

PRESS RELEASE

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EastWest net income surges 35.4% in Q2, ends 1H 2018 with ₱2.2 Billion

Gotianun-led EastWest Bank (EW) posted a net income of ₱2.2 billion in the first half of 2018 as its second quarter income increase by 35.4%. It registered a return on assets of 1.4% and return on equity of 11.1%, maintaining its position among the most profitable banks in the country.

While still significant, the ₱2.2 billion is an 11% decline from the same period last year. EW attributed the decline mainly to the adverse development on its wholly-owned subsidiary, EastWest Rural Bank (EWRB). Excluding its EWRB business, EW's net income increased by 12% YoY.

Until late June 2018, the lending program to public school teachers under the Automatic Payroll Deduction System (APDS) was suspended as the Department of Education worked on the new guidelines. While the new guidelines are out and the credit is now available to teachers, there is still the issue on the priority of deduction among lenders.

EW's Net Interest Income increased by 7% to ₱9.6 billion, driven by the increase in consumer loans. Excluding rural bank, its consumer portfolio of Auto, Home and Personal Loans were up 13%. The increase in consumer loans allowed the Bank to minimize the margin compression that happens when interest rates rise as adjustment in loan rates lag the increase in deposit costs.

Fees and commissions were 23% lower at ₱2.1 billion due to the lower contribution from its rural bank subsidiary. Trading income on the other hand was 10% lower on account of increasing interest rates and tighter monetary conditions in both the international and local markets. Typically, banks incur significantly lower trading income when interest rates rise.

Operating expenses increased by 11% to ₱7.2 billion, primarily due to increase in higher

transaction taxes as the new and higher Documentary Stamp Taxes (DST) came into effect. The Bank also incurred one-time DST and fees of ₱75 million when it increased its authorized capital stock to ₱50 billion from ₱20 billion.

On the other hand, Provisions for impairment and credit losses was lower at ₱1.9 billion or 4% lower from the previous year. The Bank's consumer portfolio has largely matured and needs less provisions. The lower provisions came with the improvement in loan loss cover at 69%. The drop in provisions would have been more pronounced if not for the additional provisions on the Bank's salary loan to public school teachers in the rural bank.

"While the rural bank had some issues in the first half of the year, it remains committed to DepEd teachers. EWRB is proud of its contribution to push lending rates to teachers significantly lower and give them access to credit. The Bank will continue to strongly advocate not only access and lower rates but equally important, inclusive lending programs and equality among lenders. Our teachers deserve nothing less." Said Antonio C. Moncupa Jr, Vice Chairman of the board of both the unibank and its rural bank subsidiary.

Total Assets stood at ₱319.3 billion as of June 30, 2018. The 3% asset growth masked the 13% growth in consumer ex rural bank loans to teachers. Consumer loans account for 72% of total loans or ₱162.8 billion. Business loans, on the other hand, which was flat at ₱61.8 billion comprise 28% of the portfolio.

"The significantly higher deposit costs in the first half pushed the Bank to be more circumspect on its rate sensitive business borrowers. At any rate, we are guardedly optimistic that for the rest of the year, we will be able to resolve the remaining issues on the rural bank lending program to teachers." Bobby Reyes, EW President said.

Capital ratios meanwhile, remain healthy with Capital Adequacy Ratio (CAR) and CET1 Ratio at 13.7% and 11.3%, respectively.

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