

# Analysts' Briefing

November 7 2023  
2:30 PM PHT



Together we are building the PH's first **techglomerate**

# Agenda



**Johnson Sia**  
Treasurer and  
Head of Global Markets

1. Macroeconomic and Industry Outlook



**Dmi Lozano**  
Chief Financial Officer

2. Financial Performance

# Macroeconomic and Industry Outlook

# Just 15% chance of another hike in the US

>>
 Enable Overrides

Region: United States »      Instrument: Fed Funds Futures »

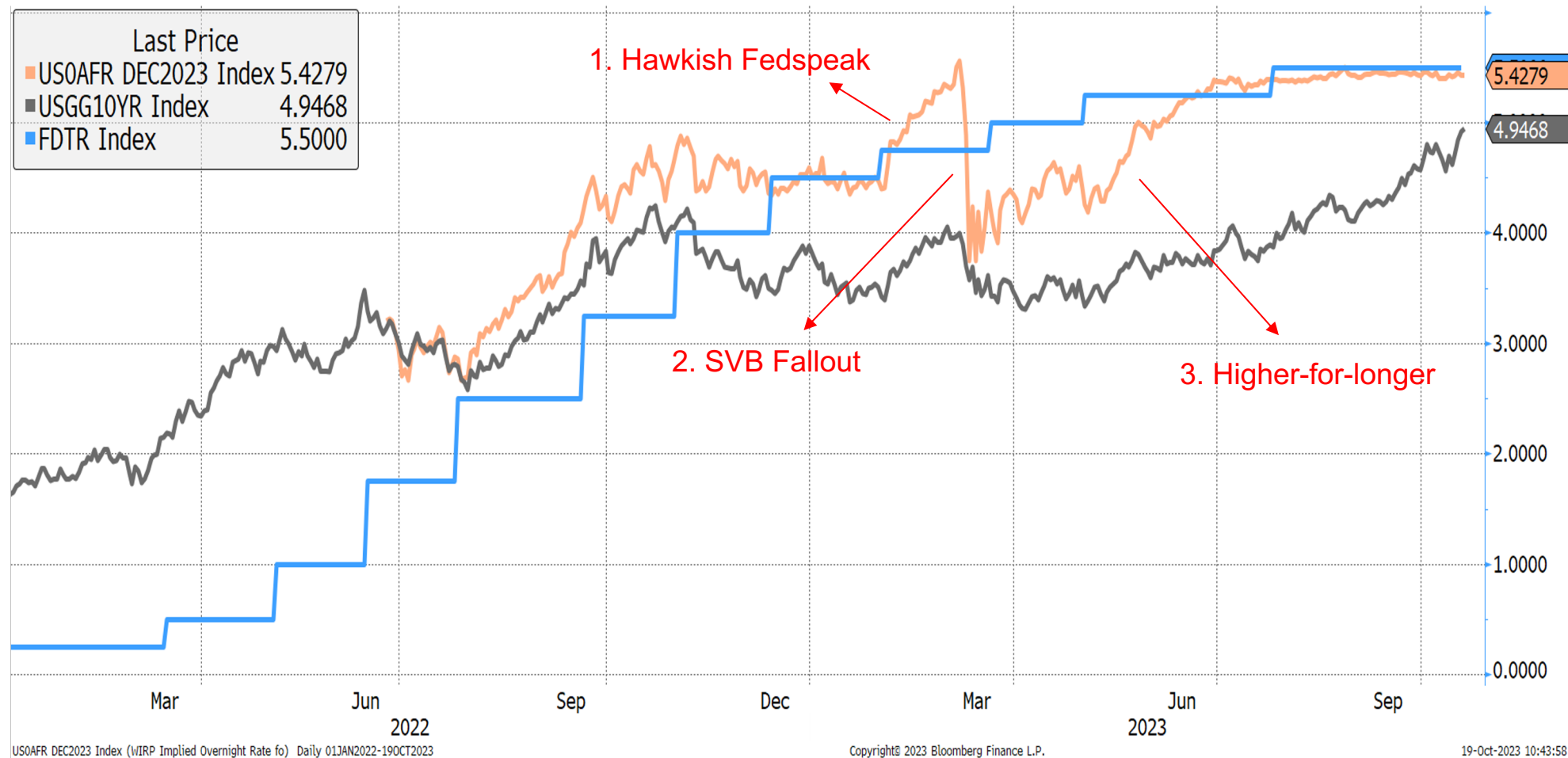
Target Rate                      5.50      Pricing Date                      11/06/2023

Effective Rate                    5.33      Cur. Imp. O/N Rate              5.324

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
12/13/2023	+0.095	+9.5%	+0.024	5.347	0.250
01/31/2024	+0.155	+6.0%	+0.039	5.363	0.250
03/20/2024	-0.116	-27.1%	-0.029	5.295	0.250
05/01/2024	-0.663	-54.7%	-0.166	5.158	0.250
06/12/2024	-1.292	-62.9%	-0.323	5.001	0.250
07/31/2024	-1.955	-66.3%	-0.489	4.835	0.250
09/18/2024	-2.645	-69.0%	-0.661	4.663	0.250
11/07/2024	-3.261	-61.6%	-0.815	4.508	0.250
12/18/2024	-3.787	-52.6%	-0.947	4.377	0.250
01/29/2025	-4.305	-51.8%	-1.076	4.248	0.250

