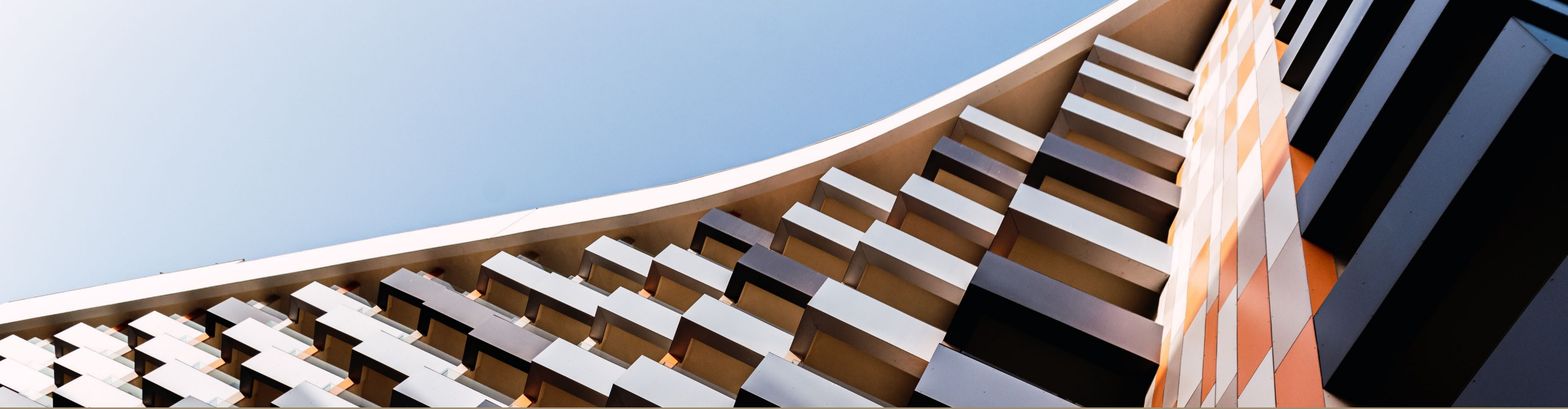


Philippine Banks Outlook 2024:

Better Economic Prospects Will Bolster Sector

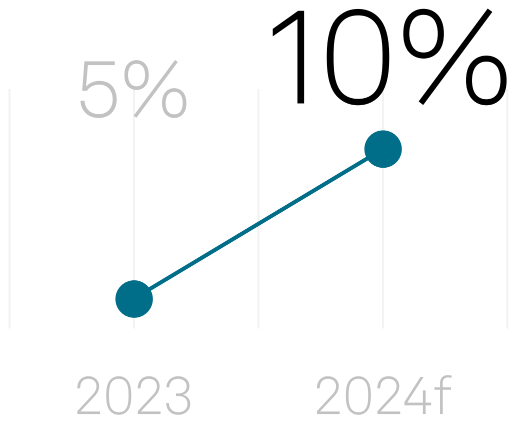
S&P Global
Ratings

Nikita Anand
Director
Financial Institutions Ratings

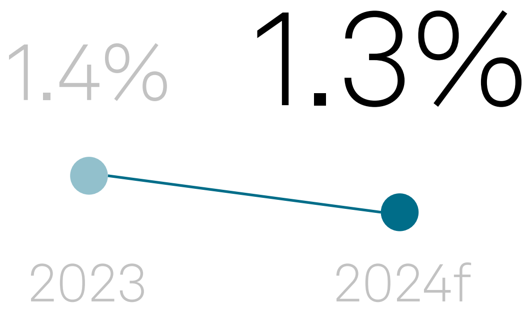
Jan. 30, 2024

This report does not constitute a rating action

Key Projections



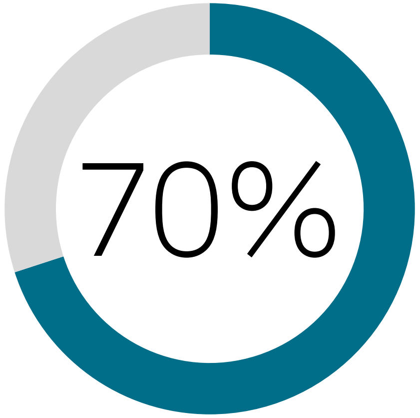
Credit growth



Return on assets

3.5%

Gross NPL ratio



Low cost deposits to total deposits

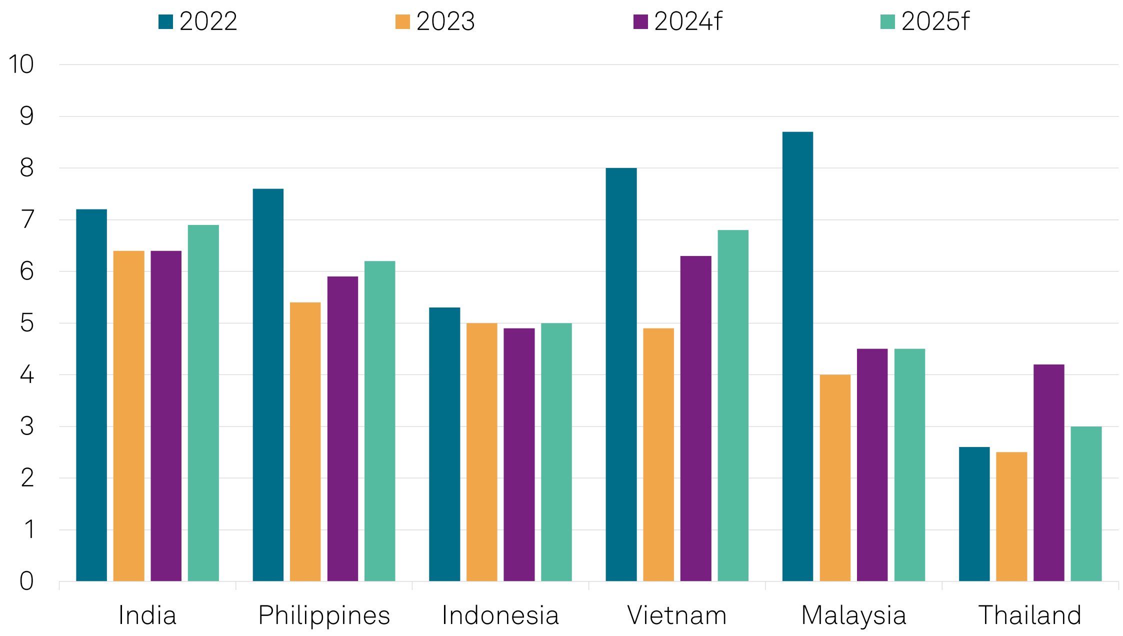
NPL--Nonperforming loan. F--Forecast. Source: S&P Global Ratings.

Improving Economic Conditions Will Lift Credit Demand

- Economic growth is likely to improve over the next two years as inflation moderates further.
- A pickup in corporate demand may help credit growth increase to 10%-12%.

