer loan growth through cross-selling and further penetration of the SMC ecosystem.

PROFITABILITY

Analysts' Note: PhilRatings' calculation of certain ratios may differ from that of the bank.

2023

Interest income jumped by 47.7% to P11.8 billion in 2023 from P8.0 billion in 2022. This growth was attributed to the significant increase in interest income on loans and receivables, which substantially grew by 50.9% to P8.2 billion, backed by a high-interest rate environment and higher loan volume. On the other hand, interest expense grew faster by 170.1% to P3.5 billion in 2023 from P1.3 billion in 2022. The increase was due to the 187.3% hike in interest expense on deposit liabilities, owing to elevated interest rates. Moreover, interest expense on bonds payable increased by 137.6% to P413.0 million, due to the issuance of BankCom's P7.5-billion Series A bonds which were due in 2024. Nevertheless, net interest income managed to grow by 24.2% and amounted to P8.3 billion in 2023, from P6.7 billion in 2022.

Other income rose by 17.0% to P1.7 billion in 2023, mainly on account of the 45.5% leap in gains on foreclosure and sale of property, equipment, and foreclosed assets. Gains in foreclosures grew to P495.4 million in 2023, from P340.4 million in 2022, in line with higher foreclosure-related revenues. BankCom's revenues expanded by 22.9% in 2023 to P10.0 billion.

Operating expenses (excluding provision for credit and impairment losses) recorded a slower increase of 12.3% to P6.2 billion in 2023, from P5.5 billion in 2022. Growth was primarily driven by compensation and fringe benefits expenses. In addition, BankCom's provision for credit and impairment losses was significantly reduced to P78.8 million from P166.2 million in the previous year, in line with the improvement in the bank's asset quality.

Supported mainly by higher revenues, the bank's net income surged by 55.8% to a record high of P2.8 billion, from P1.8 billion in 2022. ROAA also climbed to 1.2% in 2023 from 0.9% in 2022, and which was the bank's highest since 2015.

Interim September 2024

BankCom's interest income in 9M2024 amounted to P9.8 billion, posting an increase of 15.7% from P8.4 billion in 9M2023. The growth was driven by the hike in interest income on loans and receivables due to higher loan book balance. Moreover, interest income on financial assets at fair value through profit or loss expanded by more than three-fold, backed by significant gains from various investments and treasury notes.

Interest expense for the period, however, recorded a faster increase of 27.0% to P3.1 billion, mainly in relation to interest expense on deposit liabilities which grew by 27.4% to P2.6 billion. In addition, interest expense on bonds payable also went up by 34.2% to P415.4 million due to the bank's new P6.6-billion Series B bond issuance. Nevertheless, net interest income managed to grow by 11.2% to P6.8 billion for the period. Net interest income to average assets ratio likewise improved to 3.8% in 9M2024, compared with 3.6% in 9M2023.

Other income slightly grew by 5.0% to P1.3 billion due to gains in trading and investment securities (from losses a year ago), as well higher service charges, fees, and commissions. As a result, revenues in 9M2024 amounted to P8.0 billion, a 10.2% growth compared with P7.3 billion in 9M2023.

Operating expenses increased by 13.3% in 9M2024 to P1.4 billion, driven by higher compensation and fringe benefits expenses due to a combination of hirings and improved employee retention. This translated to a higher expense (excluding loss provisions) to average assets ratio of 2.8% compared with 2.6% in 9M2023. The bank's provision for credit and impairment losses slightly decreased to P199.5 million, from P222.4 million in the same period last year.

Bottom line for the period posted a modest growth of 10.0%, in contrast to the significant increase from a year ago. Net income amounted to P2.2 billion in 9M2024, up from P2.0 billion in 9M2023. ROAA registered an uptick, from 1.2% in 9M2023 to 1.3% in 9M2024.

Projected Period (2024-2026)

BankCom expects its core business to sustain its revenue uptrend. Bottom line is projected to post continued growth, backed by the prudent management of operating expenses. On the other hand, forecast provisioning is conservative despite improvement in the bank's asset quality. Provisions for credit losses are seen to increase in line with the forecasted loan book growth and loss provisioning requirements.