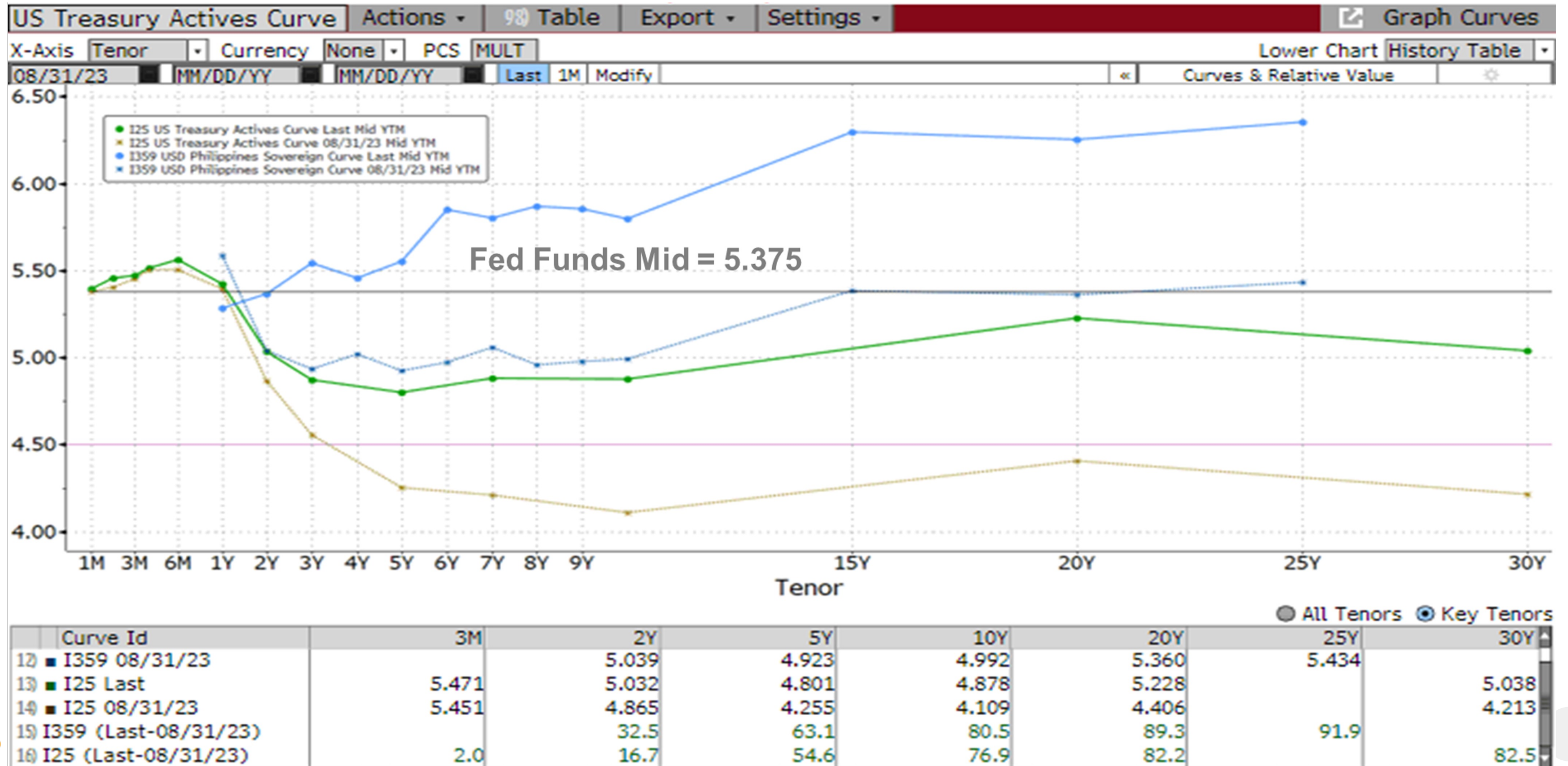
- Powell called for a pause in November meeting; FOMC delivered
- Recent steepening in yield curve would have comparable tightening effect to hikes

# Peak rate projections were consistent throughout the year



- Hawkish Fed speak caused shift in market policy projections at the start of the year
  - More hawkish due to combination of sticky inflation, tight labor market and resilient housing prices
  - Market could have been overly optimistic on cut timing
- Higher-for-longer theme was introduced, longer-dated treasury yields moved higher in latter half