Philippines will grow faster than many Asia peers

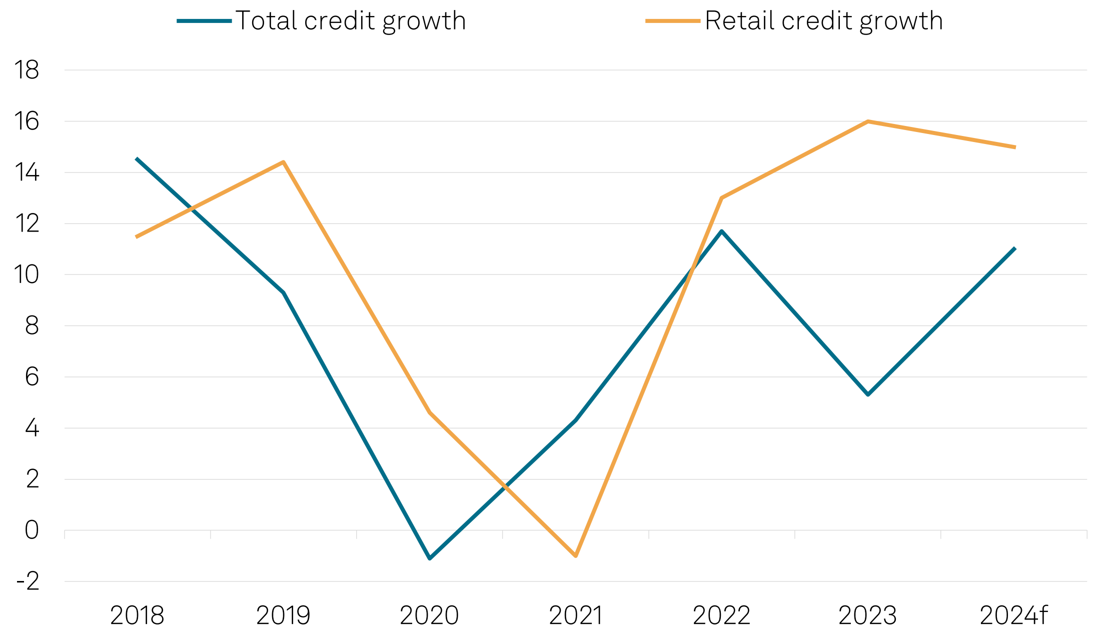
GDP growth (%)



f--Forecast. Source: S&P Global Ratings

Retail credit growth should stay robust

Annual loan growth (%)

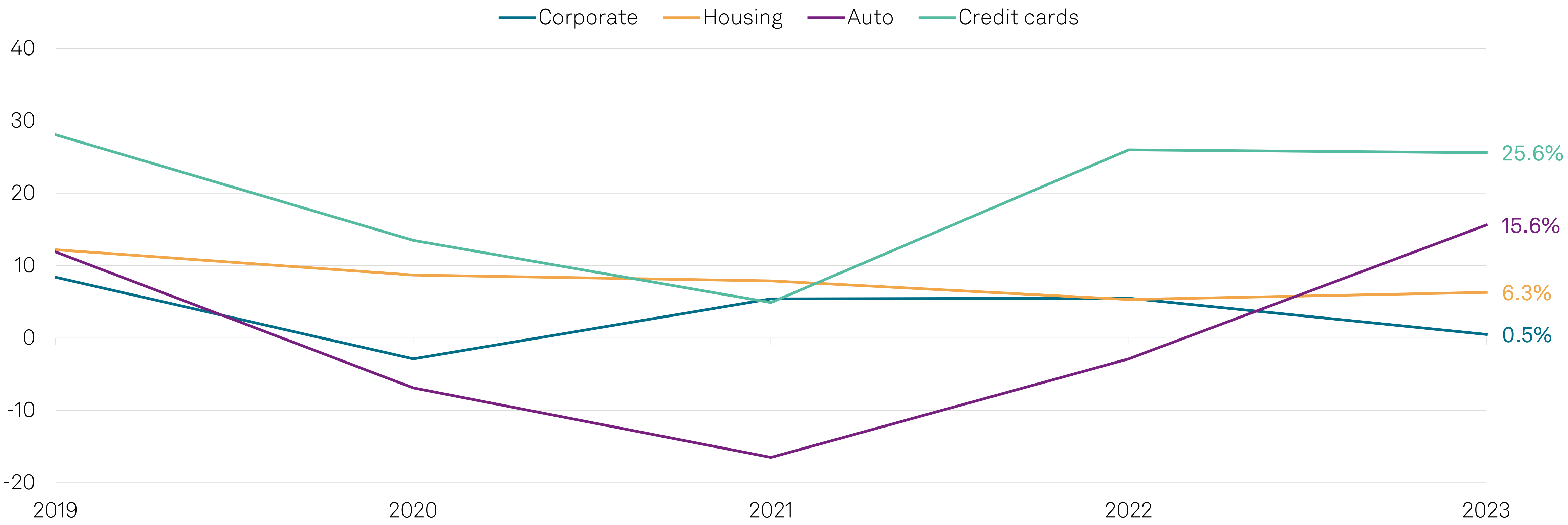


Note: For 2023, total credit growth is annualized for 11 months ended Nov. 30. Retail credit growth is annualized for nine months ended Sept. 30. f--Forecast. Source: BSP.

Corporate Credit Growth Took A Hit In 2023

Rising interest rates and high inflation kept corporate sector on the fence

Growth rate, year-on-year (%)

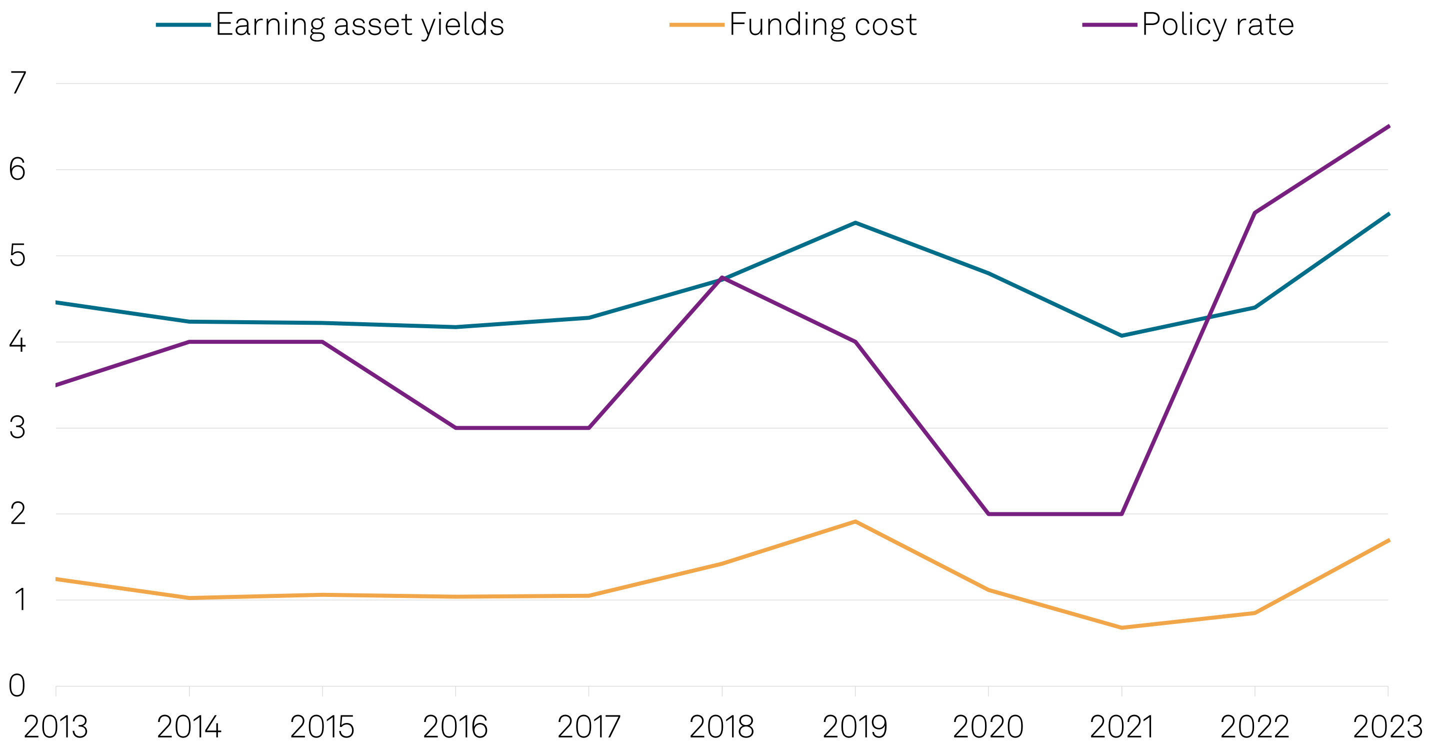


Note: Data for 2023 is annualized for the nine months ended Sept. 30. Source: BSP.

Pass Through Of Policy Rates To Earning Asset Yields Will Stay Measured

Spillover to asset quality should be limited

Earning asset yields have increased at a gradual pace(%)



Source: BSP.

