



## RATING REPORT

## EAST WEST BANKING CORPORATION

**Date:** February 7, 2024  
**Analyst:** Patrisha Mae P. Concepcion

5<sup>th</sup> Floor, ALGO Center  
 162 Leviste St., Salcedo Village  
 Makati City, Metro Manila  
 1227 PHILIPPINES

(632) 8812 3210

(632) 8812 3215

www.philratings.com.ph

## ISSUER CREDIT RATING

Year	Assigned Rating and Outlook
2024	PRS Aa plus (corp.) Stable

An Issuer Credit Rating is a measure of the general creditworthiness of a company over a one-year period. A company rated ‘**PRS Aa**’ 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 remain unchanged in the next twelve (12) months.”

## RATIONALE

**Ability to compete in its chosen market**

Amid increased competition given most banks’ foray into the consumer market, East West Banking Corporation (EastWest) leverages on its own understanding of and experience in the consumer lending market as its main competitive strengths. In general, its consumer loans have been on an uptrend from 2018 to 2022, with a compound annual growth rate (CAGR) of 2.3%. In 2020 and 2021, however, consumer loans declined by 5.6% and 16.8%, respectively, as loan run-offs outpaced loan releases due to weak demand and prudent risk-taking.

Table 1 Consumer and Corporation Loans, 2018-2022

	2018	2019	2020	2021	2022
Consumer Loans	173.3	197.8	186.7	155.3	190.0
Corporate Loans	73.5	71.3	58.8	60.6	68.7

\*Amounts in Billions PHP

**Strong shareholders and highly-experienced management**

As of September 30, 2023, Filinvest Development Corporation (FDC) effectively owned 77.85% of EastWest. FDC is a holding company for the various businesses owned by the Gotianun Family. Established by Andrew Gotianun, Sr. and his wife, Mercedes Gotianun (both deceased) in 1955, FDC evolved from being a small-scale financing company for second-hand cars into one of the country’s leading conglomerates, with interests in property, banking services, power, sugar, and infrastructure.

Prior to the passing of Andrew and Mercedes in 2016 and 2022, respectively, succession plans were already in place for the Filinvest Group. Andrew and Mercedes' children, namely Jonathan, Josephine and Michael, currently hold key positions within the Group. Also, the third-generation members of the Gotianun family have started to take important roles in the Filinvest Group. In particular, Isabelle Therese Gotianun-Yap is Special Projects Officer and Director EastWest. She is also a member of the bank's Executive Committee. Isabelle Therese, 35 years old, is the daughter of Josephine.

Jonathan T. Gotianun is concurrently the Chairman of East West Rural Bank, Inc. (EWRB), East West Leasing and Finance Corporation (EWLFC), and East West Ageas Life Insurance Corporation (EWAL). Prior to his election as Chairman of the Board of EastWest in 2007, Mr. Gotianun served as Vice-Chairman and Director of the bank since 1994. He also holds several directorships in other companies within the Filinvest Group. Mr. Gotianun has a degree in Commerce from the Santa Clara University in California, and a Masters in Management from Northwestern University in Illinois.

Jacqueline S. Fernandez is EastWest's President since July 1, 2022. She has over 33 years of banking experience. Prior to her current position, she was the Chief Lending Officer of EastWest and Head of Consumer Credit of Standard Chartered Bank Philippines. Ms. Fernandez has AB Economics and Masters in Business Administration degrees from the University of the Philippines.

With over 30 years of regional experience in banking and finance, Jerry G. Ngo is the Chief Executive Officer (CEO) of the bank since January 1, 2023. Prior to his present position, he was a consultant of FDC and former Group Chief Financial Officer (CFO) and Director of PT Saratoga Investama Sedava Tbk in Indonesia. Mr. Ngo obtained a BS Medical Technology degree from Velez College and Master in Management from the University of San Jose-Recoletos. He also completed the Advanced Management Program of the Harvard Business School.

#### **Tempered operating results due to relatively lower loan volumes compared to pre-pandemic levels**

EastWest recorded relatively lower operating results from 2021 to 2022, compared to pre-pandemic levels, due to lower loan volumes. The bank was also negatively impacted by the interest rate cap on credit cards.

**Table 2 Operating Results, 2019-2022**

	2019	2020	2021	2022
Interest Income	29.8	30.7	23.3	26.1
Revenues	28.7	33.4	27.0	28.2
Net Income	6.2	6.5	4.5	4.6

\*Amounts in Billions PHP

#### **Improving but still negative consumer sentiment, amid relatively high inflation and rising interest rates**

Accounting for 17.7% of the banking system's gross total loan portfolio, consumer loans expanded as of end-2022. Consumer loans increased by 13.0% to ₱2.2 trillion in 2022, reversing the slight 0.6% contraction in 2021. The growth was largely driven by salary loans and credit card receivables. Residential real estate loans accounted for the largest share of total consumer loans at 42.0%, followed by credit card receivables at 24.9%, motor vehicle loans at 19.7%, salary-based general-purpose consumption loans at 11.8%, and other consumer loans at 1.6%.