The ratio of expenses (excluding provisions) to average assets ratio will be at par with historical numbers, indicating that BankCom intends to keep a tight rein on the growth of its operating expenses moving forward. ROAA will remain stable from 2024 to 2026.

ASSET-LIABILITY MANAGEMENT

Deposit liabilities continued to account for bulk of total liabilities at P185.9 billion (92.6%) of total liabilities as of end-2023. Deposits grew by 5.5%, from P176.3 billion as of end-2022, driven by the 7.9% increase in savings deposits; the latter represented 59.0% of total deposits as of end-2023. Demand deposits (29.4% of total deposits) likewise expanded by 5.4% as of end-2023. The mentioned growths tempered the 6.5% decline in time deposits. CASA to total deposits ratio improved to 88.3%, from 87.1% as of end-2022.

As of end-September 2024, the share of deposits to total liabilities went up to 93.2%. CASA to total deposits ratio, however, inched down to 87.2%, although such is still within historical levels. The lower ratio was due to a combination of the 5.6% decline in savings deposits and the 15.0% uptick in time deposits. Deposit liabilities stood at P188.6 billion as of end-September 2024, marginally up by 1.4% from end-2023.

Bonds payable dropped to P6.5 billion as of September 30, 2024, from P7.5 billion as of end-2023, due to the maturity of the P7.5-billion Series A bonds on July 29, 2024. This was partially offset, however, by the issuance of P6.6 billion Series B bonds on May 9, 2024.

BankCom's LDR was on an uptrend, as the bank continued to grow its lending portfolio. LDR climbed to 66.8% as of end-September 2024, from 58.9% as of end-2023. Majority of the loans were long-term

Table 5 shows BankCom's foreign exchange risk, as of end-2023. In general, BankCom's foreign currency deposits were used to fund the foreign currency denominated loan and investment portfolios. As of end-September 2024, bulk of the bank's gross loans were in Philippine Peso.

Table 3. BankCom's Foreign Exchange Risk as of end-2023

	December 31, 2023			
	USD	Euro	Others	Total
Assets				
Due from other banks	$1,065	$1,188	$822	$3,075
Interbank loans	3,550	-	-	3,550
Financial assets at FVPL	-	1,747	-	1,747
Loans and receivables	1,950	20	-	1,970
Total Assets	6,565	2,955	822	10,342
Liabilities				
Deposit liabilities	-	736	2	738
Other liabilities	1,028	73	2	1,103
Total Liabilities	1,028	809	4	1,841
Net Exposure	$5,537	$2,146	$818	$8,501
Amount in PHP	P306,584	P118,824	P45,293	P470,701

Note: Amounts in thousands

Source: 2023 Audited Financial Statements

Projected Period (2024-2026)

Deposits are projected to continue expansion, primarily supported by the growth in the bank's CASA. Going forward, deposit growth would be supported by ramping up CASA generation and retention initiatives, upgrading infrastructure, and adding new and renovated offices and branches.

The bank's planned bond issuance will likewise contribute to higher total liabilities for the projected period. According the management, the proposed bond issuance will have the following purposes: management of net interest margin through the matching of long-term assets with long term funding; diversification of funding sources; and for general corporate purposes.

BankCom will continue to focus on the expansion of its lending business, resulting in the expected increase of the loans portfolio. LDR will reflect such growth, moving forward.

The bank's P5.0 billion Long-term Negotiable Certificates of Time Deposit and P6.6 billion Series B bonds will mature in September 2025 and November 2025, respectively. As of report writing date, plans for settlement of these maturities are in place.

CAPITAL

2023

Loans and receivables accounted for 47.3% of BankCom's total assets, as of end-2023. Loans and receivables grew by 4.3% to P109.6 billion, primarily driven by the increase in corporate loans. Additionally, financial assets at fair value through other comprehensive income jumped by 90.2%, supporting the rise of 9.5% in investment securities to P63.9 billion, from P58.3 billion as of end-2022. These movements drove the slight 6.5% expansion in total assets, from P217.5 billion as of end-2022 to P231.7 billion as of end-2023.