# Steepening over last 2 months presents interesting value for longer dated bonds



# Spike in longer dated bond yields keeping financial conditions tight; Market doing the Fed's job for them

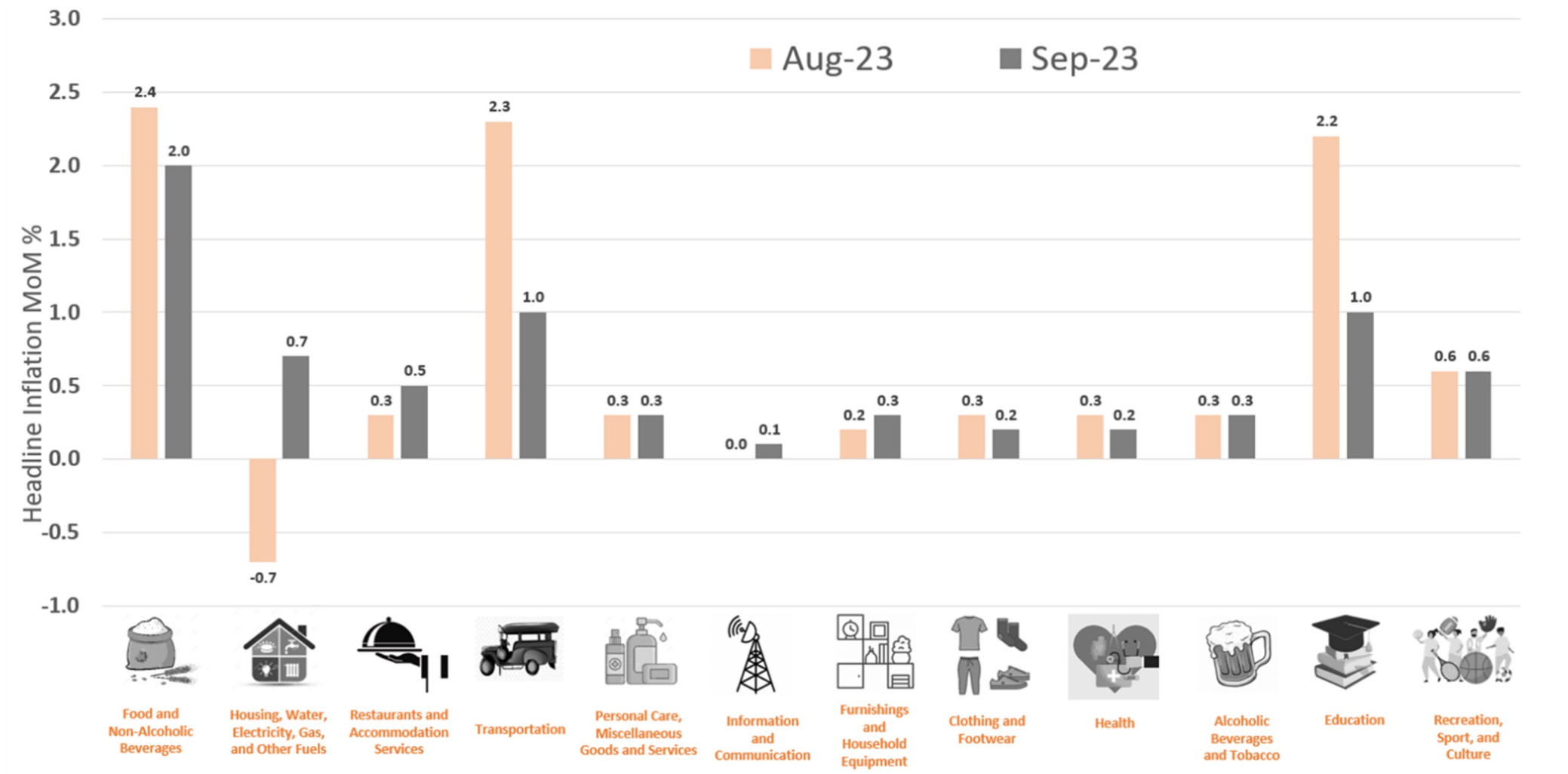


# BSP signals further tightening after off-cycle hike

- ◆ **Policy rate raised by 25bps in an off-cycle move to 6.5%**
  - ◆ MB recognized the need for urgent monetary action to prevent supply-side price pressures from inducing additional second-round effects and further dislodging inflation expectations
  - ◆ BSP raised its “risk-adjusted” inflation forecast for 2024 to 4.7% from a previous estimate of 4.3%, well above the 2%-4% target.
    - ◆ BSP “fell a little bit behind” after not hiking in September when inflation risks have already increased – which was their reason for this effort to catch up
- ◆ **BSP ready for “follow through policy action” if necessary to bring inflation back to target**
  - ◆ Two critical data releases will be the basis on the November 16 meeting - October inflation and 3Q GDP
    - ◆ Back in August, Remolona disclosed at a Senate Committee hearing that a 6.8% policy rate in nominal terms would be just right to support the economy in the long-run
    - ◆ 6.75% policy rate by yearend is feasible
- ◆ **DOF Sec Diokno on the dovish side: “Policy likely on hold in Nov”**
  - ◆ Infra spending likely boosted 3Q growth