Despite a remarkable increase in consumer loans in 2022, recent surveys on Consumer Expectations revealed a pessimistic outlook from consumers on account of faster increase in the prices of goods and higher household expenses. The consumer sentiment for the third quarter of 2023 (3Q2023) showed an overall confidence index (CI) of -9.6%, an improvement from -10.5% in 2Q2023, but still in negative territory. The improvement was attributable to more available jobs and permanent employment; higher income from wages/salaries, and remittances, among others; and additional working family members.

Based on TransUnion Philippines' Q4 Consumer Pulse Study, approximately 80.0% of respondents were expecting bigger sources of income in 2024. Of the total, more than half intends to save up for the rainy days and around 34.0% wants to settle debt. In addition, around 58.0% of Filipinos are also looking at availing of loans to meet their financial needs. This was a decline from 64.0% in the previous survey. Survey results also showed that more than half considered aborting their plan in securing credit lines due to high interest rates.

## **BUSINESS RISK**

### **COMPANY PROFILE**

EastWest is a domestic universal bank that provides a wide range of financial products and services to consumer and corporate clients. These include: deposit products, cash management services, corporate and consumer loans, treasury and trust products, credit cards, and corporate credit facilities, among others. In addition, EastWest also offers allied financial services such as: non-life insurance brokerage and bancassurance. The aforementioned products and services cater to the needs of a diversified clientele, including: individual consumers, middle market corporates, and small and medium enterprises (SMEs).

EastWest sees itself as a significant player in the country's consumer loan market, with consumer finance accounting for 79.4% of the bank's gross loan portfolio, as of end-September 2023. Amidst increased competition given most banks' foray into the consumer market, EastWest considers its understanding of and experience in the consumer lending market as its main competitive strengths.

The bank also introduced digital banking service<sup>1</sup>, Komo by EastWest (Komo), to enhance customer experience by providing convenience in bank transactions such as transfers, withdrawals, and payments. Komo allows its customers to open and manage their accounts completely online. EastWest is also actively expanding its digital banking service through customer segmentation and review of its channel strategy and distribution network.

The bank also provides a wide range of products through its subsidiaries and affiliate. As of September 30, 2023, it had six subsidiaries, as seen in Table 3.

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<sup>1</sup> Komo by EastWest is not licensed by the Bangko Sentral ng Pilipinas to operate as a digital bank, but offers digital banking and/or online banking services.

Table 3 Subsidiaries

Name	Principal Activity	Effective Percentage of Ownership
East West Rural Bank, Inc. (EWRB)	Consumer Banking	100.0%
East West Insurance Brokerage, Inc. (EWIB)	Non-Life Insurance Brokerage	100.0%
East West Leasing and Finance Corporation (EWLFC)*	Finance and Leasing	100.0%
Quest Marketing and Integrated Services, Inc. (QMIS)	Sales and Marketing	100.0%
Assurance Solutions Insurance Agency (ASIA)*	General Insurance and Marketing	100.0%
East West Ageas Life Insurance Corporation (EWAL)	Life Insurance	50.0%

\*Non-operational since 2017

EastWest remained as the country's eleventh largest bank based on total assets of ₱444.7 billion, as of September 30, 2023. Table 2 shows the bank's ranking among universal and commercial banks in the Philippines, based on Bangko Sentral ng Pilipinas (BSP) data.<sup>2</sup> EastWest accounted for 2.0% of the total assets of the country's universal and commercial banks, 2.4% of its total capital, 1.9% of its total deposit liabilities, and 2.0% as of total loans and receivables (net). Despite its relatively high ranking, the bank's market share was still considered minimal, as the industry's resources continued to be dominated by the top five banks in the country, and which accounted for more than half of the total assets of commercial and universal banks. These are: BDO Unibank, Inc. (BDO), Land Bank of the Philippines (Land Bank), Bank of the Philippine Islands (BPI), Metropolitan Bank & Trust Company (Metrobank), and China Banking Corporation (Chinabank). As of end-June 2023, EastWest's total assets was equivalent to about 10.0% of the total assets of the country's largest bank, which was BDO Unibank.

Table 4 Industry Ranking of EastWest

	Rank	% Share
Total Assets	11	1.9%
Total Shareholders' Equity	11	2.4%
Total Deposit Liabilities	11	1.9%
Total Loans and Receivables, net	11	2.1%

As the banking arm of the Gotianun-owned and controlled Filinvest Group, EastWest was approximately 77.85% owned by FDC, as of September 30, 2023. FDC is one of the largest and most diversified conglomerates in the Philippines, with interests in banking, real estate, hospitality and tourism, power generation, sugar and infrastructure. Both FDC and EastWest are listed on the Philippine Stock Exchange (PSE) with a market capitalization of ₱47.1 billion and ₱19.3 billion, respectively, as of January 5, 2024.

## OPERATIONS

The bank's main operating businesses are organized into the following segments: Retail, Corporate, Consumer, and Treasury and Trust. Each segment represents a strategic business unit that caters to the bank's identified markets. Table 5 and 6 present the operating income and net income contributions of each business segment from 2020-2022.