The bank's capital base, on the other hand, was 10.1% higher and stood at P30.9 billion as of end-2023 (end-2022: P28.0 billion). The growth was on the back of the notable 113.3% increase in retained earnings due to higher bottom line. As a result, equity to assets ratio improved further from 12.9% as of end-2022 to 13.3% as of end-2023. The bank's CAR was 19.9% as of end-2023, and which was well-above the regulatory minimum of 10.0%.

Interim September 2024

Total equity expanded by 6.2% to P32.8 billion as of end-September 2024, in line with the 30.7% increase in retained earnings. The bank's total assets inched up by 1.5% to P235.1 billion. The increase in total assets was attributed to the 15.0% hike in loans and receivables, partly counterbalanced by the 72.2% decline in interbank loans receivables and securities purchased under resale agreements (SPURA) as the bank reallocated funding for BSP overnight lending placements to higher yielding customer loans.

Equity to assets ratio was almost unchanged at 13.9%, as of September 30, 2024. BankCom's CAR likewise remained well above the regulatory minimum at 18.3%, as of end-September 2024.

Projected Period (2024-2026)

Total assets is forecasted to progressively increase, in line with the expansion of the bank's loan portfolio. Capital is similarly seen to climb in the coming years, backed by earnings growth.

The projected equity to assets ratio will remain at par with historical levels, while the bank's CAR is foreseen to remain at more than comfortable levels.

ECONOMY

Gross Domestic Product (GDP)[5]

In the third quarter of 2024 (3Q2024), Philippine GDP grew by 5.2%, lower than the 6.0% in 3Q2023 and 6.4% in 2Q2024. The main contributors to growth were: Construction (9.0%); Financial and insurance activities (8.8%); and Wholesale and retail trade, repair of motor vehicles and motorcycles (5.2%). For the major economic sectors, Industry and Services posted year-on-year (YoY) growth in 3Q2024 of 5.0% and 6.3%, respectively, while the El Niño season and typhoons experienced in the period led to a 2.8% YoY decline in the Agriculture, Forestry, and Fishing (AFF) sector.

On the demand side, Household Final Consumption Expenditure (HFCE) was the top contributor to the increase in the country's GDP, as it recorded a YoY growth of 5.1% in 3Q2024. Such growth was identical to the recorded figure from the same period last year and was attributable to the increases in Health (10.8%); Restaurants and Hotels (9.8%); and Miscellaneous Goods and Services (7.1%). Government spending also posted a 5.0% growth, albeit such was slower than the 6.7% growth in 3Q2023.

The current Marcos administration has revised its economic growth targets for 2024 to 2028 in response to domestic and global uncertainties. The Development Budget Coordination Committee (DBCC) set the 2024 GDP growth target at 6.0–6.5%. For 2025, it had set a wider target range of 6.0–8.0%, which will be maintained through 2028.[6]

[5] Philippine Statistics Authority
https://www.pna.gov.ph/articles/1237302
[6] https://business.inquirer.net/493642/ph-targets-6-8-growth-till-2028

Department of Finance (DOF) Secretary Ralph G. Recto recently stated that the Philippines likely missed its 2024 GDP target. According to Secretary Recto, devastating calamities that have ravaged the country dealt a serious blow on the growth of the domestic economy, dragging the full-year economic growth away from target. Nevertheless, he is optimistic that 4Q2024 growth will be faster than the third quarter, with the possibility of fourth quarter GDP hitting 6.0%. Socioeconomic Planning Secretary Arsenio M. Balisacan earlier noted that a growth rate of at least 6.5% is needed in the last quarter of 2024 in order to achieve the government's target of 6.0–6.5% full-year GDP growth for 2024.[7]

