Foreword

Thank you for reading EY Conversations. Every day our people work to ask better questions, create better answers, and build a Better Working World. Every day, we engage with leaders, thinkers, and doers around the world on fascinating topics – this is our way of sharing these ideas and insights with you.

Our first edition of EY Conversations takes place in Southeast Asia’s fastest growing economy, the Philippines. The Philippines has long been seen as the next “Asian tiger economy”. However it is only in the past few years that the country started to deliver on its full economic potential. We see strong interest in the country: a deregulated financial services industry drew strong interest from foreign investors, both Asian and Western. Banking and insurance is transforming rapidly, as large segments of the population continue to enter formal financial services. A newly created central credit bureau is levelling the playing field, and a small but agile FinTech scene is seeking out opportunities to transform industry niches in lending, product aggregation and comparison, payments, and remittances. Finally, the proposed tax reform should increase discretionary spending power among low income segments and dramatically boost investment in infrastructure. Across sectors we foresee continued, strong interest in acquisitions and partnerships in the Philippines – in particular from Asian strategic investors, private equity, and domestic conglomerates.

We hope you enjoy the conversation. As always, please let us have your own thoughts and opinions – we look forward to hearing from you.

Vicky B Lee-Salas
EY Financial Services Leader
Philippines
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The Philippines outperformed its ASEAN neighbours in 2016, with economic growth of 6.8%, low inflation, and rising consumer purchasing power. The government’s ten point Socioeconomic Agenda emphasizes continuity, infrastructure, rural development and investment in education, and is expected to help sustain annual growth of 6.9% to 2020.

As in other Asian markets however, the financial services industry is undergoing systemic changes: historically low interest rates are eroding margins for banks, stronger regulatory oversight drive costs, while foreign entrants and FinTech players increase competitive tension.

Against this backdrop, EY’s Michael McGauran, Partner for Transaction Advisory Services, Asia-Pacific sat down with Cezar Peralta “Bong” Consing, CEO of Bank of the Philippine Islands (BPI), the oldest financial institution in Southeast Asia, for a wide ranging conversation about his life and career, the Philippines economy, globalization, government policy, and the value of ‘face time’.

Cezar Peralta “Bong” Consing
CEO, Bank of the Philippine Islands

Age: 57

Board Directorships
- Bank of the Philippine Islands and its subsidiaries
- The Rohatyn Group
- National Reinsurance Corporation Philippines
- LGU Guarantee Corporation
- Sqream Technologies
- Endeavor Philippines
- Jollibee Foods
- Filgifts.com

Prior roles:
- Partner, The Rohatyn Group
- Head of Investment Banking, JP Morgan Asia-Pacific
Leading BPI

Cezar Peralta “Bong” Consing
CEO, Bank of the Philippine Islands
You’ve been CEO for four years now and BPI remains the most profitable bank in the Philippines in terms of return of equity. Are you done? Time to play more golf?

Mike I’m far from done. You know, getting BPI to be the most profitable bank in terms of return on equity (ROE) is actually its traditional perch. This bank has traditionally been the most profitable bank in the country. And because of that it’s always had the highest multiples: price to book, price to earnings. What’s happened though, since the global financial crisis, is that ROEs across the banking industry worldwide and in the Philippines have come down. For our bank at one point a couple years ago we were back down to about twelve and change, when historically we’re used to ROEs in the high teens. That’s the historical bar. Now we’re back to the mid-teens, which is where we told investors we’d get the bank to be when we last raised capital.
We last went to the capital markets in late 2013 and got the funds very early in 2014 and I remember in that road show we were telling potential financial investors that there were three financial metrics they ought to keep in mind: we wanted to give them an ROE of 15%, a return on assets of 1.5%, and achieve a cost income ratio of 50%.

We’re at the stage now where we are at, or pretty close to, all of the three. It’s taken us almost three years to get that because we had to invest in the business. And it’s now that those investments are beginning to pay off. So we were at the top of the mountain, then we came down a little bit, now we’re heading back up. But throughout that time we were always on the highest perch relative to our competitors. That’s neither here nor there, except that sometimes it’s good to compare yourself with your peers.

You are done with some things... what are those?

We’re done with the first phase of what is a step function. This bank has always been very well run and my predecessors always made sure that we were in a leadership position in terms of profitability and efficiency. But that is at a certain scale. When I took this job, it was very clear to me that the old scale wouldn’t do anymore and what had changed was, the country began growing at tremendous rates. It’s been growing at 6-7% over successive years. So all of a sudden it demands a scale that you didn’t need before.