<sup>2</sup> <https://www.bsp.gov.ph/SitePages/Statistics/BSFinancialStatements.aspx?TabId=3>

**Table 5 Breakdown of Operating Income According to Business Segment, 2020-2022**

Business Segment	2020		2021		2022	
	Amount	% Share	Amount	% Share	Amount	% Share
Retail	7,811	23.61	7,843	29.29	9,524	34.00
Corporate	2,146	6.49	2,386	8.91	973	3.47
Consumer	14,082	42.57	14,063	52.52	17,413	62.15
Treasury and Trust	5,970	18.05	513	1.92	258	0.92
Elimination Items	3,074	9.29	1,970	7.36	(152)	(0.54)
<b>TOTAL</b>	<b>33,083</b>	<b>100.00</b>	<b>26,775</b>	<b>100.00</b>	<b>28,016</b>	<b>100.00</b>

\*Amounts in Millions PHP

**Table 6 Breakdown of Net Income According to Business Segment, 2020-2022**

Business Segment	2020		2021		2022	
	Amount	% Share	Amount	% Share	Amount	% Share
Retail	498	7.65	611	13.54	1,536	33.22
Corporate	763	11.72	841	18.63	546	11.81
Consumer	(691)	(10.62)	2,777	61.52	4,150	89.75
Treasury and Trust	4,667	71.71	(156)	(3.46)	(379)	(8.20)
Elimination Items	1,271	19.53	441	9.77	(1,229)	(26.58)
<b>TOTAL</b>	<b>6,508</b>	<b>100.00</b>	<b>4,514</b>	<b>100.00</b>	<b>4,624</b>	<b>100.00</b>

\*Amounts in Millions PHP

PhilRatings notes that Retail and Consumer banking accounted for more than half of the bank's total operating income in 2020-2022. Their combined percentage share consistently increased from 66.2% in 2020 to 96.2% in 2022. In terms of net income, the Consumer and Retail businesses also had the largest contribution in 2022. In 2020, however, the former recorded a net loss of ₱691.0 million, which resulted from higher provisions for credit losses due to income disruptions in relation to borrowers affected by the pandemic, and lower business volumes brought about by mobility restrictions in response to the COVID-19 contagion.

The products and services of the bank are made available across multiple distribution and delivery channels. As of September 30, 2023, EastWest had a network of 468 branches. Of the total, EastWest (Parent) accounted for 392 branches, while its subsidiaries had 76 stores.

**Table 7 Total Number of Branches**

	2020	2021	2022	9M2023
Parent Bank	392	392	392	392
Subsidiaries	76	76	76	76
	<b>468</b>	<b>468</b>	<b>468</b>	<b>468</b>

Furthermore, the bank provides 24-hour banking services through its network of 585 automated teller machines (ATMs), up from 585 ATMs as of end-September 2023. Of the total, 475 ATMs were in EastWest branches, while 110 were located off-site. The bank also has internet banking for individuals and corporates, mobile banking, and a 24/7 customer service hotline.

EastWest has put in place a security strategy that focuses on building a cybersecurity team; investing in technology and security solutions; and enhancing security oversight and governance through the

development of security policies and standards. The bank had no significant digital banking issues/threats reported in 2022.

The bank is also compliant with BSP requirements in relation to the National QR Code Standard. QR Code is currently available in Komo and will be made available in the bank's relaunched mobile application in 2024. According to management, the bank is also in the process of developing a more comprehensive sustainable financial framework policy.

As of September 30, 2023, EastWest had a total manpower complement of 7,889. There is no existing Collective Bargaining Agreement (CBA) between EastWest and any of its employees, and EastWest's employees are not part of any labor union.

### **Retail Banking**

EastWest provides traditional banking products and services, such as deposit products, investment products and cash management services to individuals and middle-market customers. Deposit products consist primarily of Peso demand, savings and time deposits. Investment products, on the other hand, include treasury bills and bonds, fixed-rate treasury notes, retail treasury bonds and long-term fixed-income debt instruments issued by public and private entities. In addition, the bank offers cash management services such as payroll, disbursement, collection, check warehousing and government payments.

### **Consumer Lending**

The bank offers various types of consumer lending products to individuals, and which consist primarily of credit cards, auto loans, residential mortgage loans and personal loans. Loan terms can vary according to factors such as customer's financial condition, age, loan purpose, collateral and the quality of relationship with the bank. Consumer lending includes credit cards, auto loans, residential home mortgage loans, and personal loans.

### **Corporate Banking**

While the activities of the bank are mainly focused on the working capital, term funding and project finance requirements of its core mid-market customer base (entrepreneurial or family-owned businesses), it also has banking relationships with large corporate accounts. Similar to the retail banking segment, corporate banking also offers products and services such as cash management services, foreign exchange, and deposit and investment products to corporate customers. The bank's corporate customers are engaged in different industries, and are located in key geographical areas in the country.

### **Treasury and Trust**

EastWest's Treasury unit is responsible for managing the bank's liquidity, interest rate and foreign exchange exposures by conducting a regular review of its cash flow position, debt maturity profile, availability of credit facilities and overall liquidity position. It also actively engages in trading of local treasury bills and bonds, foreign-currency denominated bonds and foreign exchange for the bank's own account.