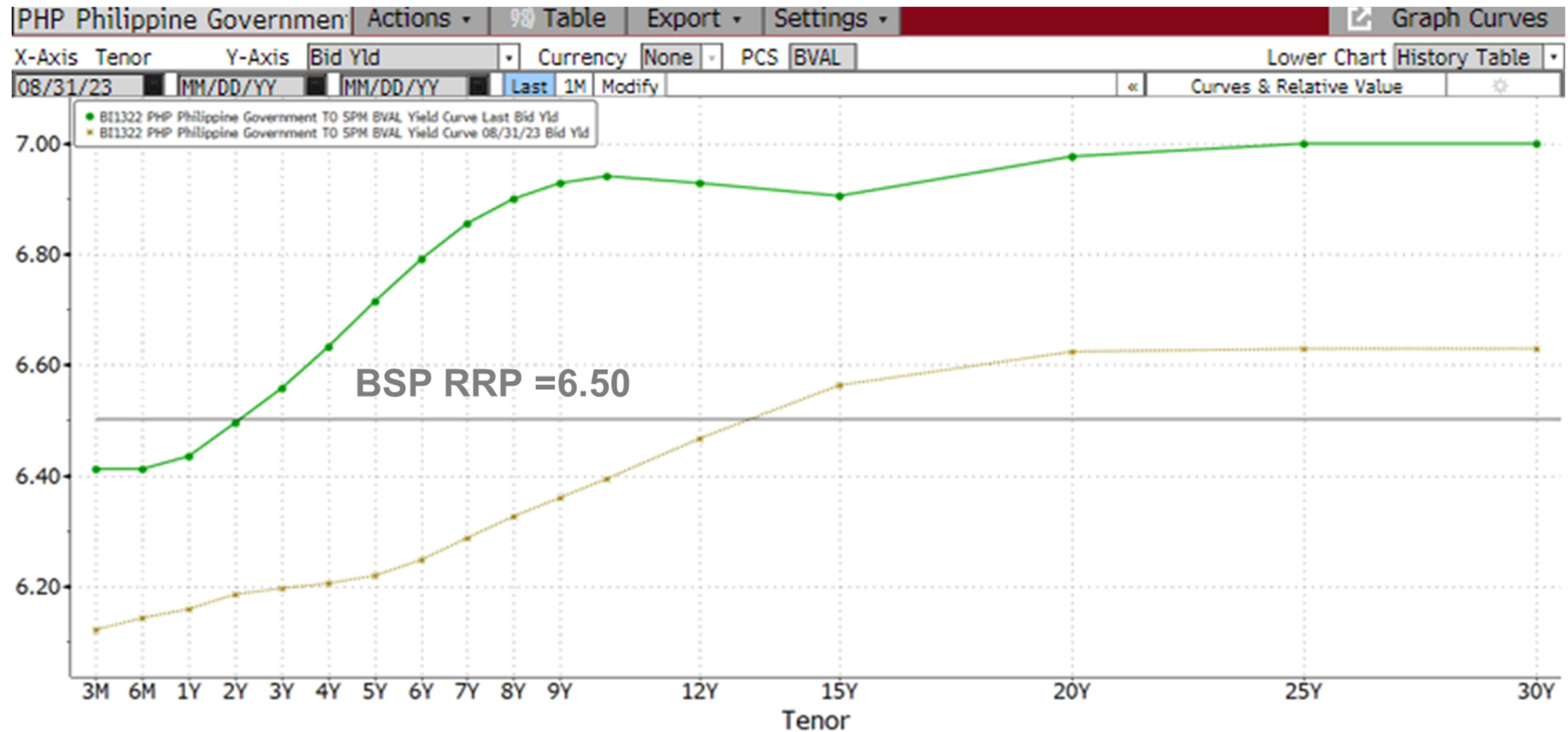


# Food adding the most in past 2 readings; Higher minimum wages and jeepney fares may stoke inflation further



- Jeepney fares up by P1 this month, base fare starts at P13
- Minimum wage hikes in 3 regions - Cagayan Valley, Central Luzon and Socsargen

# PHP curve also steepens, auction schedule to pressure rates higher



Curve Id	3M	1Y	2Y	3Y	5Y	10Y	15Y	30Y
1) BI1322 Last	6.412	6.436	6.495	6.558	6.714	6.941	6.906	6.999
12) BI1322 08/31/23	6.122	6.159	6.186	6.197	6.219	6.394	6.564	6.630
13) BI1322 (Last-08/31/2...	29.1	27.7	30.9	36.1	49.5	54.7	34.2	37.0