What we’re trying to do is maintain the same disciplined, market-leading metrics, but at a whole larger scale. What has happened in the last four years is, we have basically doubled the size of the bank. You know how it is: size and efficiency don’t always go together. The real challenge is, how do you double in size and be just as efficient? I think the management team here has done a pretty good job trying to walk that balance.
Just after you joined as CEO, the regulator removed equity caps on foreign ownership in local banks so you came in thinking you have a certain level of protection — but then you see well-capitalized competitors coming in and increasing the heat in the market.

That’s right — actually to put an exclamation point to that, I thought before I took this job that I would be taking over a combined bank. I thought we would have merged with another bank. I was on the board — not yet CEO — but I was on the board when the two bank boards on the same afternoon approved the merger. And that very same day, some of the shareholders changed their mind.

So you got half the bank you thought you would, and a whole bunch of competitors.

Yes, that was challenging. But I actually think in the general scheme of things, the competitive dynamic was less an issue than some of the other macro stuff that was going on, for example, low interest rates. Historically low interest rates which were a result of the massive wall of liquidity that the central banks put into the system in order to reverse the global financial crisis. We’ve never had interest rates this low — so banks globally have had to deal with their net interest margins — which is a core operating metric — shrinking at a speed that they’ve never seen before. In this market five to six years ago, the net interest margin was 5%. Now it’s 3%. Can you imagine, 40% of your margin just gone?

How do you make up for it?

You have to make up for it in terms of more products, you have to make up for it in terms of volume, more customers, and you’ve just got to get bigger. That I think was probably the most important macro challenge. But it wasn’t unique to me, it was for all the bankers. The other thing that I think was a big macro challenge was increased regulation. As an aftermath of the global financial crisis, in some parts of the world, banks are actually seen as dangerous. Banks with a lot of derivatives exposure are seen as particularly dangerous — was it Warren Buffett who said some of these derivatives are “weapons of mass destruction”? The regulation that followed increased the cost of doing business. So on the revenue side your margins are coming down, and on your cost side you have these regulatory costs that you never thought of before.

And those don’t necessarily prevent the major issues either, they didn’t prevent the recent scandal in the Philippines around Anti-Money-Laundering...

Exactly — so that was the second big macro issue. A third macro issue — probably not as impactful us the first two — was the emergence of FinTech. All of a sudden you have these companies basically eating into banks’ revenue pies, but in the unregulated areas — and the profitable areas. So you look at the mass of liquidity, increased bank regulation, and FinTech and that’s a challenge for all banks. And then you come and look at this bank and you realize it’s a great bank, great metrics, but managed to a different scale — because, for the longest time, for a good part of the last 30, 40 years, there was very little growth in the Philippines. There was martial law. The country went into restructuring. Standards of living fell 30% — so you had to manage for efficiency. But when I came in during the restructuring, the growth had already started. The growth probably started two or three years before I took this job but it was accelerating. And then you realize: you’d better step on the pedal.
“The real question is, how do you double in size and be just as efficient?”

Philippines country snapshot

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<thead>
<tr>
<th>Macro data</th>
<th>Investments in Financial Services 2014 - 2016</th>
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<tr>
<td>Name: Republic of the Philippines</td>
<td>Year</td>
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<tr>
<td>Population: 103 million</td>
<td>2016</td>
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<td>Median age: 23.4 years</td>
<td>2016</td>
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<tr>
<td>GDP: USD 311 billion</td>
<td>2015</td>
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<tr>
<td>GDP Growth: 6.9%</td>
<td>2014</td>
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<tr>
<td>Inflation: 3.3% (2017)</td>
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<td>Literacy: 96.3%</td>
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<td>Urbanisation: 44%</td>
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Source: CIA Factbook, Mergermarket database; EY analysis

You need to operate differently in an organization which wants to drive growth...

Very differently. First is the decision that we have to grow with the market. We have to make a conscious decision to grow with the market. We can’t concede that. In the old days, if in a long period where there is very little growth or small spurts of growth, you can actually decide: I’m going to give that up. I’m going to continue to manage for efficiency because in the end, efficiency wins. I’m not going to make the mistakes some of my competitors will. But in a prolonged period of growth, you don’t have that luxury. You become subscale, you become irrelevant. You’ve got to say: I’m going to press the pedal. So at the bank — and I’m thankful to our board and our shareholders for this — we made the decision that we will not concede our market presence. We will grow as fast as the market or close to it, in some areas more than the market. But we’ll try to do it in the way that we can still have the best in class metrics. That’s not easy to do: to be able to say that you’ll reconcile efficiency and growth.

What does it come down to: the right people, processes, products, channels?