On the other hand, EastWest's Trust unit offers a wide range of trust products and services such as fund management, investment management services, custodianship, administration and collateral agency services, and stock and transfer agency services to corporate and high net-worth individual customers. Moreover, the bank provides its retail customers with alternative investment opportunities through its Peso and US dollar-denominated unit investment trust funds (UITF).

## OWNERSHIP AND MANAGEMENT

As of September 30, 2023, the Filinvest Group effectively owned 77.85% of EastWest. The balance was held by the public (19.21%), as well as the bank's directors and principal officer (2.94%).

FDC is a holding company for the various businesses owned by the Gotianun Family. Established by the Andrew Gotianun, Sr. and his wife, Mercedes Gotianun (both deceased) in 1955, FDC evolved from being a small-scale financing company for second-hand cars into one of the country's leading conglomerates, with interests in property, banking services, power, sugar, and infrastructure. PhilRatings has assigned an issue credit rating of PRS Aaa to both FDC's total outstanding bond issue amounting to ₱8.8 billion, and proposed bond issue of up to ₱10.0 billion.

The bank's incorporation in 1994 signaled the Filinvest Group's re-entry into the financial and banking industry, an area in which FDC had gained previous experience in the 1970s and 1980s through its ownership of Family Bank and Trust Company and Insular Bank of Asia and America.

Prior to the passing of Andrew and Mercedes in 2016 and 2022, respectively, succession plans were already in place for the Filinvest Group. Andrew and Mercedes' children, namely Jonathan, Josephine and Michael, currently hold key positions within the Group. Also, the third-generation members of the Gotianun family have started to take important roles in the Filinvest Group. In particular, Isabelle Therese Gotianun-Yap is Special Projects Officer and Director EastWest. She is also a member of the bank's Executive Committee. Isabelle Therese, 35 years old, is the daughter of Josephine.

EastWest shares common directors and officers with other companies under the Filinvest Group. Jonathan T. Gotianun, Chairman of FDC, is also the Chairman of EastWest.

**Table 8 Management**

<b>Name</b>	<b>Position</b>
Jonathan T. Gotianun	Chairman
Jacqueline S. Fernandez	President
Jerry G. Ngo	Chief Executive Officer
Daniel L. Ang Tan Chai	Chief Finance Officer

Jonathan T. Gotianun is concurrently the Chairman of EWRB, EWLFC, and EWAL. Prior to his election as Chairman of the Board of EastWest in 2007, Mr. Gotianun served as Vice-Chairman and Director of the bank since 1994. He also holds several directorships in other companies within the Filinvest Group. Mr. Gotianun has a degree in Commerce from the Santa Clara University in California, and a Masters in Management from Northwestern University in Illinois.

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Daniel L. Ang Tan Chai, who has more than 30 years of experience in finance, as well as a background in Information Technology, is the bank's CFO. Prior to his current position, he was Deputy CFO of FDC, as well as Treasurer and CFO of FDC Utilities, Inc. Before joining the Filinvest Group, he was the CFO of Philippine Bank of Communication, Metrobank Card Corporation, Air Philippine Express and Philippine Airlines. Mr. Ang Tan Chai graduated from the University of the Philippines with Bachelor of Science in Industrial Engineering and Master in Business Administration degrees.

On December 31, 2022, EastWest announced the retirement Antonio C. Moncupa, Jr, whose 16-year stint with EastWest Bank involved the roles of President, CEO and Vice Chairman. Mr. Moncupa steered EastWest into becoming one of the biggest banks in the country, since taking over as the bank's President in January 2007. Under his leadership, EastWest managed to become the 11<sup>th</sup> largest bank in the country, in terms of assets as of end-September 2023, from 19<sup>th</sup> as of end-December 2007. The bank's total assets grew from ₱38.7 billion as of end-December 2007 to ₱403.8 billion as of end-December 2022, representing a compound annual growth rate of 16.9%. Its loan portfolio, on the other hand, expanded from ₱24.1 billion as of end-December 2007 to ₱238.6 billion as of end-December 2022, for a CAGR of 16.5%.

Based on the bank's audited financial statements as of end-2022, EastWest Bank remained fully compliant with BSP regulations regarding lending by banks to directors, owners, shareholders and other related interests (DOSRI).

## **STRATEGY**

EastWest aims to continue its growth momentum and recover its market share. The bank targets to have faster growth across all its asset classes to make up for lost growth during the COVID-19 pandemic. It plans to further accelerate the growth of its consumer loans, particularly brand-new auto loans, salary loans and personal loans.

EastWest also intends to further increase its efforts in digitalizing its business processes; beef up its sales and market initiatives; intensify relationship-building with clients; and strengthen its organizational development efforts.

According to management, EastWest's profitability is expected to be back to pre-pandemic levels, shortly, supported by significant loan portfolio growth. PhilRatings notes that the annualized net income of the bank in the first nine months of 2023 (9M2023) was ₱6.5 billion, and already up by 3.8% from its 2019 net income of ₱6.2 billion.

## **Economic, Environmental, Social and Governance (EESG)**

EastWest is committed to improving its EESG which it considers significant to its business and stakeholders. In collaboration with FDC, the bank is developing a sustainability framework and a set of commitments for specific sustainability areas. EastWest continues to incorporate these sustainability principles into its culture.