# PHP expected to hold 57 level as BSP hikes and restores wider IRD



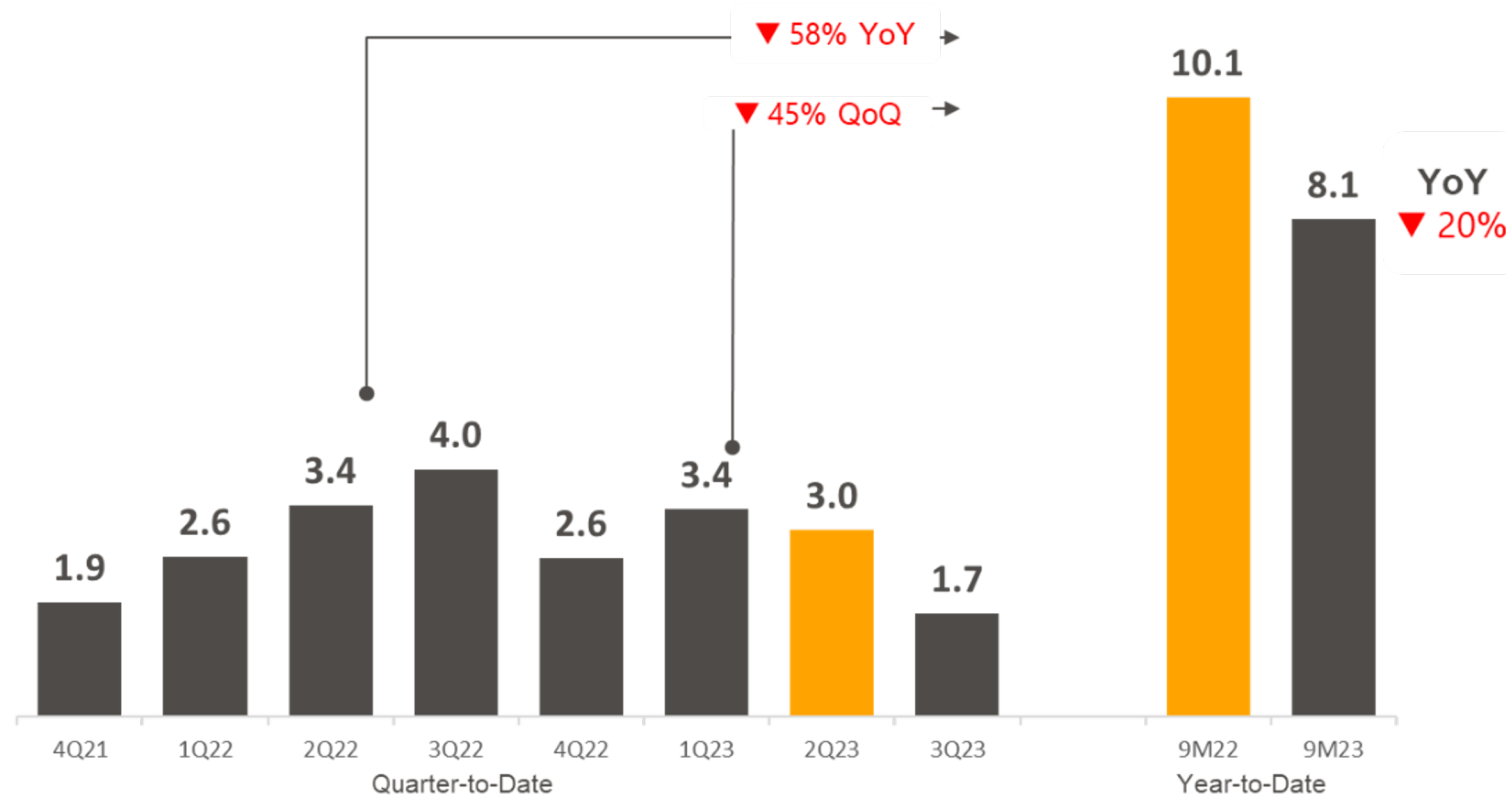
# Financial Performance

## 9M/3Q 2023

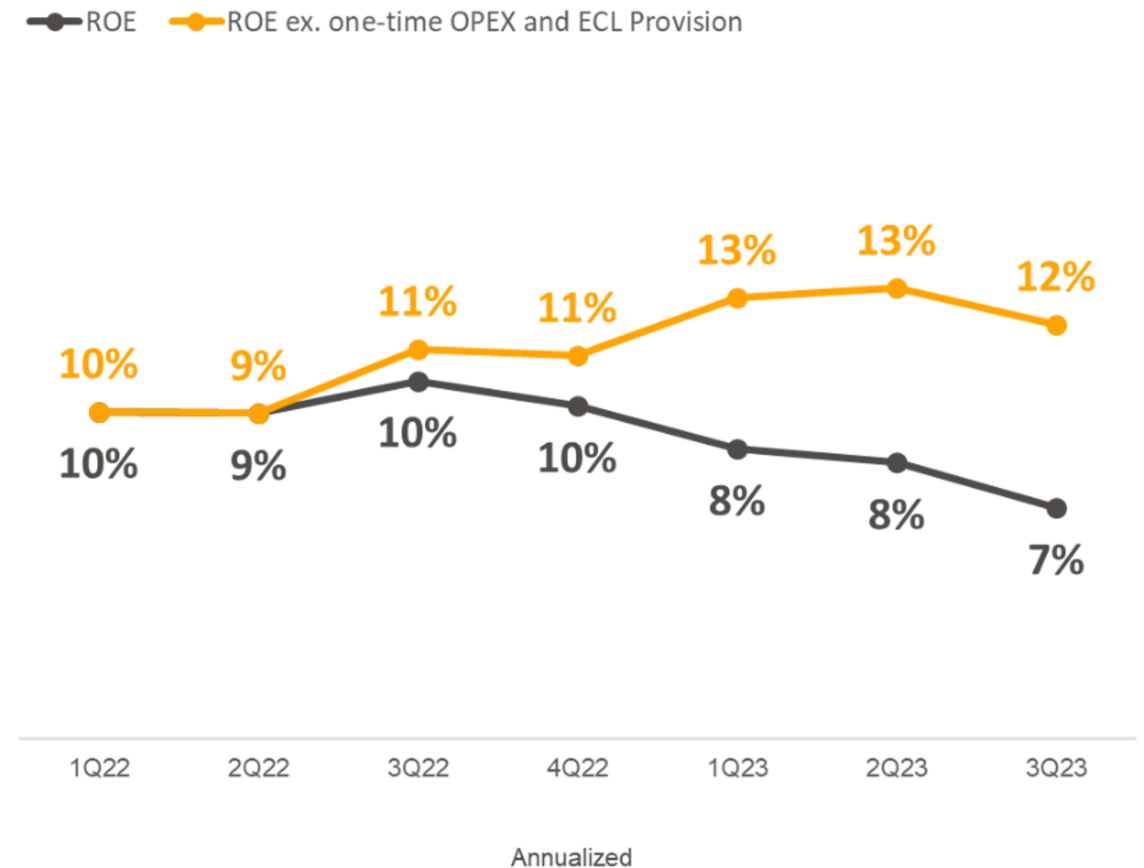
# UnionBank 9M2023 net income at P8.1 bn

