

Security Bank (PH) (SECB PM)

FUNDAMENTAL VIEW ¹

As of 20 May 2025

- Security Bank has historically been a wholesale focused bank. Rapid retail expansion pre-pandemic led to a large asset quality hit when COVID-19 struck. The bank completed working through its risk issues at end-2021 and has resumed brisk growth in the retail book since.
- The bank had a less well-established deposit franchise than most peers, resulting in a heavy hit to NIMs when rates rose this cycle. This has led it to focus aggressively on growing the higher yielding retail and MSME segments, the latter via forming a new business banking segment in 2022.
- Previously high capital ratios have hence fallen; the CET1 ratio is a low 12-13%.
- MUFG is a 20% shareholder of Security Bank.

RISKS & CATALYSTS

As of 20 May 2025

- Any rating downgrade of the Philippine sovereign would have a negative impact on Security Bank.
- Margin pressure from the bank's earlier weaker deposit franchise is easing with the declining rate environment and heavy growth focus on the higher yielding retail and MSME (business banking) segments, which continues to be the strategy going forward.
- Capital ratios have fallen due to brisk RWA growth and are now behind peers. They are set to fall by a further ~1 ppt from the buying of a 25% stake in Home Credit Finance Philippines (HCPH) from MUFG, which would take the CET1 ratio to ~12%. We regard this level as low, but do not rule out capital support from MUFG if needed.
- Asset quality is showing strains from the brisk growth in riskier segments as we had anticipated. We remain cautious about the asset quality implications given the relatively thin reserve cover and capital buffer.

KEY METRICS

As of 20 May 2025

PHP MN	FY21	FY22	FY23	FY24	1Q25
Net Interest Margin	4.43%	4.23%	4.49%	4.73%	4.51%
ROA	1.0%	1.4%	1.1%	1.1%	1.0%
ROE	5.6%	8.4%	7.0%	8.1%	7.9%
PPP ROA	2.30%	2.17%	1.97%	2.18%	2.17%
CET1 Ratio	19.1%	16.1%	15.3%	12.9%	13.2%
Total Equity/Total Assets	17.88%	14.94%	15.62%	12.50%	12.95%
Gross NPL Ratio	3.94%	2.95%	3.36%	2.85%	3.10%
Net LDR	85.7%	83.0%	88.8%	84.6%	76.8%
Liquidity Coverage Ratio	150%	144%	158%	178%	179%
Net Stable Funding Ratio	138%	122%	131%	130%	136%

BUSINESS DESCRIPTION

As of 20 May 2025

- Security Bank was established in 1951 and obtained its universal banking license from the BSP in 1994. It is today the 9th largest bank in the Philippines.
- The bank is majority-owned by longtime owner Frederick Y. Dy (23.7%) and MUFG Bank (20%), which acquired its stake in April 2016.
- SB Finance, a joint venture between Security Bank and Thailand's Bank of Ayudhya (Krungsri), a consolidated subsidiary of MUFG, was launched in 2019. The unit is a consumer finance company formed to engage in the unsecured loans business in the Philippines, focusing on the lower mass retail segment.
- Security Bank's loan portfolio is 29% consumer, 3% MSME, 28% middle market and 40% corporate at 4Q24. The consumer and MSME book comprises mortgages (46%), auto loans (21%), credit card (24%) and small business loans (9%).

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.

Quantitative scores provided by CreditSights Analytics, LLC. Scores are shown are for the lesser of (1) 2 years and (2) date of CreditSights inception of quantitative coverage.

CREDIT QUALITY SCORE (CQS) ²

As of 06 Aug 2025

CURRENT CQS

48

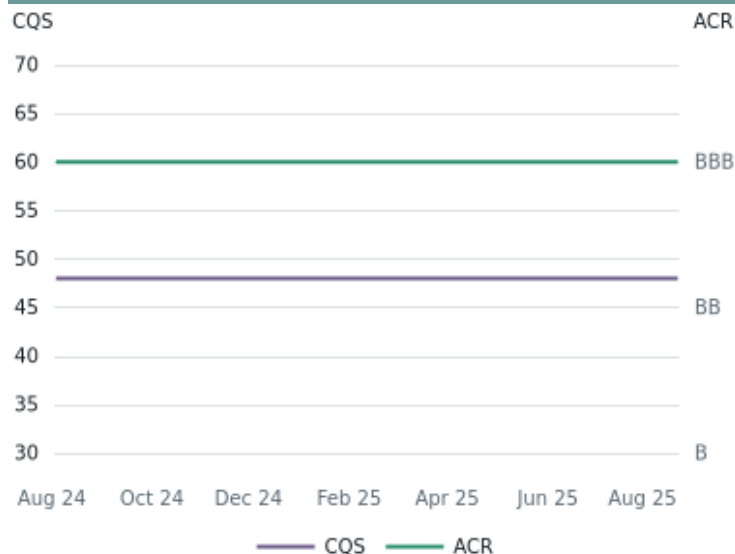
CQS OUTLOOK ³

NEGATIVE

STABLE

POSITIVE

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



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