As of December 31, 2022, EastWest and its subsidiaries had not received any Notice of Violation related to environmental regulations from regulators. There were also no pending investigations or resolutions, and fines or penalties in relation to such. The bank's environmental impact focuses on energy and water consumption, as well as waste generation.

EastWest promotes equal opportunity for growth in its workplace. The bank believes that fostering a culture of diversity and inclusivity enhances its overall business performance by attracting and retaining very good talent. Employees are encouraged to excel in their respective careers, while contributing to the bank's success. PhilRatings notes that approximately 66% of EastWest's manpower were women, as of end-2022.

The bank's good governance practices are implemented through its Employee Code of Discipline and Ethics (Code of Conduct), Whistleblowing Policy, Ethics-Direct Initiative, Equal Opportunity policy, Consumer Protection program, and employee grievances mechanism.

### **ASSET QUALITY**

EastWest's gross loans increased by 19.9% to ₱258.7 billion as of end-2022, from ₱215.9 billion a year ago. The bank also ended 2022 with gross Non-Performing Loans (NPLs) of ₱18.5 billion, a 23.1% decline from the previous year, following the recovery of the domestic economy. Such represented 7.1% of the bank's gross loans. This was higher than the gross NPL ratio recorded by the universal and commercial banks of 2.5% as of end-2022. EastWest's net NPL ratio also improved to 4.4% as of end-2022, compared to 7.6% as of end-2021, as the reopening of the economy helped increased the capacity of consumers to repay their loans.

Moving forward, the NPL ratios are expected to stabilize as pandemic-induced NPLs are resolved through enhanced collection efforts and as economic recovery allows borrowers to eventually repay their loans.

### **Asset Composition**

EastWest's loan portfolio continued to be largely comprised of consumer loans with 79.4% share of total, as of September 30, 2023. This was in line with the bank's focus on consumer financing, where it considers itself to have a strong competitive position, based on its understanding of and experience in the market. Specifically, share of consumer loans to total gross loans had been on an uptrend. Meanwhile, corporate loans accounted for the remaining 20.6% of the portfolio as of end-September 2023.

As of September 30, 2023, the bank's top ten loan exposures, when combined, for a minimal portion of the total loan portfolio of the bank. Individually, the respective shares of these borrowers to the total loan portfolio were similarly minimal.

The bank's top ten NPLs, when combined, amounted to ₱1.5 billion, as of September 30, 2023. Such accounted for a minimal (single-digit percentage) of the bank's total NPL. Individually, the respective shares of these borrowers to total NPL were similarly minimal.

In terms of past due loans, represented a little over 1% of the total loan portfolio. The respective shares of past due borrowers, individually, to total loan portfolio were minimal.

EastWest's loan portfolio remained heavily concentrated on personal consumption, which amounted to ₱206.2 billion, or 72.2% share of total, as of September 30, 2023. Following was Real Estate, Renting and Business Services at ₱24.3 billion, with an 8.5% share. The respective shares of other industries in the bank's loan portfolio were below 10.0%. It should be noted that the BSP consider that loans concentration exists when total loan exposure to a particular industry or economic sector exceeds 30.0% of the total loan portfolio.

The bank's loan portfolio was 40.5% secured, as of September 30, 2023. PhilRatings notes that the share of secured loans to total has been gradually declining since 2021. According to management, this was due to loan growth recorded by EWRB, mostly under its Teachers' Salary Loans program where loan amortizations are deducted from a borrower's salary. Portfolio breakdown as to collateral was as follows: chattel mortgage, 27.4%; real estate, 7.7%; hold-out on deposits, 2.7%, and others, 2.7%. The balance of 59.5% represented unsecured loans.

## **FINANCIAL RISK**

*Analysts' Note: PhilRatings' calculation of certain ratios may be different from what the Company uses and publishes.*

### **PROFITABILITY**

#### **2021 vs. 2020**

The bank's total revenues amounted to ₱27.0 billion in 2021, lower by 19.1% from the ₱33.4 billion recorded in 2020. This was due to substantially lower loan volumes compared to pre-pandemic levels. The bank was also negatively impacted by the interest rate cap on credit cards, given that credit card receivables accounted for about 15.3% of the bank's total loans. This scenario translated to lower net interest margin (NIM) of 6.5%, from 8.1% in 2020. As a result, EastWest's net interest income significantly declined by 20.7%, from ₱26.5 billion in 2020 to ₱21.0 billion in 2021.

Operating expenses, excluding provisions, remained well-controlled. Such posted a marginal growth of 1.8% to ₱16.5 billion in 2021, against the ₱16.2 billion recorded in 2020. Compensation expenses was generally unchanged at ₱5.7 billion. Depreciation and amortization grew to ₱2.4 billion, higher by 11.8% from the previous year's ₱2.1 billion, on account of lower repossessed vehicle inventory due to disposals. Miscellaneous expenses likewise increased by 10.3%, from ₱5.7 billion in 2020 to ₱6.3 billion in 2021, due to IT-related expenses. Meanwhile, taxes and licenses fell by 26.3%, from ₱2.6 billion in 2020 to ₱1.9 billion in 2021, attributable to lower transaction taxes such as Gross Receipts Tax (GRT) and Documentary Stamp Tax (DST).