- ▶ Net income slowdown is driven by one-time integration cost of the acquired Citi business and other non-recurring costs.
- ▶ Business fundamentals remain strong and the Bank's topline revenues continue to record robust growth.
- ▶ The diversified consumer portfolio and the growing customer base drive the growth of recurring revenues.

Net Income (in PHP Bn)



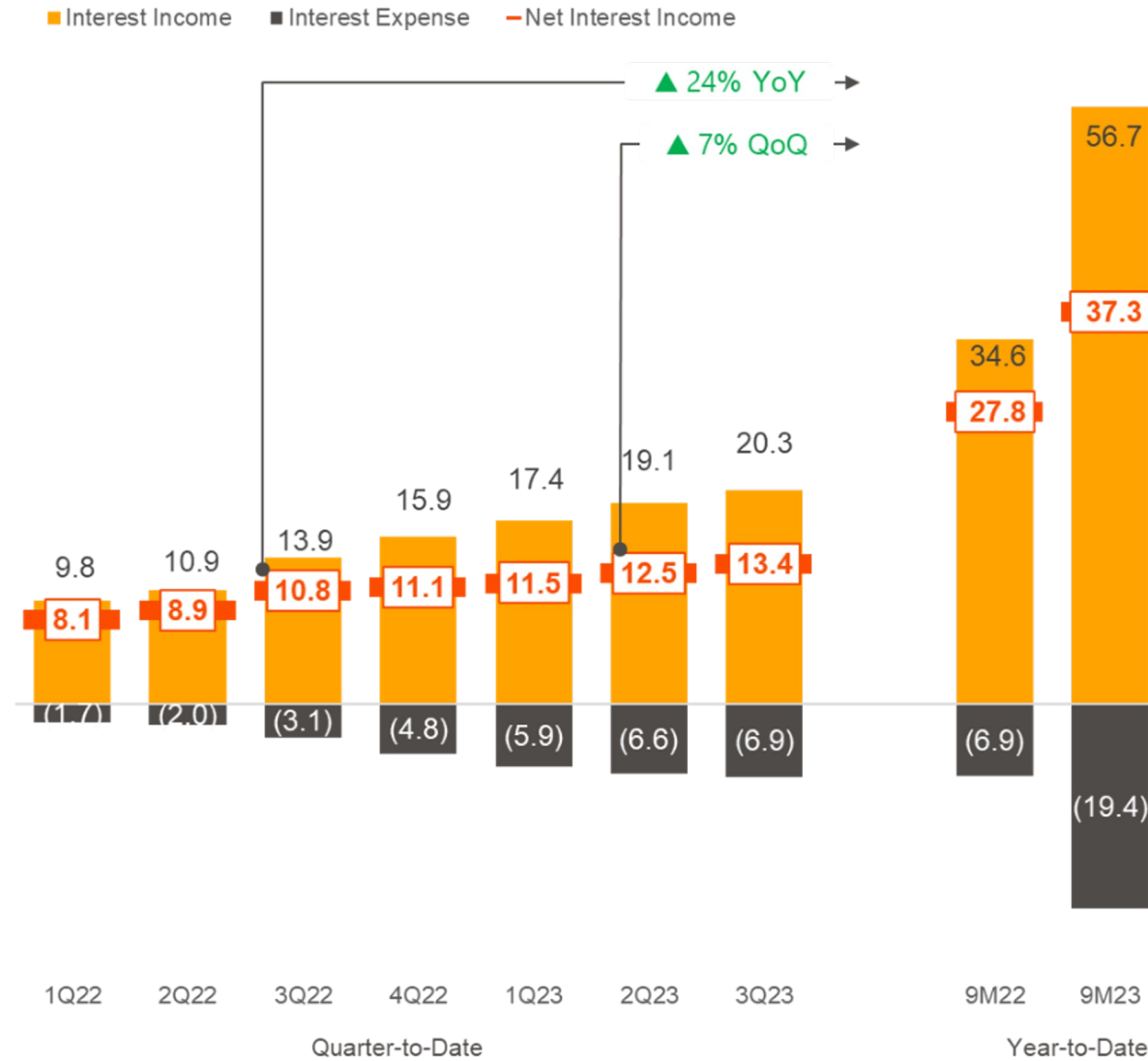
Return on Equity (Ave)