In its recently-released World Economic Outlook, the International Monetary Fund (IMF) said that domestic demand, particularly consumption and investment, will drive the country's economic growth for 2025 to 2026. For the Philippines, the IMF retained its economic growth projection of 6.1% for 2025 and 6.3% for 2026. Consumption growth will be supported by lower food prices and gradual monetary policy easing. Investment growth is also expected to pick up on the back of sustained public investments push, gradually declining borrowing costs, and acceleration in the implementation of public-private partnership (PPP) projects and foreign direct investments (FDI), following recent legislative reforms.[8]

Inflation and Interest Rate

The Philippines recorded an average inflation rate of 3.2% in 2024, well within the government's target of 2.0–4.0%. This is also markedly lower than the 6.0% average registered for 2023. The Philippine Statistics Authority (PSA) cited tempered inflation for food and non-alcoholic beverages compared to the previous year, as well as rice inflation hitting its lowest since January 2022. In its December 2024 meeting, the DBCC kept its 2.0–4.0% inflation target until 2028.[9] The IMF projects headline inflation to settle at 2.8% in 2025 and 3.0% in 2026, both well within the government's target range.[10]

Following the decision of the BSP in August 2024 to cut interest rates for the first time in almost four years, the central bank further made another policy rate cut of 25 basis points (bps) to 6.0% in October. Its decision was made on the assessment that price pressures continued to be manageable.[11] The BSP ended 2024 with another rate cut of 25 bps in December, bringing the benchmark rate down to 5.75%.

Foreign Exchange Rate

In November 2024, the Philippine Peso sunk to a two-year low of ₱59 against the US Dollar—first on November 21 and once again on November 26. The last time the Philippine Peso closed at the ₱59-to-a-dollar level was in October 2022. The US dollar continued to strengthen against Asian and most major global currencies on the back of fresh developments following the re-election of President Donald J. Trump.

The Philippine Peso ended 2024 at ₱57.845 against the greenback, depreciating by 4.3% from end-2023. Fitch Solutions' unit BMI said that it could breach the ₱60-a-dollar level should President Trump implement protectionist policies that take markets by surprise.[12]

[7] https://mb.com.ph/2025/1/19/philippines-may-miss-2024-gdp-target-recto-blames-recent-typhoons
[8] https://www.pna.gov.ph/articles/1242115
[9] https://www.rappler.com/business/inflation-rate-philippines-december-2024/
[10] https://www.pna.gov.ph/articles/1242115
[11] https://www.bworldonline.com/top-stories/2024/10/17/628412/bsp-cuts-rates-for-a-2nd-straight-meeting/
[12] https://www.bworldonline.com/banking-finance/2025/01/15/646534/peso-may-sink-to-p60-on-trump-fed-cut-worries/

Second Trump Presidency: Potential Impact on the Philippines[13]

The United States (US) and the Philippines have developed a strong economic bond over the years. Economic numbers for 2023 back up this statement, with the US as the Philippines': top export destination ($11.5 billion); biggest source of overseas Filipino remittances ($13.7 billion); largest source of development assistance grants ($615 million); fourth biggest source of FDI inflows ($113.1 million); and fifth largest import source ($8.4 billion).

Based on President Trump's pronouncements during his recent Presidential campaign, there are three policies that could potentially affect the Philippines under his present administration. These policies are in relation to job outsourcing, tariffs, and immigration.

President Trump has pledged to stop the outsourcing of jobs to generate local employment. This could negatively impact the Philippines' Information Technology – Business Process Outsourcing (IT-BPO) industry, which employs some 1.7 million Filipinos and generate at least $30 billion annual revenues, more than half of which is from the US.

President Trump is also considering to impose a blanket 10% to 20% tariff on imported goods from countries which have a trade deficit with the US. Such measure will make the Philippines' export goods such as textiles, garments, and coconut oil more expensive in the US, and will likely lower demand and reduce earnings for these industries.

The current US President has also threatened to levy as much as 60% tariffs on all imported goods from China, which would indirectly affect the Philippines, particularly exports linked in the global value chain. High tariffs on China could also bring possible opportunities, nonetheless, as US companies that face higher costs due to tariffs might look for alternative and cheaper sources of inputs or establish manufacturing facilities in alternative locations. This is where the Philippines can present itself as a viable option.

