

UnionBank of the Philippines (UBP PM)

FUNDAMENTAL VIEW ¹

As of 19 May 2025

- The bank has historically generated higher returns than peers, but it geared its focus significantly towards the retail segment through acquiring Citi's Philippine retail portfolio in 2022 and organic growth, which brought retail loans to more than half the total book.
- Returns have suffered despite the good boost to core revenues, as asset quality deterioration from the riskier growth direction resulted in high credit costs which we have forewarned. Continued rounds of capital infusions from shareholders have thus been required. The reserve cover is maintained relatively thin.

RISKS & CATALYSTS

As of 19 May 2025

- Any rating downgrade of the Philippine sovereign or reduction of shareholding by Aboitiz Equity Ventures would negatively impact UBP.
- The bank's aggressive retail expansion has improved the NIM, but negatively impacted overall profitability because of high credit costs (particularly since 2H23) which we have forewarned. We continue to dislike its focus on riskier retail given the already large loan book exposure. It is now focusing on lower risk, shorter term loans at UnionDigital, but the improvement in credit costs have been slow to come through given fallout from higher risk taking in other segments.
- The bank however benefits from good shareholder support; it successfully completed a third stock rights offering of PHP 10 bn in 2Q24 (2023: PHP 12 bn; 2022: PHP 40 bn) to shore up capital. Lower opex from 2Q24 onwards is also aiding the bottomline.

CREDIT QUALITY SCORE (CQS) ²

As of 08 Aug 2025

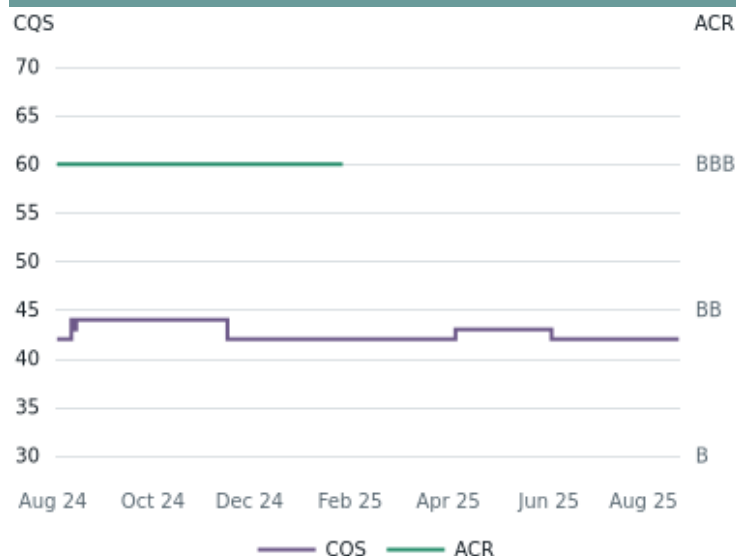
CURRENT CQS

42

CQS OUTLOOK ³

NEGATIVE STABLE POSITIVE

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



KEY METRICS

As of 19 May 2025

PHP MN	FY21	FY22	FY23	FY24	1Q25
Net Interest Margin	4.60%	4.80%	5.50%	6.00%	6.30%
Reported ROA (Cumulative)	1.6%	1.3%	0.8%	1.1%	0.5%
Reported ROE (Cumulative)	11.5%	9.7%	5.6%	6.4%	2.9%
PPP ROA	2.59%	2.17%	2.31%	3.08%	2.74%
CET1 Ratio	16.3%	11.3%	13.9%	15.6%	14.9%
Total Equity/Total Assets	13.5%	13.6%	15.3%	17.1%	16.8%
Gross NPL Ratio	5.00%	4.80%	6.27%	6.89%	6.90%
Net LDR	63.1%	67.4%	73.8%	77.3%	74.6%
Liquidity Coverage Ratio	272%	148%	163%	250%	n/m
Net Stable Funding Ratio	149%	124%	124%	128%	n/m

BUSINESS DESCRIPTION

As of 19 May 2025

- 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 38% wholesale loans and 62% retail loans (comprising 34% credit cards, 21% mortgages and 7% salary loans at the parent, 36% teachers loans, salary loans and motorcycle loans by the thrift bank subsidiary, City Savings Bank, and 1% UnionDigital) at Mar-25.

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.

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