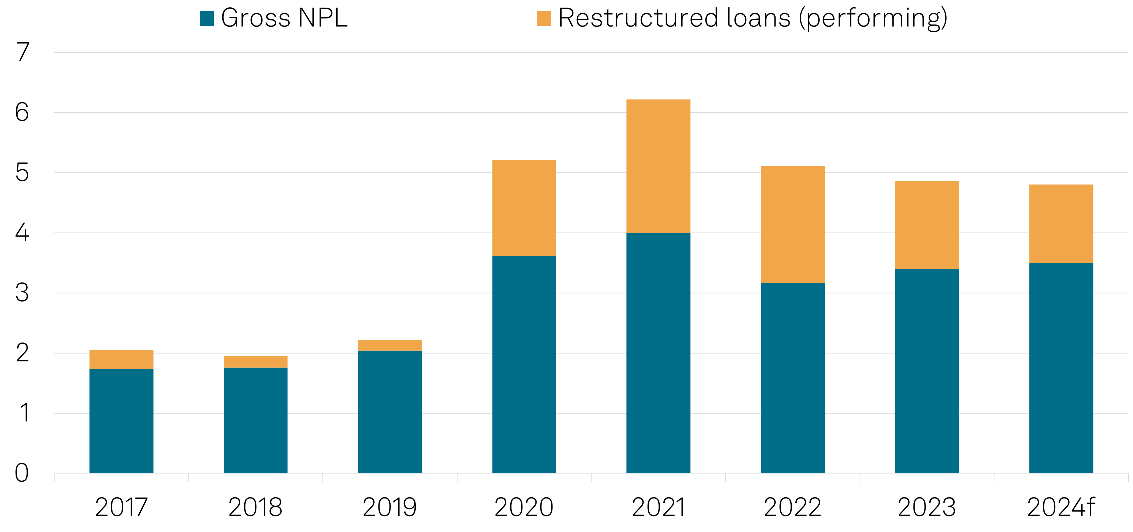
- Policy rates have risen by 450 basis points (bps) in the past two years.
- In comparison, the effect on asset yields has been smaller, with a 140 bps increase.
- A similar trend occurred during the pandemic when interest rates were cut. Asset yields at that time did not fall in tandem.
- Also, banks have taken a pragmatic approach to interest resets to limit new nonperforming loans (NPLs).

Asset Quality Should Remain Stable

- Lower inflation and rate cuts will support loan repayments in 2024.
- Asset quality fared better than we expected in 2023 as pass through of higher policy rates was measured.
- NPLs in corporate loans and credit cards rose slightly reflecting tighter financing conditions.

Weak loans likely to remain under 5%

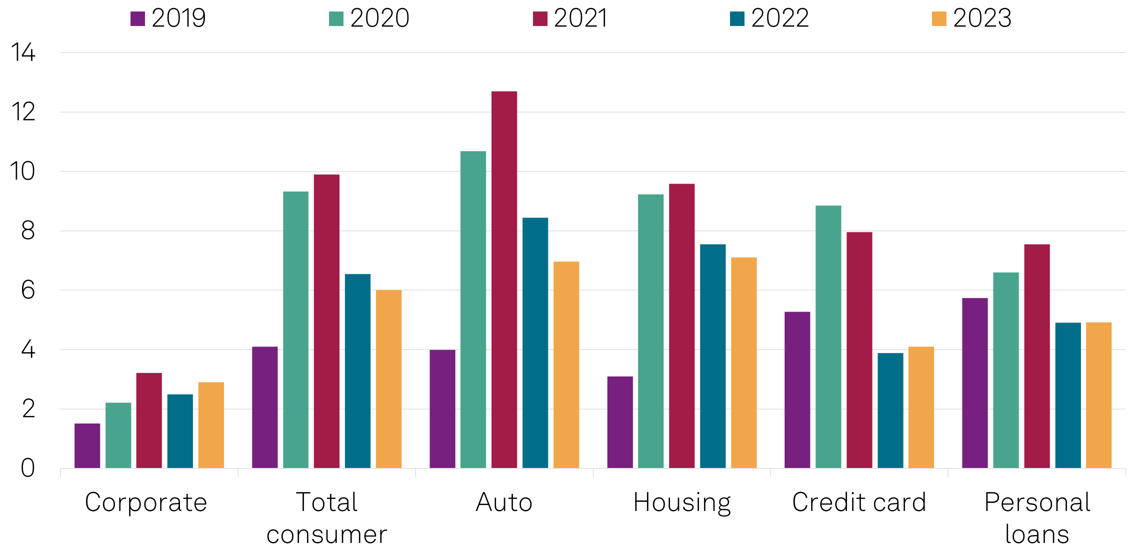
Percentage of total loans (%)



Note: 2023 data is as of Nov. 30, 2023. NPL--Nonperforming loan. f--Forecast. Source: S&P Global Ratings.

Consumer nonperforming loans are on a declining trend

NPLs as a percentage of total loans in that segment (%)

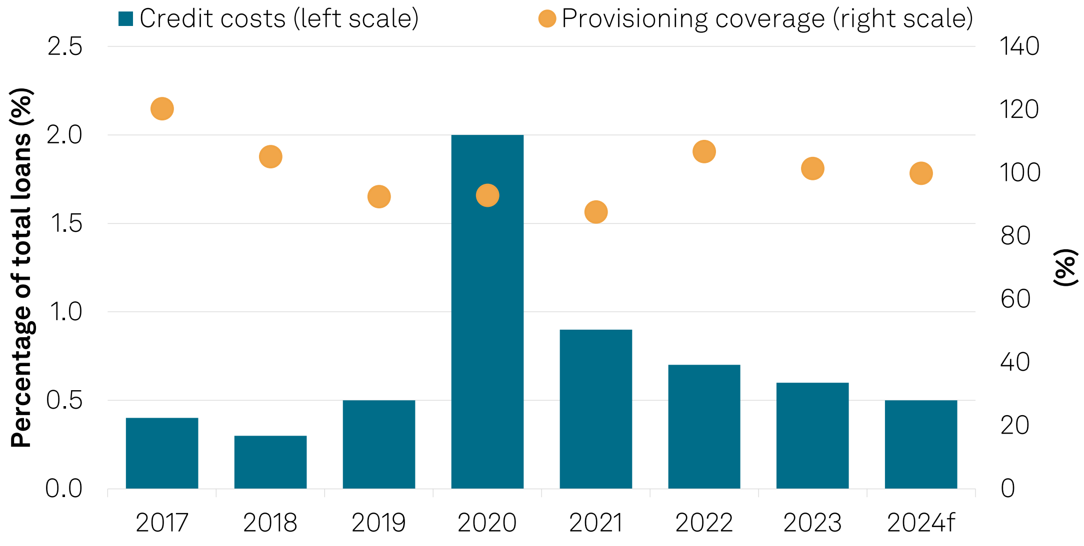


Note: 2023 data is as of Sept. 30, 2023. NPL--Nonperforming loan. Source: BSP.

Credit Costs Should Be Flattish

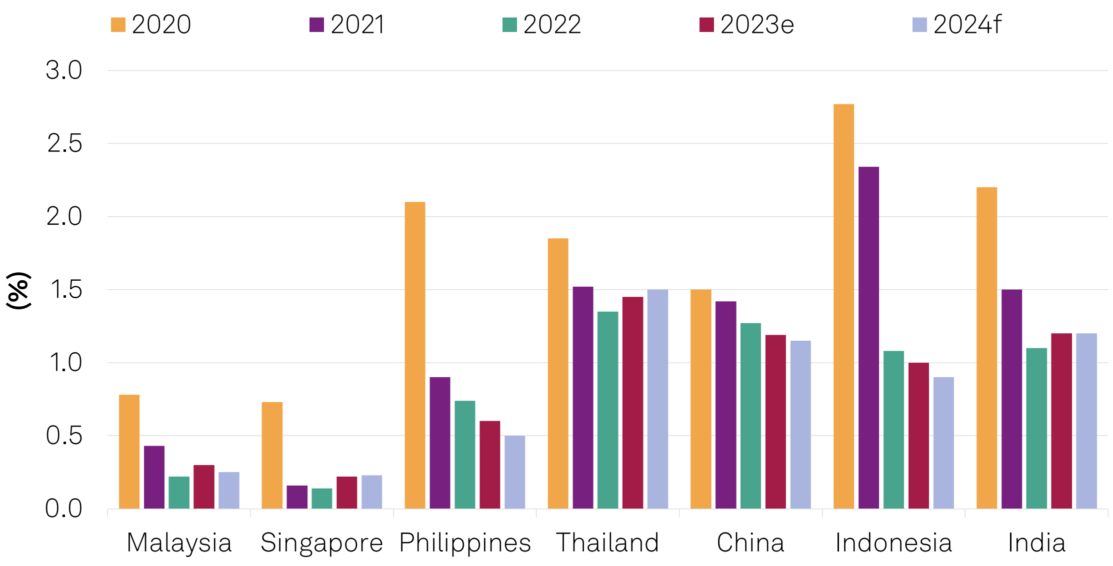
- Provisioning requirement should be contained backed by stable NPLs. Credit costs continued to decline in 2023 and are very close to pre-pandemic levels.
- Banks with higher exposure to unsecured loans could see elevated credit costs as the portfolio matures.
- Banks have adequate provisions, with coverage ratio of over 100%.