Provisioning significantly declined by 57.8%, from ₱9.8 billion in 2020 to ₱4.1 billion in 2021. In EastWest's view, pandemic-induced loan losses in 2020 and 2021 have been largely accounted for, thus the lower loan provisions on its portfolio.

Given the aforementioned, EastWest registered a net income of ₱4.5 billion, lower by 30.6% compared with the previous year's net income of ₱6.5 billion. Expense (excluding provisions) to average assets ratio was slightly up at 4.1%, while return on average assets (ROAA) declined to 1.1%.

#### **2022 vs. 2021**

EastWest's interest income registered 12.3% growth to ₱26.1 billion in 2022, driven by the expansion in its corporate loan portfolio. Interest expense, however, went up by 25.6% to ₱2.8 billion, as cost of funding increased sharply due to a tight liquidity environment. The bank managed to increase its NIM to 7.1%, resulting in a moderate growth of 10.9% to ₱23.3 billion in net interest income.

Non-interest income dropped by 17.8% to ₱4.9 billion. It should be noted that EastWest recorded a one-time gain on sale of investment securities at amortized cost amounting to ₱1.9 billion in 2021.

Operating expenses, excluding provisions, increased by 2.9% to ₱17.0 billion. Manpower expenses were higher by 5.1% to ₱6.0 billion on account of standard annual compensation and fringe-benefit-related increases that were given to employees to cover inflation. Miscellaneous expenses also grew by 7.1% to

₱6.7 billion due to IT-related expenses. These were partially offset by the 9.6% decline in depreciation and amortization, due to lower repossessed vehicle inventory attributable to disposals.

Provisioning for losses was higher by 19.3% to ₱5.0 billion in line with the increase in loan volumes, coupled with residual effects of the pandemic on the bank's consumer portfolio.

As a result of these developments, EastWest's net income posted a modest growth of 2.4% to ₱4.6 billion. ROAA was flat at 1.1%.

### ***Projected Period (2023-2024)***

Over the projected period, EastWest expects its profitability to improve. Interest income will remain as the main driver of the bank's revenue growth. The share of net interest income to revenues will continue to increase as EastWest forecasts lower funding costs. The bank also foresees non-interest income to grow on account of higher service fees and commission income.

Operating expenses will remain well-controlled during the period, while provisioning expense is seen to remain stable. Net income is seen to post a healthy increase over the projected period, with projected ROAA similarly posting growth.

## **ASSET-LIABILITY MANAGEMENT**

### ***2021 vs. 2020***

EastWest's total deposits slightly declined by 0.7% to ₱326.8 billion in 2021, from ₱329.1 billion in 2020. This was driven by the 21.0% reduction in time deposits to ₱69.4 billion, due to lower funding requirements of the bank. In contrast, current and savings accounts (CASA) deposits increased by 7.1%, from ₱228.8 billion in 2020 to ₱245.0 billion in 2021. The share of CASA to total deposits improved to 75.0%, from the previous year's 69.5%. Deposits to liabilities ratio was likewise higher at 94.6%. PhilRatings notes that the bank's bills and acceptances payables, as well as securities sold under repurchase agreements (SSURA) dropped by 97.3%, from ₱3.6 billion in 2020 to ₱98.2 million in 2021, due to lower volume of interbank and repo borrowings.

Loans and receivables stood at ₱213.6 billion, a decrease of 12.4% from the ₱243.7 billion recorded in 2020, due prudent risk-taking as part of the bank's pandemic response and the overall weak loan demand from businesses and households. As such, net loans to deposit ratio stood at 65.3% as of end-2021, lower from 74.1% in 2020.

EastWest reallocated resources among different financial assets over the period. Its financial assets at fair value through other comprehensive income jumped by 41.4% to ₱41.6 billion, attributable to the movements in the Bank's proprietary trading portfolio. In addition, amount due from BSP went up by 20.4% to ₱58.8 billion, driven by the placement of excess fund for liquidity management in the BSP's Overnight Deposit Facility (ODF) and Term Deposit Auction Facility (TDAF). Amount due from other banks also rose by 69.7% to ₱19.3 billion, due to higher level of placements in foreign currency accounts.

### ***2022 vs. 2021***

EastWest continued to grow its balance sheet, with the expansion still largely funded by core deposits. Total deposits slightly increased by 0.7% to ₱329.2 billion, and represented 91.4% of total liabilities. The deposit growth was attributable to the 6.5% expansion in CASA to ₱260.9 billion. The share of CASA to total deposits further improved to 79.3%. The growth in CASA and alternative funding sources offset the

need for higher-cost term deposits. Time deposits marginally declined by 5.2% to ₱65.8 billion. The bank's outstanding Long-Term Negotiable Certificate of Deposits (LTNCD) was also lower by 80.3% to ₱2.4 billion due to maturity.

