

UnionBank of the Philippines (UBP PM)

FUNDAMENTAL VIEW ¹

As of 11 Mar 2024

- UnionBank of the Philippines (UBP) is rated Baa2 (neg) by Moody's. The rating outlook was affirmed at negative in April 2023 due to uncertainty over the bank's ability to shore up its capital buffers back to levels of domestic and regional peers, after being depleted by its acquisition of Citi's local retail unit.
- The bank has historically generated higher returns than peers, but trading-related income as a key contributor to profits introduces greater volatility to operating performance.
- The bank has geared its focus significantly towards the retail segment in recent years, taking the retail proportion of total loans to more than half its total book with the Citi acquisition in 2022. This gives a good boost to core revenues but also brings along higher AQ risks in a growth downturn.

RISKS & CATALYSTS

As of 11 Mar 2024

- Any downgrade of the Philippine sovereign ratings (Baa2/ BBB+/ BBB) or reduction of shareholding by Aboitiz Equity Ventures would negatively impact UBP's credit ratings.
- The bank is focusing heavily on the higher yielding retail segments to boost the NIM. This has strengthened topline revenues but brought up normalized credit costs. We have sounded caution given the current macro backdrop of high interest rates and inflation, while the bank's reserve cover and capital levels are on the thinner side. Credit costs saw a particularly sharp jump in 2H23 and the NPL ratio has risen to ~6.3% from 4.8% a year ago.
- We view the Citi acquisition as credit positive in the long term given the latter's larger scale and greater strength in the upscale consumer market and wealth management businesses, high margins and strong profitability record. The upfront capital impact and integration costs are significant, but the bank benefits from good shareholder support.

CREDIT QUALITY SCORE (CQS)²

As of 29 Apr 2024

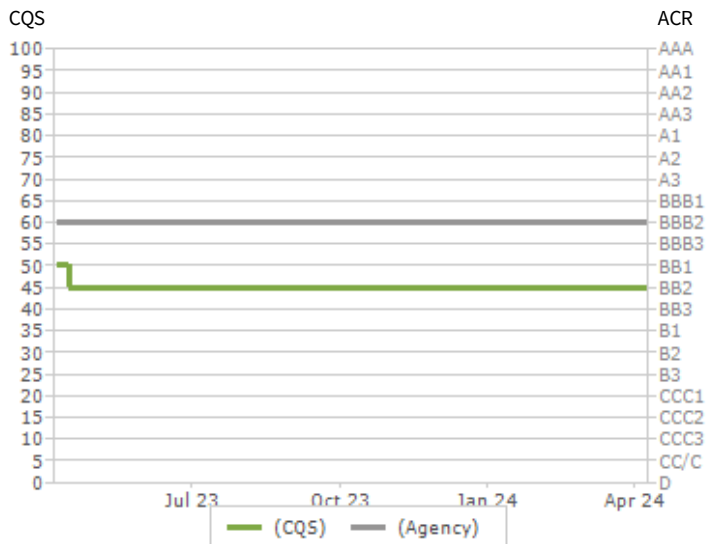
CURRENT CQS

45

CQS OUTLOOK³

NEGATIVE STABLE POSITIVE

HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR)⁴ VS CQS



KEY METRICS

As of 11 Mar 2024

PHP MN	FY19	FY20	FY21	FY22	FY23
PPP ROA	2.26%	2.68%	2.59%	2.17%	2.31%
Reported ROA (Cumulative)	1.9%	1.5%	1.6%	1.3%	0.8%
Reported ROE (Cumulative)	15.3%	11.5%	11.5%	9.7%	5.6%
Total Equity/Total Assets	12.7%	13.6%	13.5%	13.6%	15.3%
CET1 Ratio	13.2%	15.0%	16.3%	11.3%	13.9%
Gross NPL Ratio	3.10%	5.10%	5.00%	4.80%	6.27%
Net LDR	81.2%	64.3%	63.1%	67.4%	73.8%
Net Interest Margin	3.60%	4.50%	4.60%	4.80%	5.50%
Liquidity Coverage Ratio	131%	207%	272%	148%	163%
Net Stable Funding Ratio	106%	133%	149%	124%	124%

BUSINESS DESCRIPTION

As of 11 Mar 2024

- UnionBank of the Philippines was incorporated in 1968, and listed on the Philippine Stock Exchange in June 1992. Principal shareholders are Aboitiz Equity Ventures (49.66%), Insular Life (16%), & Social Security System (18%).
- UBP undertook mergers with International Corporate Bank in 1994 and International Exchange Bank in 2006. City Savings Bank (a thrift bank) was purchased in Jan 2013. City Savings received merger approval with PR Savings (a bank engaged in motorcycle, agri-machinery, & teachers' salary loans) in Dec 2018 from the BSP. It acquired the Citi Philippines retail franchise in 2022.
- The loan book is broadly split 18% commercial loans, 26% corporate loans, and the remaining 56% retail loans (this includes teachers loans, salary loans and motorcycle loans by the thrift bank subsidiary, City Savings Bank).

GLOSSARY

¹ The **Fundamental View** is our current assessment of credit quality and our expectation of how credit quality will trend over the next year or longer.

² The **Credit Quality Score (CQS)** is a number between 5 and 100. It is a medium-term credit score for corporates and financial institutions that utilizes a combination of sector fundamental scores and equity market signals. Values of CQS above 50 generally indicate investment grade credit quality.

³ The **Credit Quality Score (CQS) Outlook** is the near-term (3 month) outlook for the CQS, based on its trend, volatility and distance from the adjacent CQS risk bucket.

⁴ The **Agency Composite Rating (ACR)** is the average senior unsecured rating from one or more major rating agencies.

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