Credit costs should stay near pre-pandemic levels



Note: 2023 credit costs data is annualized for nine months ended Sept. 30, 2023. Coverage ratio is as of end-November 2023. Coverage is calculated as allowances for credit losses as a percentage of gross NPLs. f--Forecast.
Sources: BSP, S&P Global Ratings.

Credit costs are lower than most regional peers'



Note: For India, fiscal year ending March 31 of each year. e--Estimate. f--Forecast. Source: S&P Global Ratings.

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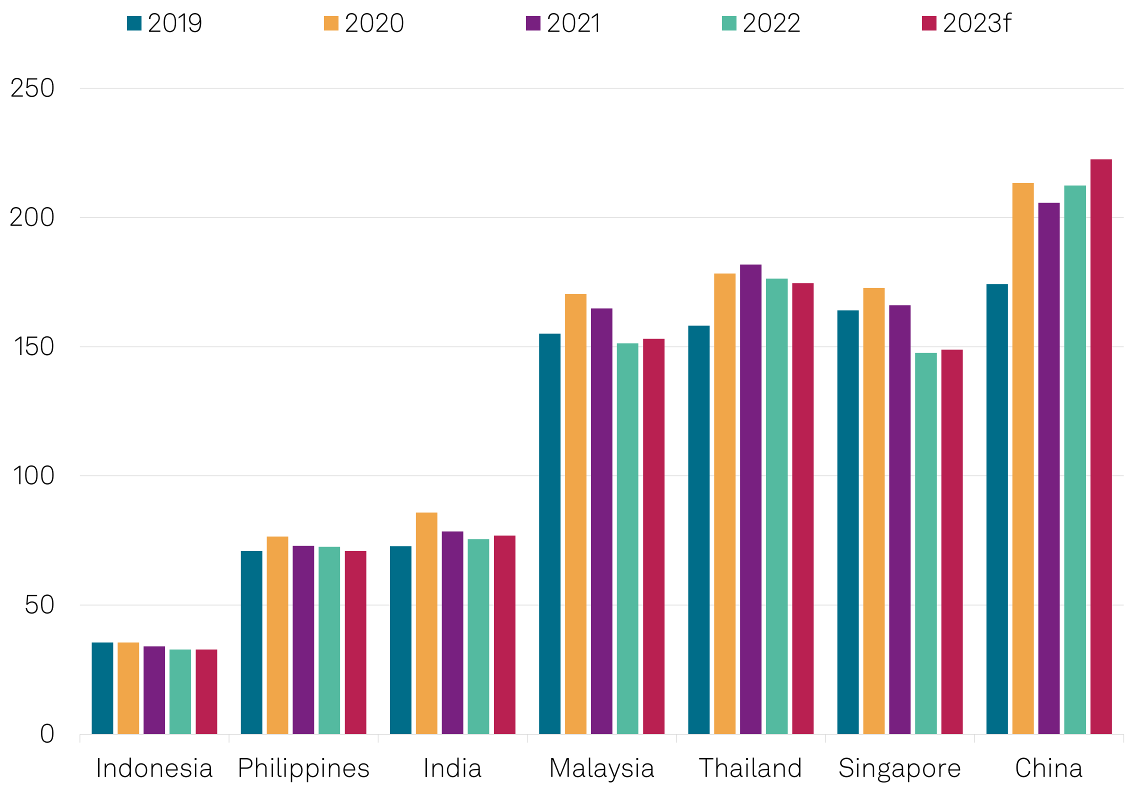
Corporate Sector Leverage Is Moderate

Leverage in Philippines is below 75% of GDP

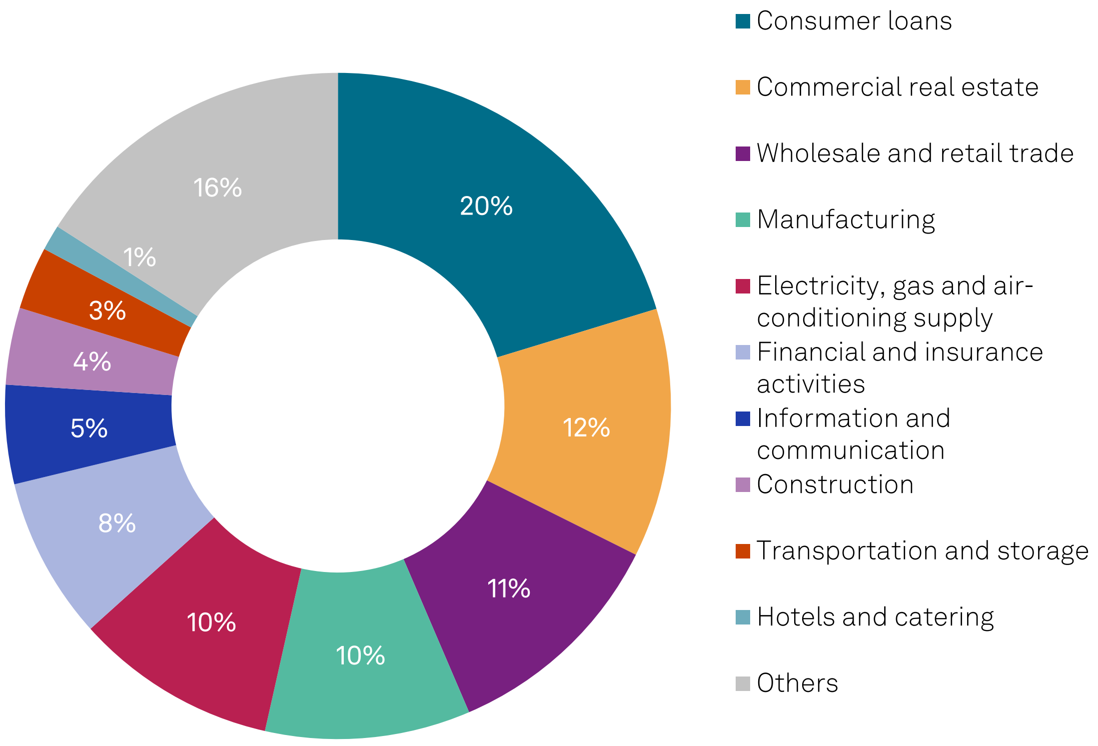
Total private sector debt as a percentage of GDP (%)



f--Forecast. Source: S&P Global Ratings.

Loan book has some concentration in real estate

As a percentage of gross loans (%)



Data as of end November 2023. Sources: BSP, S&P Global Ratings.