Deposit to liabilities ratio, however, dropped to 91.4% as of year-end. EastWest's bills and acceptances payables, as well as SSURA surged to ₱6.8 billion, or 68.9x of previous year's level, on account of higher volume of repo borrowings.

Net loans to deposit ratio was higher at 78.4%. Loans and receivables stood at ₱258.1 billion, an increase of 20.8%, mainly from consumer lending in line with the economy's recovery. Consumer loans was driven by teachers' loans and credit cards. The former expanded as private lending institutions were allowed by the Department of Education (DepEd) to start offering five-year term loans to teachers, from the previously-allowed three-year term loans. On the other hand, the growth of the credit card business was supported by consumer spending which in turn, drove retail and installment billings.

### ***Projected Period (2023-2024)***

EastWest expects to keep its funding momentum by growing its core deposits. CASA will continue to account for most of deposits. Loans will continue to comprise bulk of the bank's earning assets over the projected period. EastWest will also reallocate its resources through the expansion of its investment securities portfolio.

## **CAPITAL**

### ***2021 vs. 2020***

Equity to assets ratio stood at 14.7% in 2021, from 13.6% in 2022. EastWest's total equity grew by 7.0%, from ₱55.5 billion in 2021 to ₱9.4 billion in 2022. Higher retained earnings continued to fuel equity growth. Total assets, on the other hand, marginally declined by 0.8%, from ₱408.2 billion in 2020 to ₱404.8 billion in 2021, mainly due to lower loan volumes attributed to overall weak demand from businesses and households amid the COVID-19 pandemic. Capital Adequacy Ratio (CAR) improved to 15.6%, as the bank continued to manage its exposure to riskier assets.

### ***2022 vs. 2021***

As of December 31, 2022, EastWest's total assets slightly expanded by 4.1% to ₱421.4 billion. Total equity, on the other hand, posted a minimal 2.8% growth to ₱61.0 billion, and which was mainly attributable to higher earnings retention. As such, equity to assets ratio was slightly lower at 14.5%. CAR remained more than satisfactory, despite being lower, at 13.8%.

### ***Projected***

### ***Period***

### ***(2023-2024)***

Total equity is expected to gradually grow by end-2024. As of report writing, EastWest has no capital-raising plans although the bank remains open to such exercise depending on market conditions. EastWest expects its CAR to remain above the regulatory minimum for the projected period.

## **9M2023 FINANCIAL PERFORMANCE**

EastWest's interest income went up by 33.0% to ₱25.1 billion in 9M2023, from ₱18.9 billion in the same period last year. The growth was driven by higher volume of loans and fixed income securities. Total interest expense significantly jumped by 166.0%, from ₱1.7 billion in 9M2022 to ₱4.6 billion in 9M2023, due to higher cost of funding over the period. Nevertheless, NIM was higher at 7.7% from 7.1% in the same period last year. As a result, net interest income grew by 19.5%, from ₱17.1 billion in 9M2022 to ₱20.5 billion in 9M2023.

The bank's non-interest income jumped by 59.1%, from ₱3.2 billion in 9M2022 to ₱5.1 billion in 9M2023, and which was primarily attributable to higher service fees and commission income, trading securities gain and gains from sale of foreclosed assets.

EastWest's total revenues rose by 25.8% to ₱25.6 billion against the ₱20.3 billion recorded from a year ago.

Operating expenses (excluding provisions for losses) was up by 15.8%, from ₱12.6 billion in 9M2022 to ₱14.6 billion in 9M2023. Compensation and fringe benefits increased by 23.9% on account of higher salaries and wages. Taxes and licenses also expanded by 31.8%, from ₱1.4 billion in 9M2022 to ₱1.8 billion in 9M2023, due to higher GRT and DST attributable to increased volumes in both loans and deposits. Meanwhile, provision for losses grew by 37.7%, from ₱3.5 billion in 9M2022 to ₱4.9 billion in 9M2023, in line with loan portfolio growth.

As a result of the foregoing, EastWest posted a significant growth of 60.3% in its net income, from ₱3.0 billion in 9M2022 to ₱4.9 billion in 9M2023.

The bank's assets slightly increased by 5.5% to ₱444.7 billion, as of September 30, 2023, from the ₱421.4 billion recorded as of end-2022. Loans and receivables also went up by 9.9% to ₱283.7 billion. On the other hand, EastWest's total deposits posted a single-digit growth of 2.7% to ₱338.0 billion. The share of CASA to total deposits further improved to 81.5%, as time deposits continued to decline.

Equity to assets ratio stood at 14.6%, slightly higher from the 14.5% recorded as of end-2022, as total equity rose by 6.3% to ₱64.9 billion, and which was mainly driven by the bank's higher retained earnings.

## **ECONOMY**

### **2022**

In the last quarter of 2022, the Gross Domestic Product (GDP) of the Philippines grew by 7.2%. This resulted in a full-year GDP growth of 7.6%, and which marginally exceeded the government target of 6.5% to 7.5% for the year. The top contributors to full-year growth were: Wholesale and Retail trade, Repair of Motor Vehicles and Motorcycles (+8.7%); Manufacturing (+5%); and Construction (+12.7%). Among the major industries, the Services sector continued to lead full-year growth (+9.2%), followed by the Industry sector (+6.7%), and then Agriculture, Forestry, and Fishing (+0.5%).