I think it needs all of that, Mike. First of all you need people that are used to fast-growing environments. One of the things we did here was, we brought in a lot of people — not because the people here weren’t good — the people here are very good. All of the people that have been here a long time are extremely good but they were managing for efficiencies, because that’s what the market gave them. So we had to bring in people that were used to managing for growth — and somehow try to meld the two. So it starts with people and we did a lot to bring in new people at all levels. But perhaps the most pronounced is at the senior levels. We have a couple of hundred senior officers. In the last four years, over half of those have turned over. That’s a big number; 50% have turned over, that counts the number of people that have been brought in, plus the number of people that have been promoted up to senior officer level, less the number of senior officers that have retired or left. I think to be able to get to that 50% turnover prior to this four year period, you’re going to have to look back probably twelve to fifteen years. I’ll give you a very
simple example: we have six executive vice presidents. Four of them joined in the last four years. The last time this bank hired an executive vice president from the outside was in 1979. Mr. Xavier Loinaz ran this bank for well over 20 years. In many ways this is still his bank, he ran it for so long. That was the last time we hired anybody at that level. And if you include me, five of the top seven officers of the bank are new to the organization. Now that’s neither good nor bad, that doesn’t say the new ones are better than the old ones, but there’s a need to mix and match: managing for growth and managing for efficiency.

How long does it take to adjust the people to the strategy?

We’re still adjusting now; some adjustments are easier than others. It would be a lie to say it’s also easy and the adjustment is seamless. Some of these are painful and sometimes you get it wrong. But I’d like to think we are fairly quick at correcting our mistakes.

Coming in as CEO, your plan included expanding the bank regionally – but you are now focusing on the domestic market. Why?

Two reasons: one, the growth rates here are faster than almost anywhere else but China. And two, market penetration is so low. So between the high growth rates here and the low banking penetration, the biggest opportunity has to be here – and this is where we have the biggest advantage. And then I had the benefit Mike, as you know, of sitting on the CIMB board for 9 or 10 years with some very good people. A very talented, very powerful bank – and seeing the challenges they had to face as they move from one market to the other – and they already had the benefit of all these resources. So that gave me pause. Also it became very apparent with the global financial crisis, local banks were valued better than global or regional players. They had stuck to their knitting, their balance sheets were simpler. They had a real customer base. And I thought that’s a trend we ought to ride on.

...synergies across markets happens only in textbooks?

It’s hard work. Some people do it really well: I’ve seen CIMB make a success of it – but hard work. DBS, Hong Kong Bank, Standard Chartered, but really hard work. And the resources it requires, I thought are better expended here, at least for the moment.
There are fundamental changes in how people borrow, save, invest, transact – FinTech adoption has been rampant in China but in Southeast Asia we haven’t really seen this kind of “Cambrian Explosion”. Are we going to?

I am surprised Southeast Asia has been a little slow in the pick up. Maybe it’s because banking penetration is still quite low. Having seen what happened in China, where in the span of five years it’s all over the place...

...The largest money market fund in the world is the deposits on peer to peer payments...

...it’s bigger than JP Morgan’s money market fund; but it’s been slower here which from where I’m sitting, buys us a bit more time. But we’ve had to embrace at least the whole digital thing. We’ve decided we’re going to digitalize the bank. At least we’re going to digitalize the way customers access the bank. As you know, Mike, by local standards we have a higher percentage of customers accessing us electronically or digitally than almost any other bank here. But it’s low by regional standards.
On paper there shouldn’t be a low digital penetration in the Philippines: the population is educated, young, tech savvy, 100% mobile penetration, mobile money…

There shouldn’t be and I think it’s because banks just haven’t offered it or haven’t offered enough of it. So we’re in the process of investing so that we can offer complete digital access. It’s going to take a couple years but we’re going to get there. And then our digitalization ratios will look more like the rest of the region.

Do you Tweet, Instagram…?

I’m actually the last person to ask about social media, which gives me a natural limit to my stint as CEO. I don’t Facebook. I don’t use LinkedIn. Maybe let’s put it this way: for my skill set now, I’m good for a few years, after which we’d better have somebody else, who’s more in touch.

It’s not all about Digital – you have big agenda about people, organization, other things – but you feel that the next CEO will be a digital native?

My bias is that a banking CEO has to be a banker first and foremost. I think I am that. But he or she also has to have a very strong technology bent which I don’t have. I’ve made up for it by bringing in people that have it. But I’ve got to think that in the next generation of bank leaders they will be much more technically adept than I ever will be, which I think puts a natural time frame on my role here.