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Real Estate Sector: Elevated Vacancy Rates, Manageable Risks

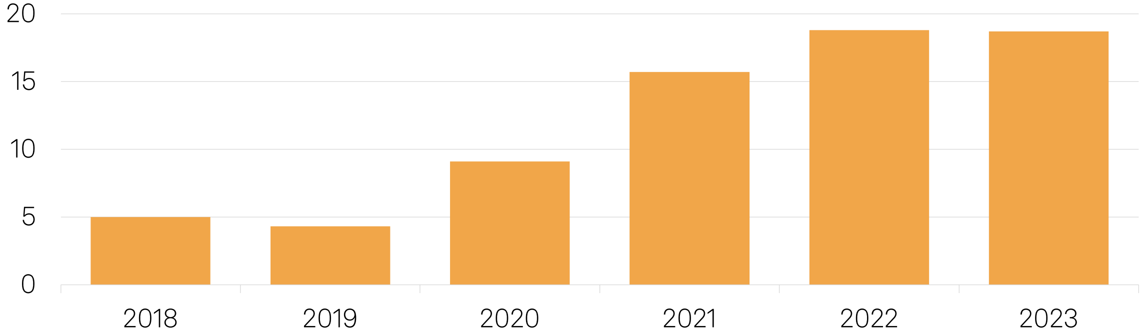
Real estate prices don't indicate build-up of imbalances

Annual change in residential real estate price index (%)

Sources: BSP, S&P Global Ratings.

Office vacancy rates in metro Manila are elevated

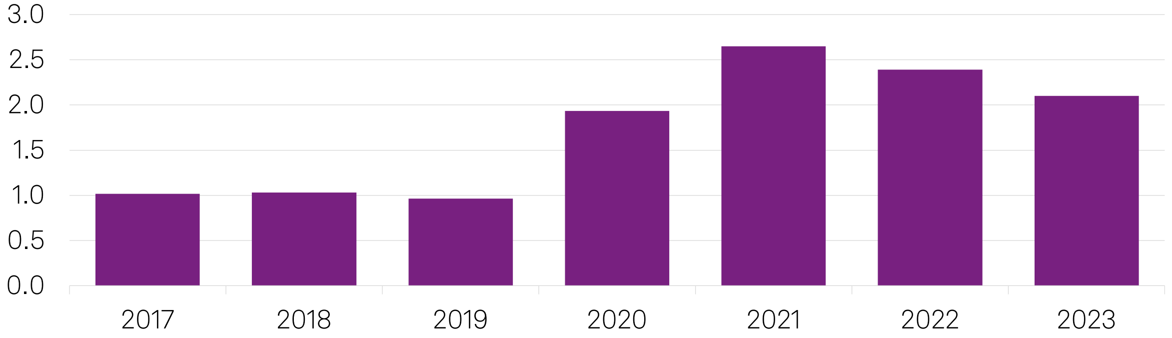
(%)



Note: 2023 data is as of Sept. 30, 2023. Sources: Colliers, S&P Global Ratings.

Commercial real estate nonperforming loans are contained

CRE NPLs as a percentage of total (%)

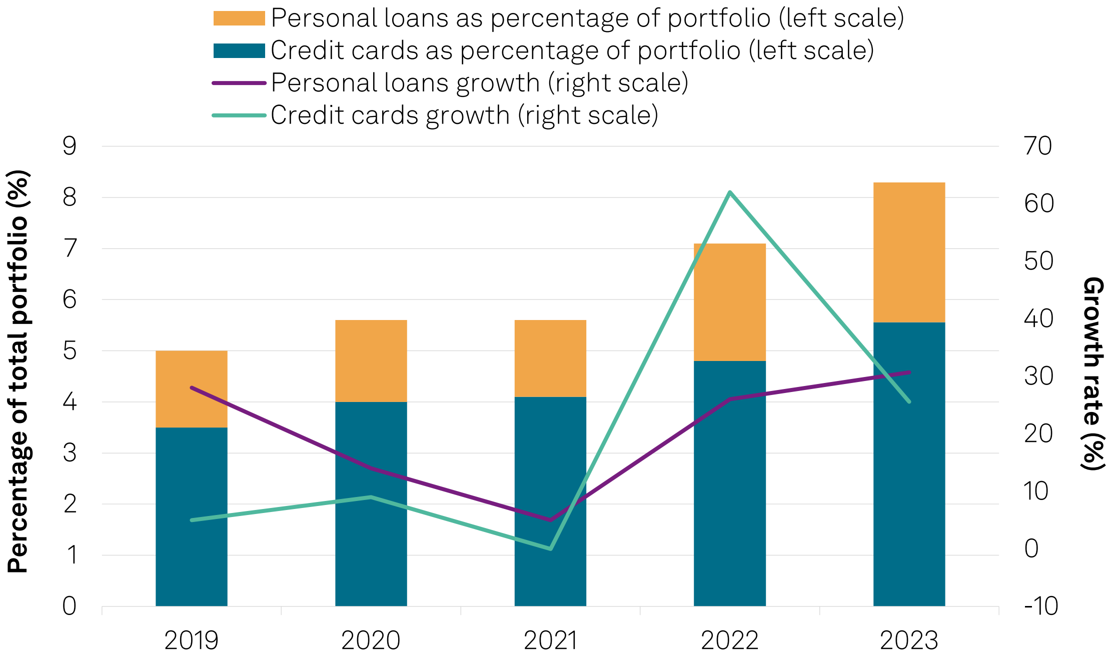


Note: 2023 data is as of Sept. 30, 2023. Sources: BSP, S&P Global Ratings.

Consumer Loans: Rising Share Of Unsecured Loans

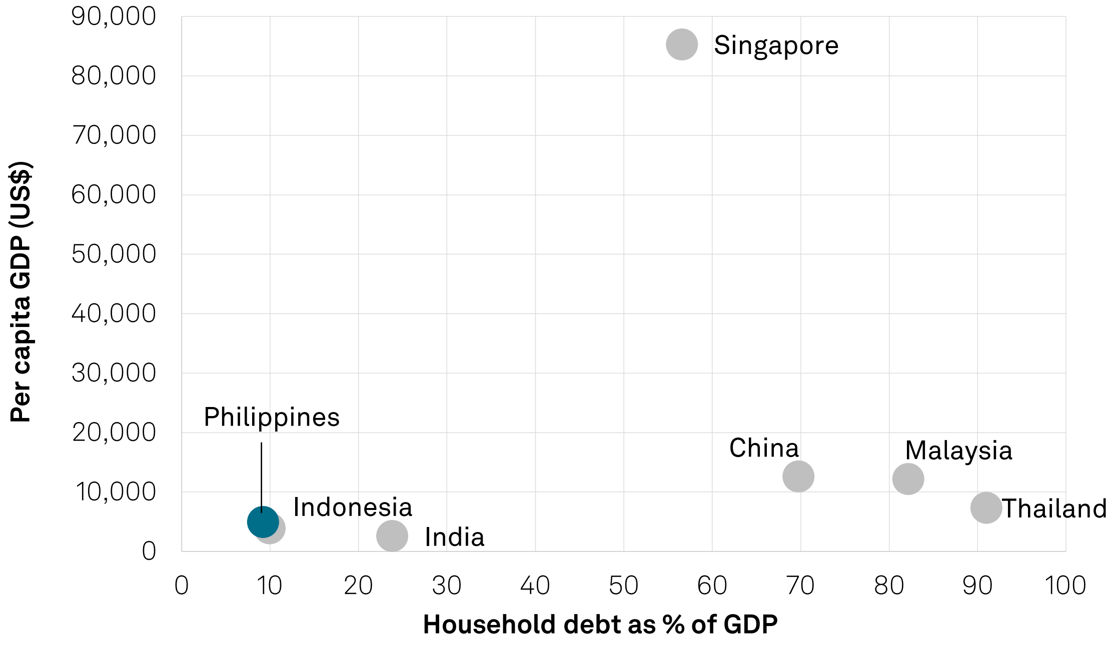
- Credit cards and unsecured personal loans form more than 8% of total loans compared with 5% in 2019. These portfolios will continue to grow at a rapid pace.
- Risks are manageable because of low household leverage and stable employment conditions.

Unsecured loans are growing rapidly



Note: 2023 data is as of Sept. 30 and growth rates are annualized for the nine months ending Sept, 30. Source: BSP.