In addition, President Trump has threatened a massive deportation of illegal immigrants in the US, ending automatic citizenship for their children. Current estimates place the number of undocumented Filipino migrants in the US at 370,000. This policy may result in lower remittances. It could also translate to a more stringent screening process for those seeking job opportunities in the US.

INDUSTRY[14]

The Philippine banking system remained robust, with continued growth in assets, loans, deposits, and earnings. Data from the BSP showed the continued expansion in the banking system's total assets, primarily funded by resident deposits. Total assets stood at P26.7 trillion as of end-September 2024, posting an increase of 11.4% YoY and marginally higher than the pre-pandemic (2015-2019) compounded annual growth rate (CAGR) of 11.0%. Deposits, which was equivalent to 73.2% of total assets and comprised 83.6% of total liabilities, grew by 7.1% YoY to P19.6 trillion. Universal and commercial banks

[13] https://opinion.inquirer.net/179525/what-could-the-trump-presidency-mean-for-the-philippines
[14] https://www.bsp.gov.ph/Media_And_Research/Publications/ReportonRecentTrends2024-09.pdf
https://www.philstar.com/business/2024/10/04/2389929/philippines-banking-sector-strong-imf
https://www.bworldonline.com/banking-finance/2024/11/08/633534/bsp-bullish-on-banking-sector-outlook/

remained the industry leader, holding 93.9% (P25.1 trillion) of the banking system's total assets as of end of the period. The growth in total assets was largely channeled to lending and investing activities.

The investments of banks in securities grew by 10.2% to P7.4 trillion as of end-September 2024. Bulk of these investments (53.3% or P4.0 trillion of the total) were comprised of securities measured at amortized cost. Moreover, the industry's total loan portfolio expanded by 14.1% YoY to P14.9 trillion as of end-September 2024. The banking sector's loans remained broad-based and supported various activities in the country. Real estate accounted for the largest share of total loans at 18.0% (P2.7 trillion), followed by the household sector (13.5%), wholesale and retail trade (10.5%), electricity, gas, steam, and air-conditioning supply (9.0%), and manufacturing (8.9%).

The banking system's NPL went up by 16.5% as of end-September 2024, peaking at P517.5 billion. The continued uptick of NPLs has been noted since May 2023, and was attributed by the BSP to the impact of high interest rates and elevated inflation. The NPL ratio of universal and commercial banks inched up to 3.2% as of end-September 2024, compared with 3.1% as of end-September 2023. Credit standards of banks, however, remained sound, supported by precautionary measures and NPL management strategies. The NPL coverage ratio of universal and commercial banks remained more than adequate, albeit lower, at 98.4% as of end-September 2024 (110.5% as of end-September 2023).

The IMF has echoed the confidence of the BSP in the banking sector but also warned of possible vulnerabilities. The IMF noted the risks in the real estate sector considering its significant shifts during the pandemic, and the notably high vacancies in the property market. In addition, the fast-growing consumer credit market also raises concerns in relation to debt quality. Domestic profitability, however, is seen by the IMF to continue, aided in part by the recent cut in the BSP's reserve requirement ratio (RRR).

Effective October 2024, the BSP reduced the RRR for universal and commercial banks and nonbank financial institutions with quasi-banking functions by 250 basis points (bps) to 7% from 9.5%. The additional liquidity available for banks could help support credit growth given the healthy demand from borrowers. BSP Governor Eli M. Remolona, Jr. stated that the BSP is eyeing to cut the RRR for the big banks to as low as zero before his term ends in 2029.[15]

Net profit of the banking sector climbed by 6.4% to P290 billion in 9M2024, supported by higher net interest and non-interest incomes. This continued growth will lead to higher capitalization for banks and overall higher resources for lending and investment activities. The BSP expects the growth trajectory to be sustained, driven by expectations of increased loan activity that will be supported by strong macroeconomic fundamentals.

[15] https://www.bworldonline.com/banking-finance/2024/11/13/634369/philippine-banking-sectors-net-income-climbs-by-6-4-as-of-september/