As an aside, I was having this conversation with Mark Tucker. He used to be the global CEO of AIA, now he’s accepted the chairmanship of Hong Kong Shanghai Bank (HSBC). He’s starting July 1 at HSBC as chairman. He’d come around once a quarter because we have a joint venture (JV); his theory is that as CEO of a public company, the optimal time is seven years because it’s enough time for you to do what you want to do. You still have energy, you still have new ideas. After that you begin to get stale.

It makes sense: if you can’t do it in seven years, unlikely you can do it in ten...

Exactly. So that’s his view, the optimal time is seven. If you look at most of the investment banks, Goldman Sachs, JP Morgan etc., I would say the average tenure of a managing director at least when I was there is seven years. I was a managing director at Morgan for 10 or 11 years, so for longer than the average, but there is something to be said for that.

People have different views about work. The very Filipino view, the very traditional view is closer to lifetime employment; like the old IBM, the old Japanese style; and I think for a lot of people that’s the right thing. But you take the other extreme – say investments banks – where they don’t want you for your whole life – they just want the most productive part of your life. They get the most productive years of your life, and max you out; that’s a different philosophy. So I’m sitting where I’m sitting now, I don’t think we need to ascribe to the lifetime employment model; I certainly don’t think we have to ascribe to the investment banking model. But there’s something in between that probably makes sense for us.

“There is something noble about running a bank like BPI. A 166 year old bank, tremendous heritage, the first bank in the country, for the longest time it issued the currency – and you just want to make sure that you pass the bank to the next guy in better shape than you got it. It’s a relay.”
You have a joint venture (JV) with life insurer Philam, which is partly owned by AIA. It’s one of the best performing JVs in the market. Banks in Asia often struggle with JVs and with their insurance partners (and vice versa). Banking and insurance require different philosophies, insurers think in decades, and bankers often in quarters. Why does it work you?

We probably have two of the most successful bancassurance JVs in the country. You mention our life insurance JV, which in terms of annualized new premiums (ANP) is growing faster than its insurance company parent; so in terms of ANP, BPI-Philam is at this point growing faster than Philam – which is [owned by] AIA.

It comes with all the stresses of trying to fit insurance and banking together. So it comes with all the stresses and all the tensions – but I think what makes it work despite all those stresses is, number one: both partners really want to make it work. I think on the bank side we realize that if we are going to present our clients with the full suite of financial products, some of them had better be life insurance products. Protection is important. And on the Philam side I think they realize that the bancassurance channel is a more efficient channel than the traditional agency channel. I am speaking for them and have no right to, but I think that’s what they would say. So as a result, both sides work very hard to make it work. I think it helps that the leadership on both sides I think honestly like each other, at several levels. We’re simpatico.

Philam is the bigger partner [in terms of equity] – slightly. We are the smaller partner – slightly, just by a few points. But it’s a true partnership of equals, where Philam “drives the bus” and we make our distribution channels available. So I would think that our JV ranks pretty high up in the AIA world when they compare it to other JVs. We’re probably one of the better performing ones.

We spend a lot of time with bancassurance clients trying to figure out what to tweak: the KPIs, the engagement model between branch manager and agents...

...somehow we’ve just gotten simpatico. It’s been driven by people like Nabby Alejo and before that TG Limcaoco, who wanted it to work and we’re picking up on that. So that’s on the life insurance side.

On the non-life insurance side with Mitsui Sumitomo (MS) in Japan, we have what is probably the most profitable, in terms of ROE – maybe even in absolute terms – the most profitable non-life insurance company in the country. And here we have a bigger piece than Sumitomo – so it’s the reverse [in terms of equity ownership]. But we tell them, look, you’re the insurance company, we’re the distribution channel, you drive the bus, pretend you’re the bigger piece.

...we spend months trying to negotiate equity percentage points in JVs but at the end of the day it doesn’t matter...

It doesn’t matter. Management should do what’s right for the business, never mind the ownership, because ultimately that will be up to the shareholders. We tell MS, pretend you’re the bigger partner, or else they’re going to be very careful. The Japanese are very careful about all of this, but we said forget the fact that you have the slightly smaller piece, pretend that you have the bigger piece, I chair the company – and let’s go at it! Again we have been very lucky in that at several levels the leadership teams are quite simpatico – you need that “special sauce”.

Leading BPI

Spotlight on Bancassurance

You have a joint venture (JV) with life insurer Philam, which is partly owned by AIA. It’s one of the best performing JVs in the market. Banks in Asia often struggle with JVs and with their insurance partners (and vice versa). Banking and insurance require different philosophies, insurers think in decades, and bankers often in quarters. Why does it work you?

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Where are the opportunities for BPI today?