Household leverage is low at 10% of GDP



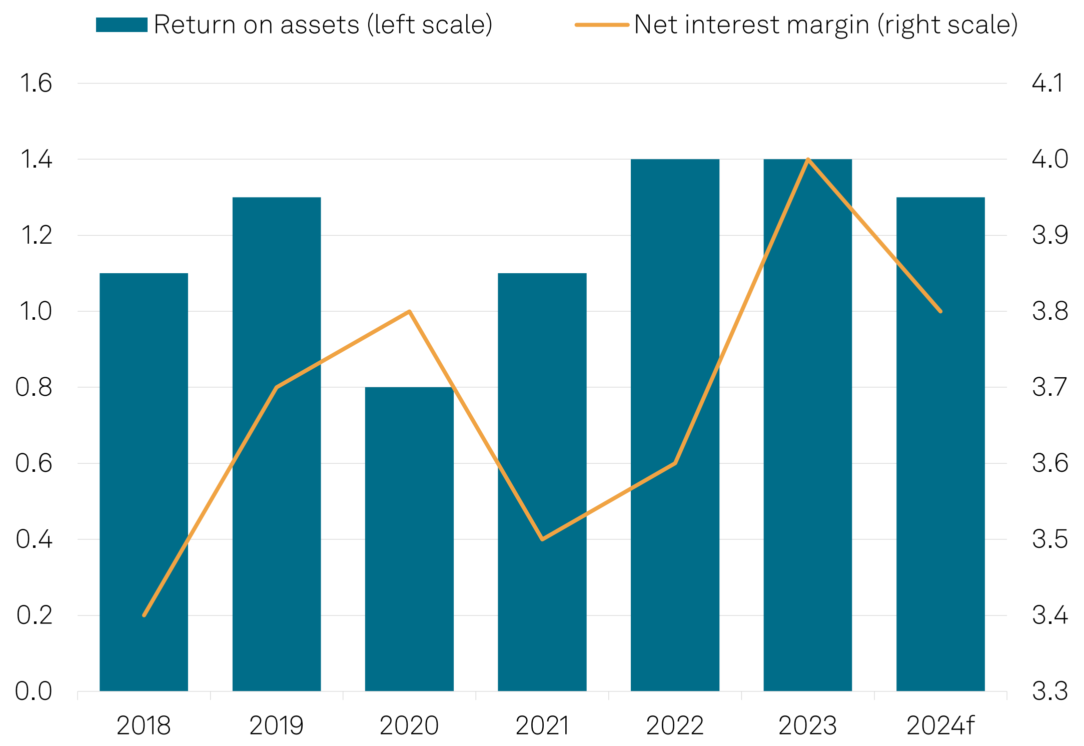
Note: Data is on estimated basis for Dec. 31, 2023. Source: S&P Global Ratings.

Profitability Should Normalize In Line With Interest Rates

Lower operating expenses and higher share of unsecured loans provide upside potential

Return on assets has peaked and will gradually decline

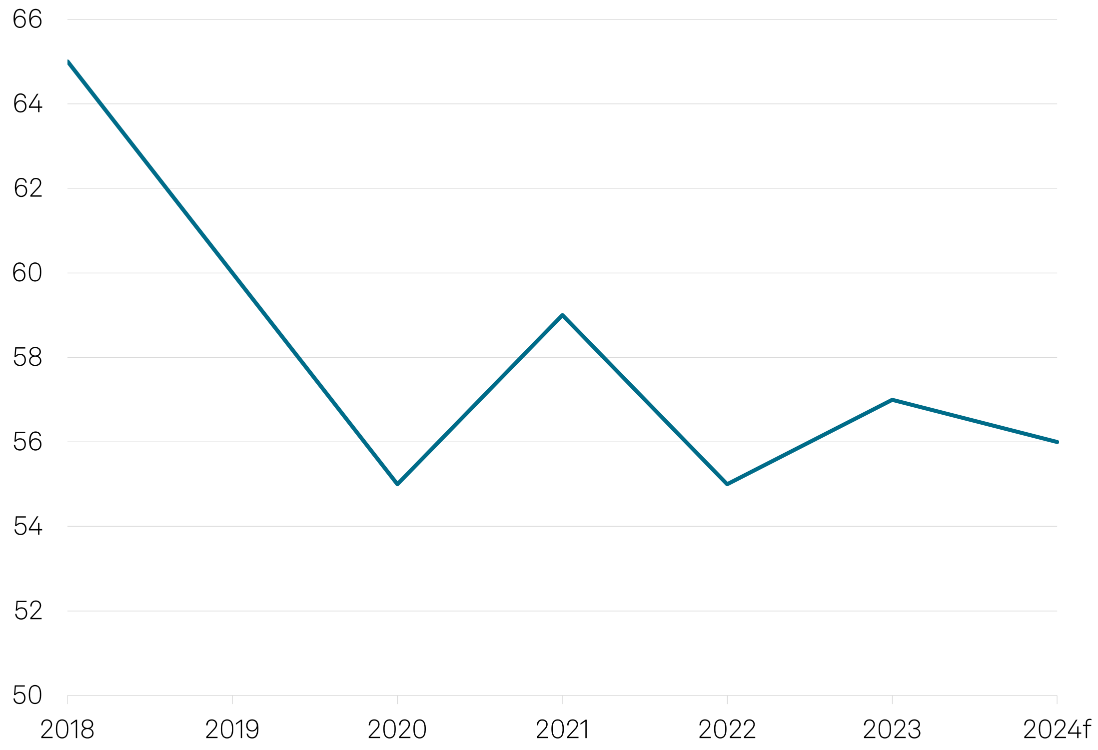
(%)



Note: 2023 data is as of Sept. 30, 2023. f--Forecast. ROA--Return on assets. Sources: BSP, S&P Global Ratings.

Sustained reduction in costs from digitalization

Cost to income ratio (%)

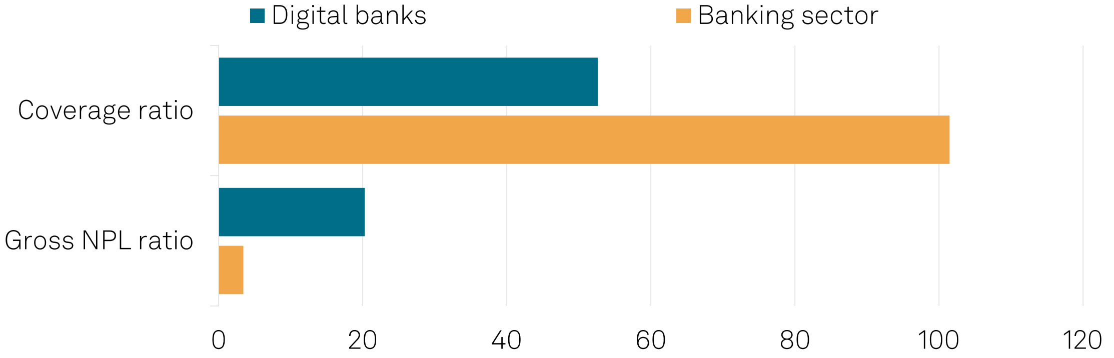


Note: 2023 data is as of Sept. 30, 2023. f--Forecast. Sources: BSP, S&P Global Ratings.