Household spending increased by 7% in the last quarter of 2022, and by 8.3% for the year. This was amid inflation reaching 5.8% in 2022, versus 3.9% in 2021. National Economic and Development Authority (NEDA) Secretary Arsenio Balisacan attributed such to the high employment rate supporting consumption despite higher commodity prices. Unemployment rate was at its lowest in 17 years in November 2022 at 4.2%, down from 4.5% in the previous month. In the last quarter, however, household spending growth was slower than the 10% recorded in first quarter 2022 (1Q2022).

Government spending likewise grew by 3.3% in 4Q2022, and by 5% for the year. Latest data from the National Government Disbursement Performance of the Department of Budget and Management (DBM) indicated that Infrastructure and Other Capital Outlays increased the largest (+38.4%) for the month of November. From January to November, the combined allotment and capital transfers to Local Government Units were the biggest government expenditures (+24% and +28.6%, respectively), driven by the financial assistance and special shares from national tax collections.

**2023**

The Philippine economy grew by 5.9% in 3Q2023, faster than the 4.3% growth recorded in the previous quarter. This brought the year-to-date average growth to 5.5%, which is still below the government's 2023 GDP target of 6.0% to 7.0%. Secretary Balisacan said that the economy would have to expand by 7.2% in the final quarter to meet the full-year target.

According to the Philippines Statistics Authority (PSA), the main contributors to the third quarter growth were wholesale and retail trade, vehicle repair, financial and insurance activities, and construction. Public spending rebounded by 6.7% during the period after it posted a contraction of 7.1% in the previous quarter.

**OUTLOOK**

Fitch Solutions unit BMI has revised upward its growth forecast for the Philippine economy for 2023, following a strong GDP growth in the third quarter of the year. BMI adjusted its GDP growth outlook to 5.7%, from an initial projection of 5.3%.

For 2024, BMI forecasts a 6.2% growth on the back of external headwinds that are seen to affect the performance of the Philippine economy. This is seen to take a toll on growth, particularly exports, over the coming quarters. BMI also pointed out that domestic consumption growth should remain robust as inflation eases.

In October 2023, inflation slowed to 4.9%, from 6.1% in the previous month. This was also lower than the BSP's forecast of 5.1% to 5.9%. The downtrend was mainly due to the deceleration in prices of food and non-alcoholic beverages, as well as restaurants and accommodation services. The latest inflation figure brought down the average inflation to 6.4%, albeit such is still far from the government's target of 2% to 4%.

**INDUSTRY****CONSUMER LENDING<sup>3</sup>**

Accounting for 17.7% of the banking system's gross total loan portfolio, consumer loans expanded as of end-2022. Consumer loans increased by 13.0% to ₱2.2 trillion as of end-2022, reversing the 0.6% contraction in 2021. The growth was largely driven by salary loans and credit card receivables. Residential real estate loans accounted for the largest share of total consumer loans at 42.0%, followed by credit card receivables at 24.9%, motor vehicle loans at 19.7%, salary-based general-purpose consumption loans at 11.8%, and other consumer loans at 1.6%.

Despite a marked increase in consumer loans in 2022, recent surveys on Consumer Expectations revealed a pessimistic outlook from consumers on account of faster increase in the prices of goods and higher household expenses. The consumer sentiment for 3Q2023 showed an overall CI of -9.6%, an improvement from -10.5% in 2Q2023, but still in negative territory. The improvement was attributable to more available jobs and permanent employment; higher income from wages/salaries, and remittances, among others; and additional working family members.

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[https://www.bsp.gov.ph/Lists/Report%20on%20the%20Philippine%20Financial%20System/Attachments/31/StatRep\\_2Sem2022.pdf](https://www.bsp.gov.ph/Lists/Report%20on%20the%20Philippine%20Financial%20System/Attachments/31/StatRep_2Sem2022.pdf)

Consumers registered low confidence in three components: country's economic condition (-13.5%); family's financial situation (-12.7%); and family income (-2.5%).

The pessimistic sentiment of consumers is seen to improve for the next quarter with higher CI of 7.8% (from 4.6%). For the next 12 months, however, consumer sentiment was less optimistic as the CI declined to 18.9% (from 20.5%).

Based on TransUnion Philippines' Q4 Consumer Pulse Study, approximately 80.0% of respondents were expecting bigger sources of income in 2024. Of the total, more than half intends to save up for the rainy days and around 34.0% wants to settle debt. In addition, around 58.0% of Filipinos are also looking at availing of loans to meet their financial needs. This was a decline from 64.0% in the previous survey. Survey results also showed that more than half considered aborting their plan in securing credit lines due to high interest rates.<sup>4</sup>

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<sup>4</sup> [https://business.inquirer.net/433351/wary-filipinos-plan-for-more-savings-less-debt-in-2024?utm\\_source=\(direct\)&utm\\_medium=gallery](https://business.inquirer.net/433351/wary-filipinos-plan-for-more-savings-less-debt-in-2024?utm_source=(direct)&utm_medium=gallery)