We’ve got to “fill out” – and where we’re a little soft is Small and Medium Enterprises (SME) and microfinance. We have to build an SME banking business that is top notch in the market because that’s where the country’s going. Last year I looked at the numbers – the very big groups here, while they hire a lot of people, it’s a fraction of the number of people entering the labor force. SMEs lack equity capital and access to finance.

The other thing we’ve got to grow is microfinance. I think the need in microfinance is even more acute than the need in SMEs because microfinance clients borrow money at the most expensive rates and yet do some of the most useful things. They’re the glue that keeps the country together – so we’ve got to build that out.

The real challenge for BPI is continuing to move the bank from what has traditionally been a bank that caters to top corporates and top retail clients, to a bank that is truly inclusive. If you look at our numbers in terms of personal banking clients etc., we’re considered pretty inclusive already, but we can do more because that’s where our economy is going.

Does the strategy around SME and microfinance fit with the government’s agenda around infrastructure and decentralization?

I think so because it’s SMEs and micro entrepreneurs that really benefit from infrastructure. The big corporates can build their own infrastructure; they’ve been doing it already. But the people who will use infrastructure are SME and microfinance clients.

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### SMEs in the Philippines

#### SME distribution by region (1)

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<tr>
<th>Region</th>
<th>No. of MSMEs per region:</th>
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<tbody>
<tr>
<td>Ilocos Region</td>
<td>150,000 above</td>
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<tr>
<td>Central Luzon</td>
<td>100,000 to 149,999</td>
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<tr>
<td>National Capital Region (NCR)</td>
<td>50,000 to 99,999</td>
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<td>Central Visayas</td>
<td>30,000 to 49,999</td>
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<td>Western Visayas</td>
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<td>Calabarzon</td>
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<td>Davao Region</td>
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#### SME revenues by region and industry

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<th>Region</th>
<th>Real estate</th>
<th>Wholesale and retail</th>
<th>Tourism</th>
<th>Manufacturing</th>
<th>Education</th>
<th>Others</th>
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<td>Ilocos</td>
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Source: Philippine Statistics Authority, SME Census, 2015; EY analysis
Life and career
Prior to leading as CEO you were on the board of the bank. What did you not know as board member that you know now?

Actually the story is a little longer than that. My first job was in this bank. I was a young banker here from 1981 to 1985. I was a corporate banker. I lent money and I was actually hired by the fellow who ran this bank for twenty five years. He was the new EVP and he was clearly the then heir apparent, Xavier Loinaz. So I knew what the bank was like, having worked here in the 1980s. But basically he sent me off to JP Morgan (JPM) on what was supposed to be a two year secondment. At that time BPI was 20% percent owned by JP Morgan. And the deal was: JPM was looking for an Asian – who wasn’t Chinese or Japanese – to join their growing investment banking group in Asia, working out of Hong Kong. And BPI was looking to get one of their young officers exposed to investment banking. And so Mr. Loinaz and the JPM Board Directors came to terms and they sent me off. It was an interesting deal where BPI paid my benefits for 2 years and JPM paid my salary and bonus, and after two years I was supposed come back here.

Two years came and went and my boss at JPM at the time, a fellow by the name of Tom Ketchum who was running Hong Kong but eventually became vice chairman of all of JPM, asked me to stay for good. So I remember flying home here, talking to Xavier Loinaz and saying “Morgan’s offered me a job, I’m prepared to come home. I’ll do what you want me to do” and Xavier, to his credit, said, “My advice is to stay at Morgan – but I’m pissed off with those guys for pirating you – that wasn’t in the cards”. So that’s what happened. In ‘87 I joined JPM permanently and in ’95 I became their lead director in BPI. They still owned 20% of the bank. Then in 2000 I sold JPM’s shares to DBS upon instructions of the JPM CEO at the time, left the board, and rejoined it a couple of years later as an independent director. So I had different perspectives.
So BPI is in your blood, but since your job here as a banker in 1985 the world is very different. What was your biggest surprise when you took over as CEO in 2013?

I underestimated the face time that this job requires. The need to address people, the need to give interviews, the need to go visit the branches, the need to do all the “touching the flesh”. I underestimated that. The mistake I made in the first few months was not thinking of face time as work. Work for me was staying in the office or sitting in meetings or negotiating with a client … or something like that. Work was helping manage the bank, as opposed to going out, shaking hands, meeting people, giving remarks. I didn’t think of face time as working. It dawned on me after a few months that if it’s done right, face time is real work. So that was the first adjustment.

The second thing I underestimated, frankly, was the transition element of the job. I’ve told you that for us it was a big step function. We doubled the size of the bank in four years. I didn’t think we’d do that. I didn’t think that was going to happen. I thought that the growth would be more moderate.