Digital Banks: Nascent Operations; Weak Asset Quality

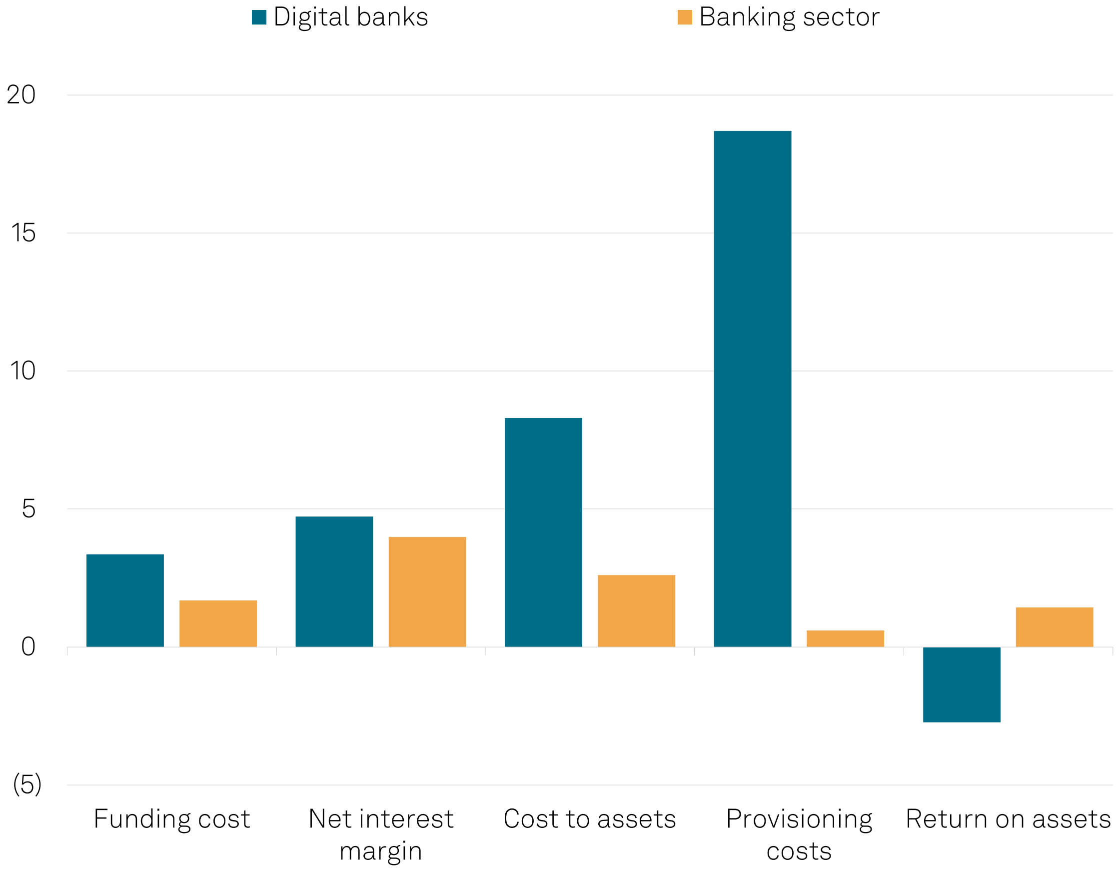
Digital banks' market share is limited (%)

Asset quality is significantly weaker than the industry (%)



Data as of end-November 2023. NPL--Nonperforming loan. Sources: BSP, S&P Global Ratings.

High costs are constraining profitability (%)



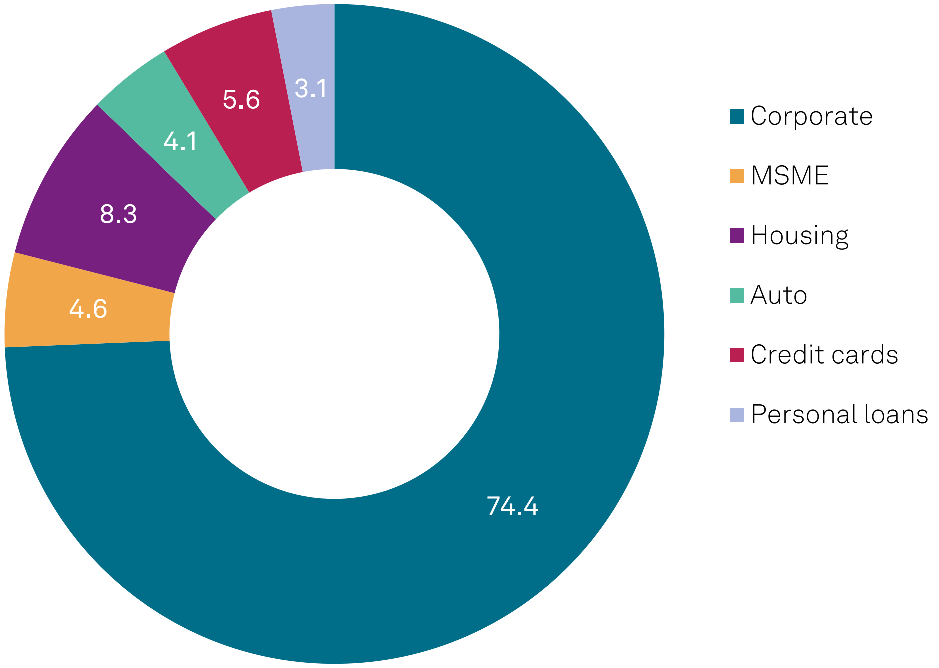
Data as of end-Sept. 2023. Sources: BSP, S&P Global Ratings.

Digital Banks' Loan Portfolio Is Riskier

High share of unsecured consumer loans and untested credit profile of target segment is leading to significantly weaker asset quality

Corporate sector forms bulk of banking sector loans

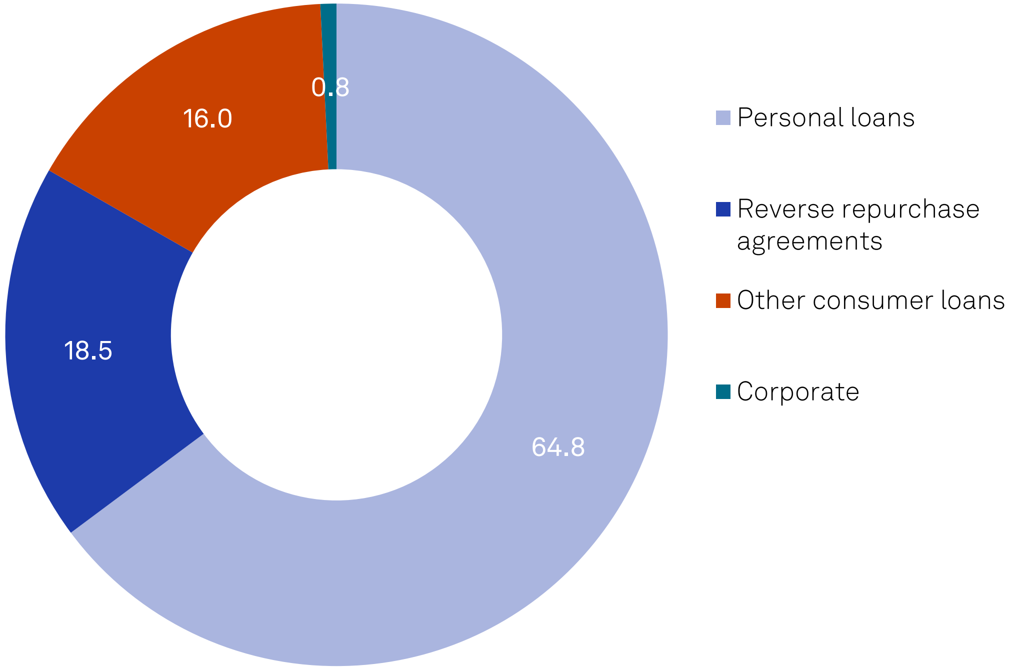
Loan breakdown of banking sector (%)



Data as of Sept. 30, 2023. MSME--Micro-, small, and medium-sized enterprises. Source: BSP.