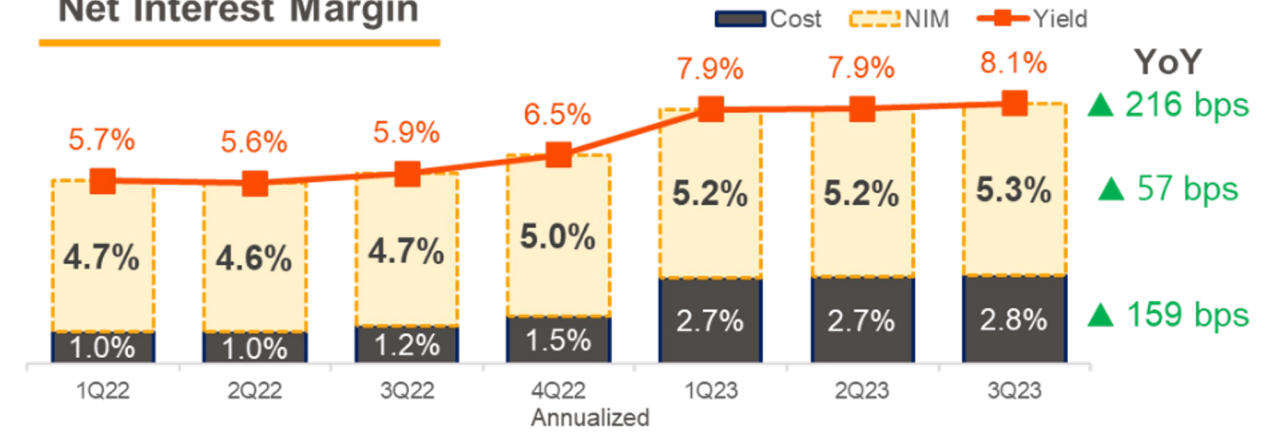
# YTD NII up 34% due to strong margins and earning assets

## Net Interest Income

(in PHP Bn)