And the third thing I underestimated was the onset of cyber security issues. I mentioned three macro issues: liquidity, FinTech, regulation. But four years ago, cyber security wasn’t foremost in everybody’s mind; now it is. IT, and all that entails. And then finally I think I underestimated the amount of time I would spend on making sure we are on the right side of regulation. I knew regulations were increasing but I did not think that the regulatory environment would push decisions up – the global regulatory environment for banks pushed the decision making all the way up to the board level, so the CEOs get very involved in anything to do with regulation. That takes up a lot of one’s time.

What were the major turning points in your career, what were the big decisions?

When I was growing up, Mike, Filipinos didn’t have many choices. I was in high school and college in the 1970’s. We were under martial law. The whole country was under martial law and then the country went into restructuring in 1983. So the combination of martial law and debt restructuring, which actually saw per capita incomes go down, didn’t give people entering the workforce much choices. You took what was offered to you.

If you’re a bright kid, you’ve got the best offers available but the best offers available were offers in a small pond. The opportunity to work for BPI to me was a very big deal because even then it was seen as a market leader. It was far from being
the biggest bank but it was seen as the standard of good banking even if it was smaller to its competitors. So getting a chance to work here was for me a big deal. And then getting a chance to go off and join JPM, which at that time was and still is today probably the most reputable global name in finance, was to me a very big deal. Coming out of graduate school I wondered, could I work at JPM? Then I didn’t know that I’d end up in JPM. They probably wouldn’t have accepted me through the front door but I sort of backed my way into it.

In the two decades that you spent at JP Morgan, who or what influenced your career?

I think the most amazing thing about investment banking done in big financial centers is the people you meet. People you’d only read about in newspapers or people you’d only watch on TV – business leaders, civic leaders, government leaders, presidents of countries. You meet with them, you deal with them because that comes with the job.

I am very proud of the fact that the people that work in my group and other people that directly reported to me took important positions: the co-head of Philippine Banking at JPM, Simon Paterno, who is now one of our EVPs, left to become CEO of the Development Bank of the Philippines. The guy in charge of Thailand who used to report to me, Khun Korn Chatikavanij became finance minister and then deputy prime minister. The guy who ran our Indonesian investment banking business became commerce minister of Indonesia – I remember hiring him out of Goldman. And those are just people that worked with us. We all worked together. The CEO of Maybank, Abdul Farid Alias, used to be our Malaysia banker at JPM.

I look at the team I had the privilege of leading and I look at what they what they did afterwards, and that more than anything makes me feel really good. The very first initial public offering (IPO) JPM did since 1933 – after Glass Steagall – was for a Philippine company called Ayala Land. I was the banker on that deal and our equity capital markets specialist was a fellow by the name of Jes Staley. Two weeks ago he was named global CFO of Deutsche Bank.

You’re basically surrounded by talent. You’re surrounded by first rate bankers. People ask, who teaches you banking? You learn it from your colleagues, you learn it because everybody else is doing interesting, fascinating stuff and you’re working with them and so you don’t realize every day you learn a little more.

From the world you described to present day, you live a very different life. What was that transition like?

Easier than you think because I actually like it. I like the fact that I’m here at seven in the morning and when I’m walking to the elevator the security guards are just going to their posts. I like the fact that I don’t travel every single day of the year. Just a couple of weeks ago I got this thing from Cathay Pacific, they were congratulating me on having done something like four million miles ...I’ve been their member for thirty years. They said I’ve gone around the world twenty seven times... they give me this whole thing and on the one hand I’m very happy to get it, on the other I’m very depressed. It’s how I spent twenty years of my life: jumping on planes every single day. I like the fact that I don’t have to do it anymore. I like the fact that I’m not just trying to do the next deal.

There is something noble about running a bank like BPI. Here you have a 166 year old bank, tremendous heritage, the first bank in the country, for the longest time it issued the currency—and you just want to make sure that you pass the bank to the next guy in better shape than you got it. It’s a relay. You want to make sure you remain relevant, you want to make sure you become more financially inclusive, you want to make sure you help grow the country, you want to make sure you can help people access the banking system. There’s something noble about that. It’s: how do you pass on this institution? And the nightmare is that you screw up. And that what you screw up is existentially challenging for the institution. You cannot screw up. If you screw up in a deal, you lose a client. The monetary stakes [in investment banking] might be larger but I would say the more meaningful stakes are trying to move this institution on—and that I find very exciting.
Global outlook
For the last thirty years we’ve lived through many ups and downs, crises, changes: the Asian financial crisis, the attacks on 9/11, the dotcom boom & bust. But for many, the times we live in today seem stressful and even more disruptive than their memory of past events. Protectionism, anti-globalization, terrorism. What does it mean to the Philippine economy and your organization?