Digital banks have heavy exposure to unsecured loans

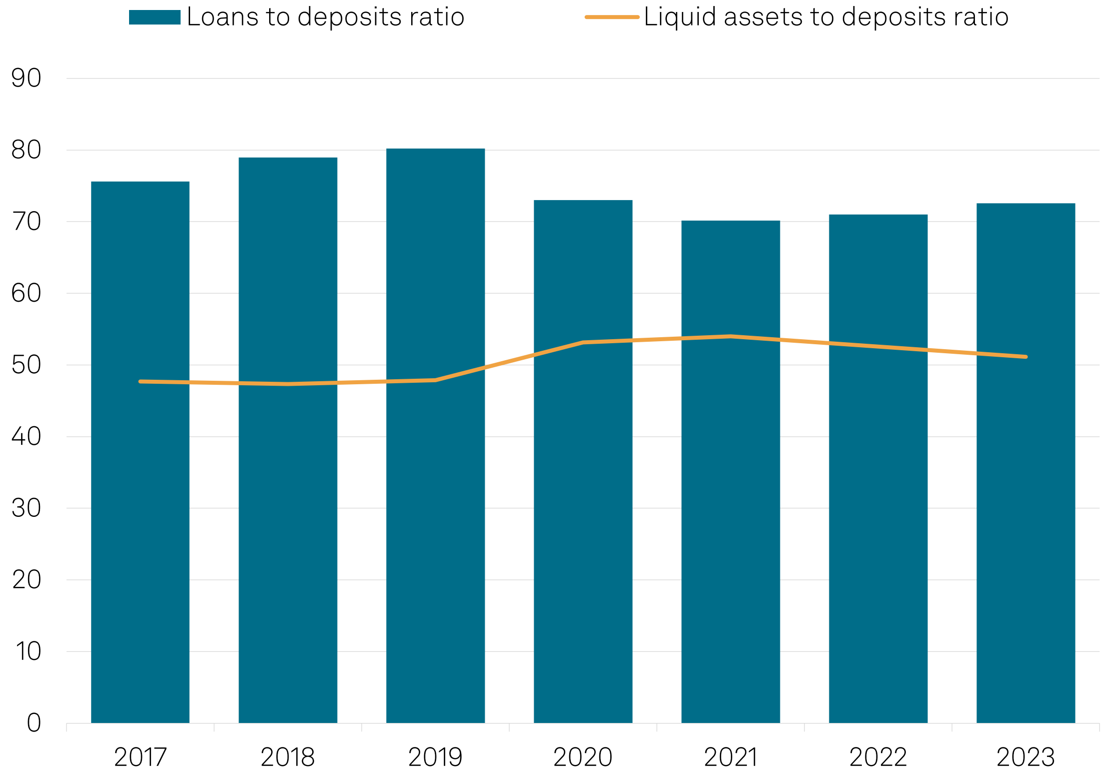
Loan breakdown of digital banks (%)



Data as of Nov. 30, 2023. Source: BSP.

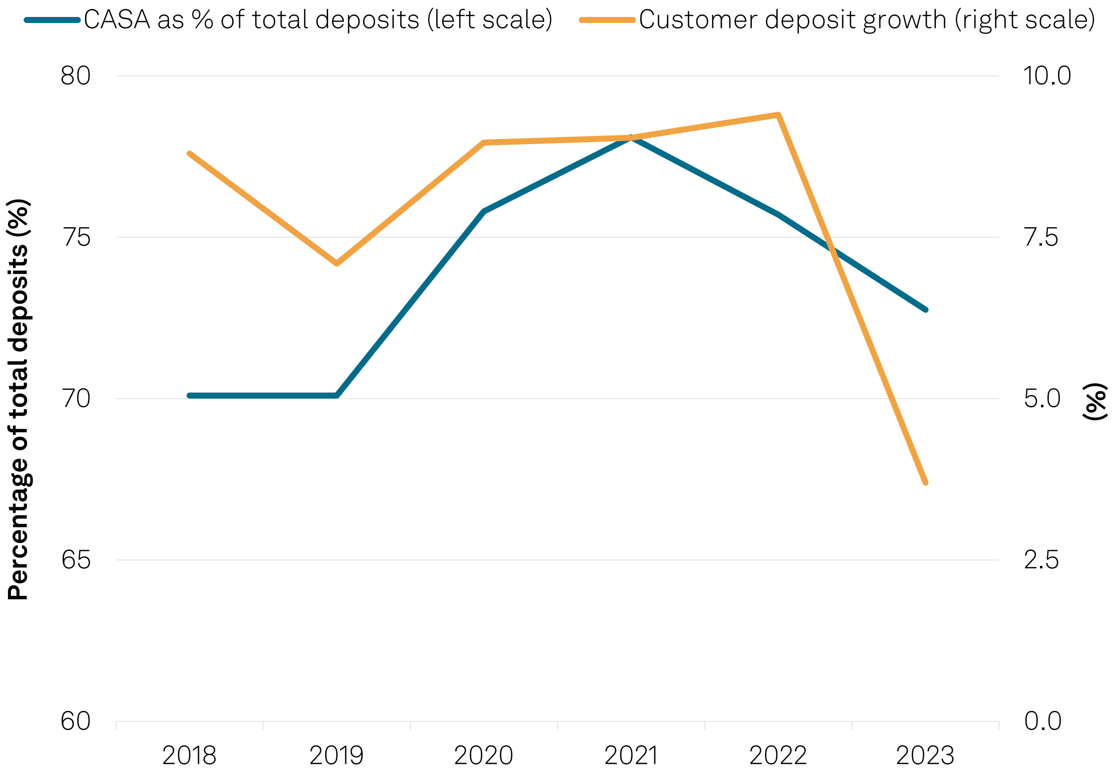
Funding And Liquidity Metrics Are Healthy

Loans-to-deposits ratio should continue to moderate from strong levels (%)



Source: BSP.

CASA decline will persist on higher term deposit flows



CASA--Current and savings accounts. Source: BSP, S&P Global Ratings' estimates.

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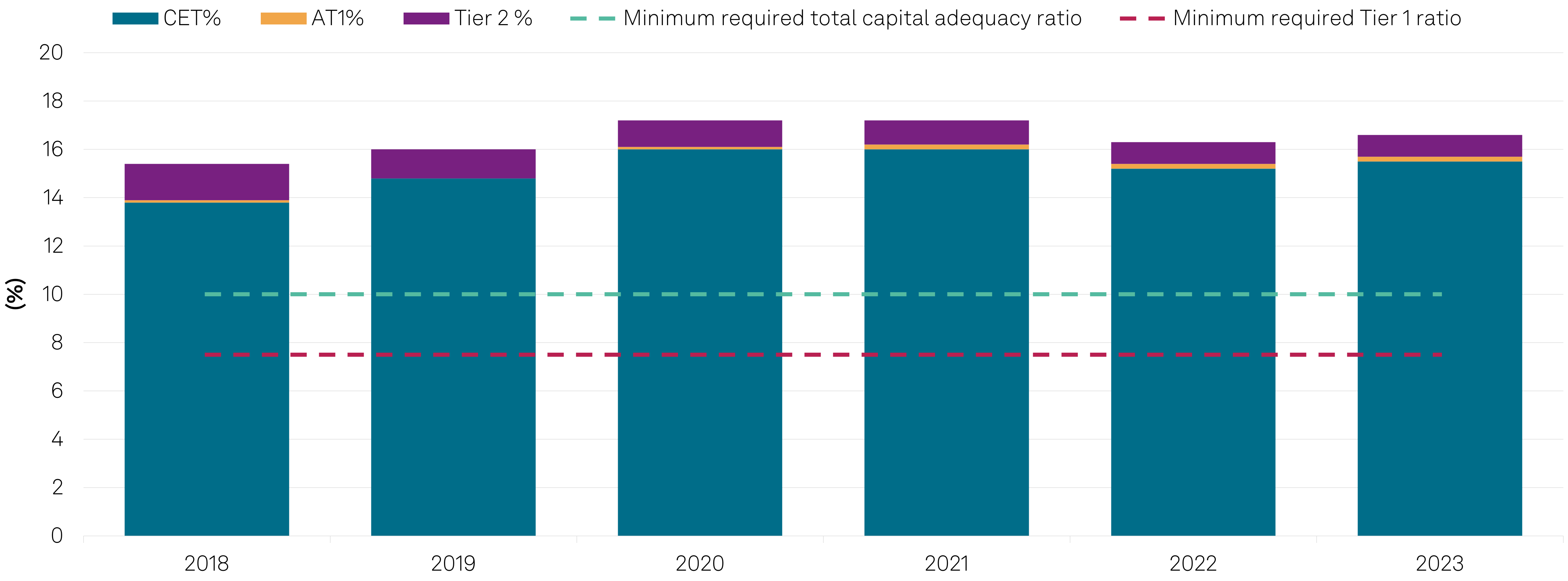
Capitalization Remains Strong

Robust internal capital generation ensures capital buffers are intact



Data as of end-June 2023. CET--Common equity Tier 1. AT1--Additional Tier 1. Source: BSP.

S&P Global Ratings

Related Research

- Economic Outlook Asia-Pacific Q1 2024: Emerging Markets Lead The Way, Nov. 27, 2023
- Banking Industry Country Risk Assessment: Philippines, Aug. 18, 2023

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