I think the past couple of years have seen a fundamental change in the “global deal”. I always thought the global deal was that the rest of the world would gravitate towards US style democracy and economic globalization, which was pushed very hard by the US in the 1980s and 1990 and the world would benefit from that. You saw the benefits in India and China being most pronounced. You saw the whole middle class that is lifted. What you’re seeing now is a bit of a reaction to that: globalization hollowed out manufacturing in a lot of places, not only in the Philippines. The emergence of China hollowed out manufacturing here and in the West: the US, the UK. What you’ve seen in politics is a reaction to that. In other words globalization became more successful than even those that first pushed it thought it would ever be. And because it became so successful, it triggered its own reaction. So people are questioning unfettered globalization, which to many people is synonymous with unfettered capitalism.

All of a sudden the deal is changing. The question is, what is the new deal? I don’t think that’s been defined yet. The buy-in to the global economy; we’ll all hold hands and we’ll all get better. It’s now being replaced by bilateral deals. Some people were left behind. If they’re just economically left behind, that’s one thing, but if politically you’re left behind or dislocated, you get what you see now: you get terrorism. So I think the leaders of the world have to define: what is the new deal?
“The global regulatory environment for banks pushed the decision making all the way up to the board level, so the CEOs get very involved in anything to do with regulation. That takes up a lot of one’s time.”

For the Philippines, a more inward looking world, a more inward looking West, inward looking US, threatens our BPOs and our inward remittances, so that we have to manage carefully. Now I would argue that if anything we are too dependent on BPOs and remittances, and over time we’d want to wean ourselves from those anyway. But we need time. If they were to go away quickly I think there’d be a lot of domestic stress. Thankfully indications are, they’ll probably weather this. Maybe they won’t grow as quickly, but they’ll weather this and I think we’ll be okay.

The other threat to the business process outsourcing (BPO) and services sector in the Philippines is coming from automation and robotics...

That’s a real threat to the BPO. Artificial intelligence (AI). But I think the bulk of our BPO companies, since they are operations of western companies by and large, are actually quite aware of that. The only way to deal with that is to go higher up the food chain.

The rhetoric from populist campaigns is often different from what is implemented in terms of policy. In the Duterte administration’s ten-point plan, the first words are ‘continue to...’ That probably put a lot of people at rest. The Philippines is implementing a perfectly rational policy: government bonds have reached investment grade, the quarter on quarter growth is stable...

I actually think we’re at a critical juncture right now. The Duterte administration is trying to pass a tax reform bill and I’m very happy to see that he’s put his weight behind that, because that’s critical to our continued growth. The underlying growth plan of this government is infrastructure. That’s pretty apparent. We will build ourselves to prosperity. But you have to afford it, you have to fund it – so the tax bill is critical and based on what I’ve seen it won’t be popular in many quarters. There are a lot of people that will get hurt by these higher taxes. People that produce sugared products for example. People involved in the automotive industry. They’re going to get hurt by these higher taxes and so the real question is: is the economy better off as a whole? I hope that is the case, because funding this infrastructure is critical.

If all we do is spend and we can’t fund it, that’s going to be a problem. Now interestingly, you’ve seen in the last few weeks the finance secretary – even some of the numbers we’re seeing – are showing that spending is slowing down. Some of the infrastructure projects are slowing down, because they know, more than I do, the dangers of spending absent taxes. Our country’s been blessed by good financial and economic managers, by and large. They’re a pretty rational bunch.

Bong, thank you very much for your time.

**Proposed tax reform 2017**

Key components:
- Lower personal income taxes, except for those earning more than PHP 5 million (USD 100,300)
- Increase excise tax on fuel, new cars, sugar
- Expand value added tax (VAT) base by removing exemptions

**Estimated budget impact**

Source: Department of Finance, Department of Budget and Management
“We will build ourselves to prosperity.”

Commentary

Duterte Administration ten-point Socioeconomic Agenda

- Macroeconomic policies
- Tax reform
- Competitiveness and ease of doing business
- Infrastructure spending
- Rural development
- Land administration and management
- Human capital development
- Science, technology and arts
- Social protection programs
- Responsible parenthood and RH Law

Macroeconomic assumptions

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<th>Indicators</th>
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<td>Inflation, %</td>
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<td>2.0–4.0</td>
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<td>Forex rate, PhP/$</td>
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<td>T-bill rate, %</td>
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<td>Dubai crude, $/bbl</td>
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National Government budget, by sector

- Philippines economy
- ASEAN economic community
- Fintech in the Philippines
- Donald Trump
- Manny Pacquiao

Buy-Hold-Sell

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<th>Sector</th>
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<tr>
<td>Social services</td>
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<td>Economic services</td>
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<td>General public services</td>
<td>17%</td>
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<tr>
<td>Defense</td>
<td>11%</td>
<td>14%</td>
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<tr>
<td>Debt burden</td>
<td>4%</td>
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Source: National accounts, Philippine Statistics Authority; EY analysis
Cezar Peralta Consing, Filipino, 57 years old, became President and Chief Executive Officer of BPI in 2013. Mr. Consing has been a member of BPI’s Board of Directors since 2010. He also served as a Director of BPI between 1995 and 2000, and between 2004 and 2007. In the period between 1995 and 2000, Mr. Consing represented J.P. Morgan & Co., then the second largest shareholder of BPI, on the Bank’s Board. Currently, Mr. Consing serves as Chairman of the Bank’s Credit Committee, and is a member of the Executive, Retirement & Pension, Risk Management, and Trust Committees. Mr. Consing also serves as Chairman of BPI/MS Insurance Corporation, Family Savings Bank, BPI Europe PLC, BPI Century Tokyo & Lease Finance Corporation, and BPI Century Tokyo Rental Corporation, and as Vice-Chairman of BPI Capital Corporation and BPI Foundation, Inc. He also serves as member of the Board of Directors of BPI-Philam Life Assurance Corporation. Mr. Consing is a Board Partner of The Rohatyn Group (TRG) Management Principals LP. He is also a member of the Board of Directors of National Reinsurance Corporation of the Philippines, LGU Guarantee Corporation, Sqreem Technologies Private Ltd., and Endeavor Philippines. He has served as an Independent Director of Jollibee Foods Corporation since June 2010 and a Board Director and Non-Executive Chairman of Filgifts.com. Mr. Consing is a member of the Triilateral Commission. Between 2006 and 2013, Mr. Consing also served as Independent Director of Malaysia-based CIMB Group Holdings Bhd and CIMB Group Sdn Bhd, together one of the largest universal banking institutions in Southeast Asia. Between 2005 and 2013, Mr. Consing also served as an Independent Director of First Gen Corp.

Mr. Consing joined BPI as a full-time employee in 1980, and worked in its Corporate Planning and Corporate Banking departments. In 1985, he was seconded to J.P. Morgan & Co., and subsequently became a J.P. Morgan & Co. employee. Over a 19 year career with J.P. Morgan in Hong Kong and Singapore, Mr. Consing focused on loan origination and syndication, capital markets, and mergers and acquisitions. He was responsible for all of J.P. Morgan’s banking business in the Philippines, then in Southeast Asia and ultimately, the Asia Pacific region. From 1999 to 2004, he was President of J.P. Morgan Securities (Asia Pacific) Ltd. Prior to re-joining BPI, Mr. Consing was a Partner at TRG Management Principals LP, a New York-based asset management firm specializing in Emerging Markets. He headed TRG’s Hong Kong office. Between 2007 and 2012, TRG owned a 40% stake in Premiere Development Bank, where Mr. Consing served as Chairman of its Executive Committee. Mr. Consing received an A.B. Economics degree (Accelerated Program), magna cum laude, from De La Salle University in 1979. In 1980, he obtained an M.A. in Applied Economics from the University of Michigan, Ann Arbor.
Michael McGauran, Michael is a partner at EY in Singapore, where he leads banking and capital markets transactions across Asia-Pacific. Michael has 20 years of experience in strategy consulting, private equity, banking and technology in Europe, the Middle East and Asia, where he has been based for 10 years.

Michael serves financial services clients on topics such as corporate strategy, transactions and M&A, partnerships, organization, governance, transformation, sales productivity, analytics and risk. Michael’s most recent engagements include segment strategy, bancassurance transaction and implementation, negotiation support, partnership formation and organizational design. His clients include global and regional financial services institutions, principal investors and local Asian banks and insurers.

Prior to joining EY in 2014, Michael held senior private equity and strategy roles at CIMB Group and was board director and investment committee member of several private equity funds, infrastructure funds, fund management companies and portfolio entities. Previously, he was a strategy consultant at McKinsey & Company in Singapore, and he served as an emerging markets strategy manager at Barclays Bank based in Dubai. He started his career as a banking and capital markets technology architect at Accenture in London, Frankfurt, Dublin and Bangalore. Michael holds an MBA from INSEAD.
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