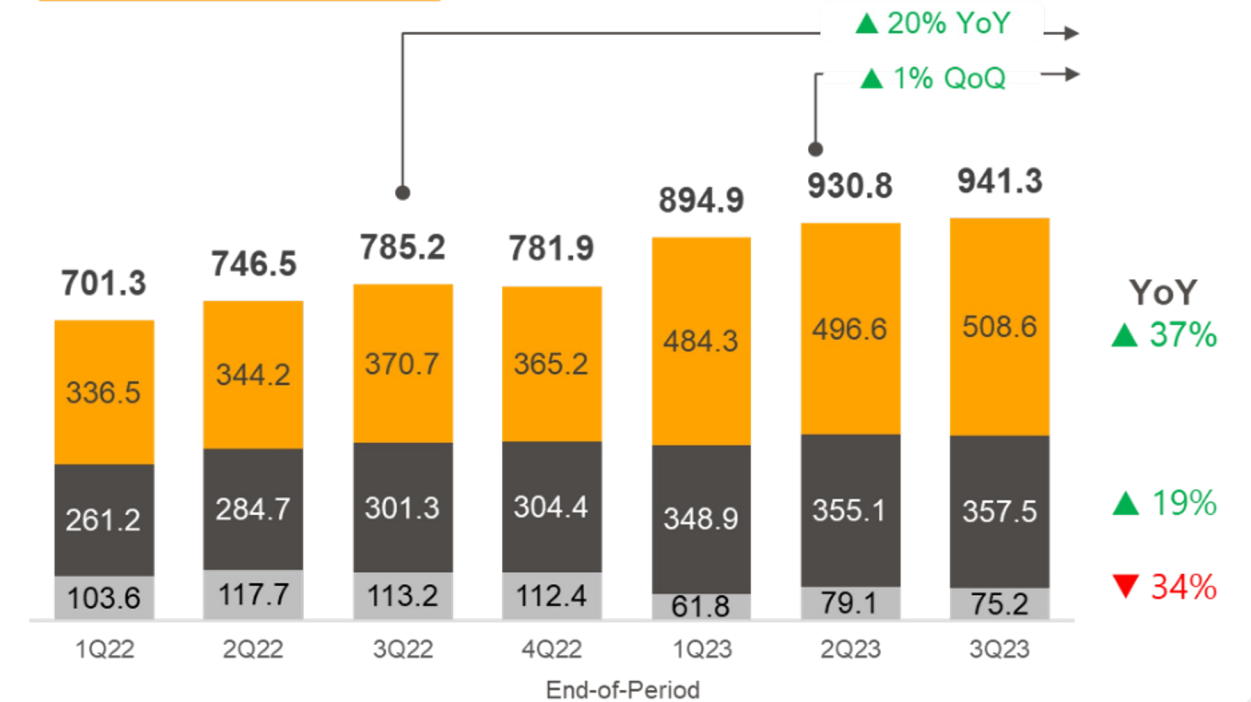


## Net Interest Margin



## Earning Assets

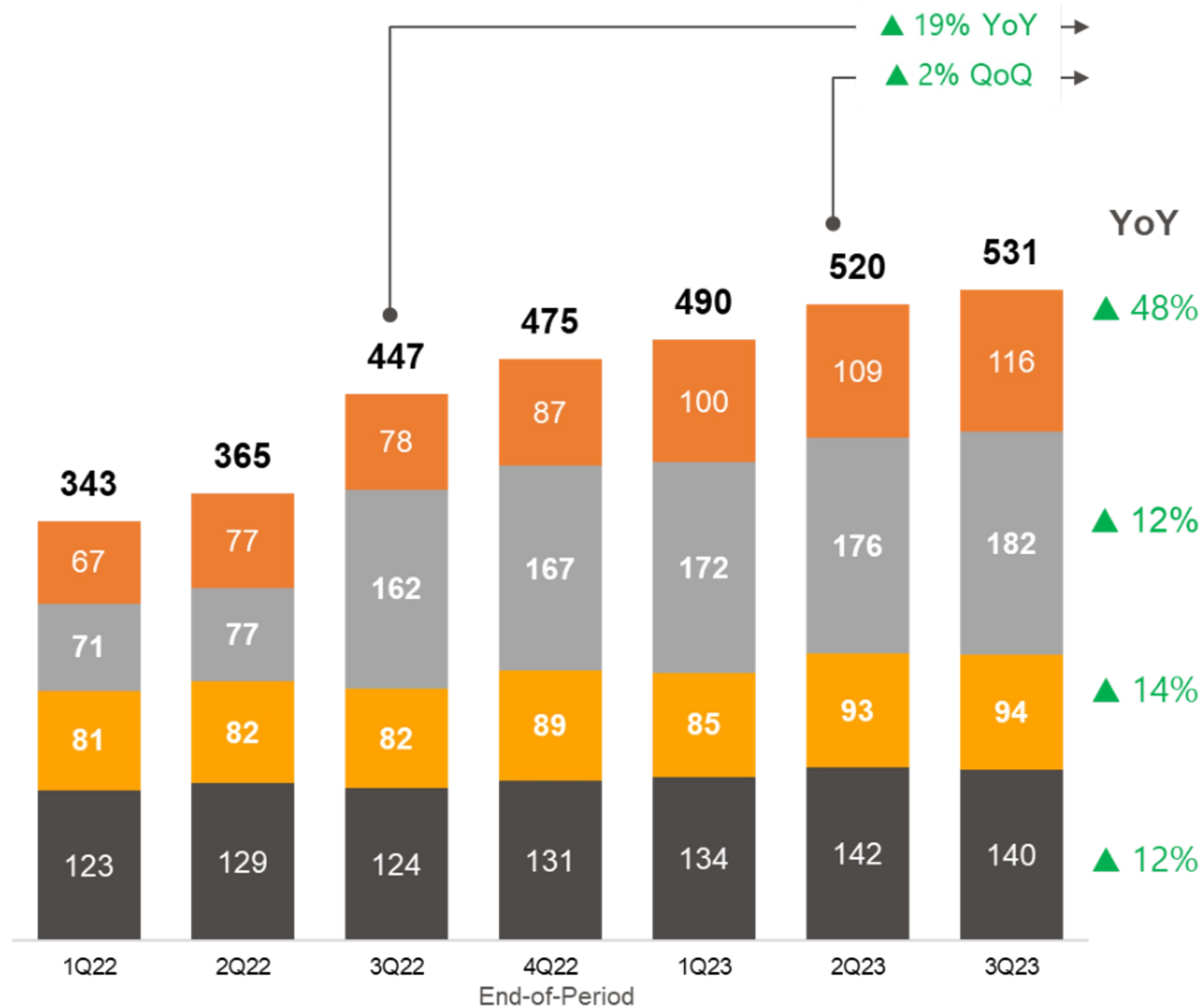
(ADB in PHP Bn)



# Diversified consumer loans post double-digit growth

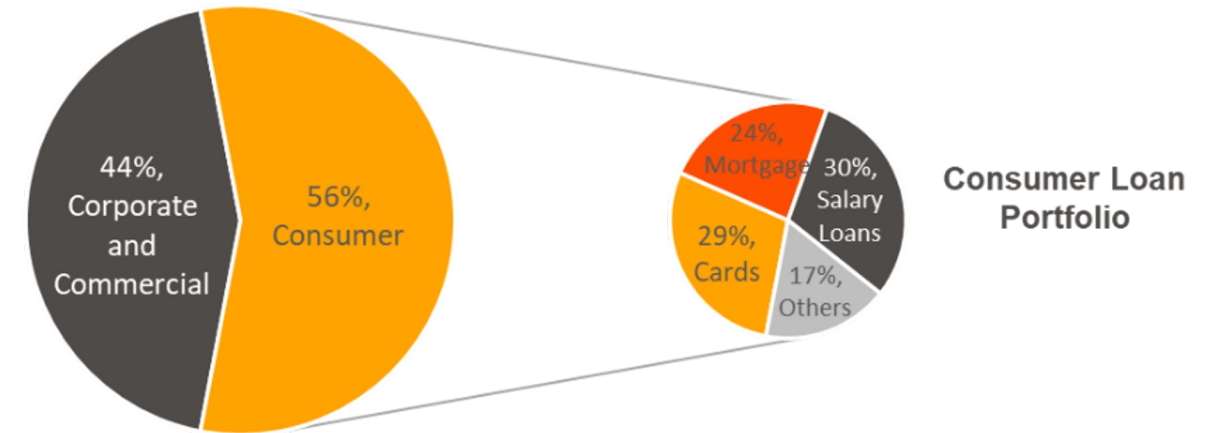
## Gross Loans (OSB in PHP Bn)

■ Corporate ■ Commercial ■ Retail (Parent) ■ CSB, UD & Other Subs



## Loan Mix (%)

Industry's Consumer Loans – 19%  
Based on BSP data as of June 2023

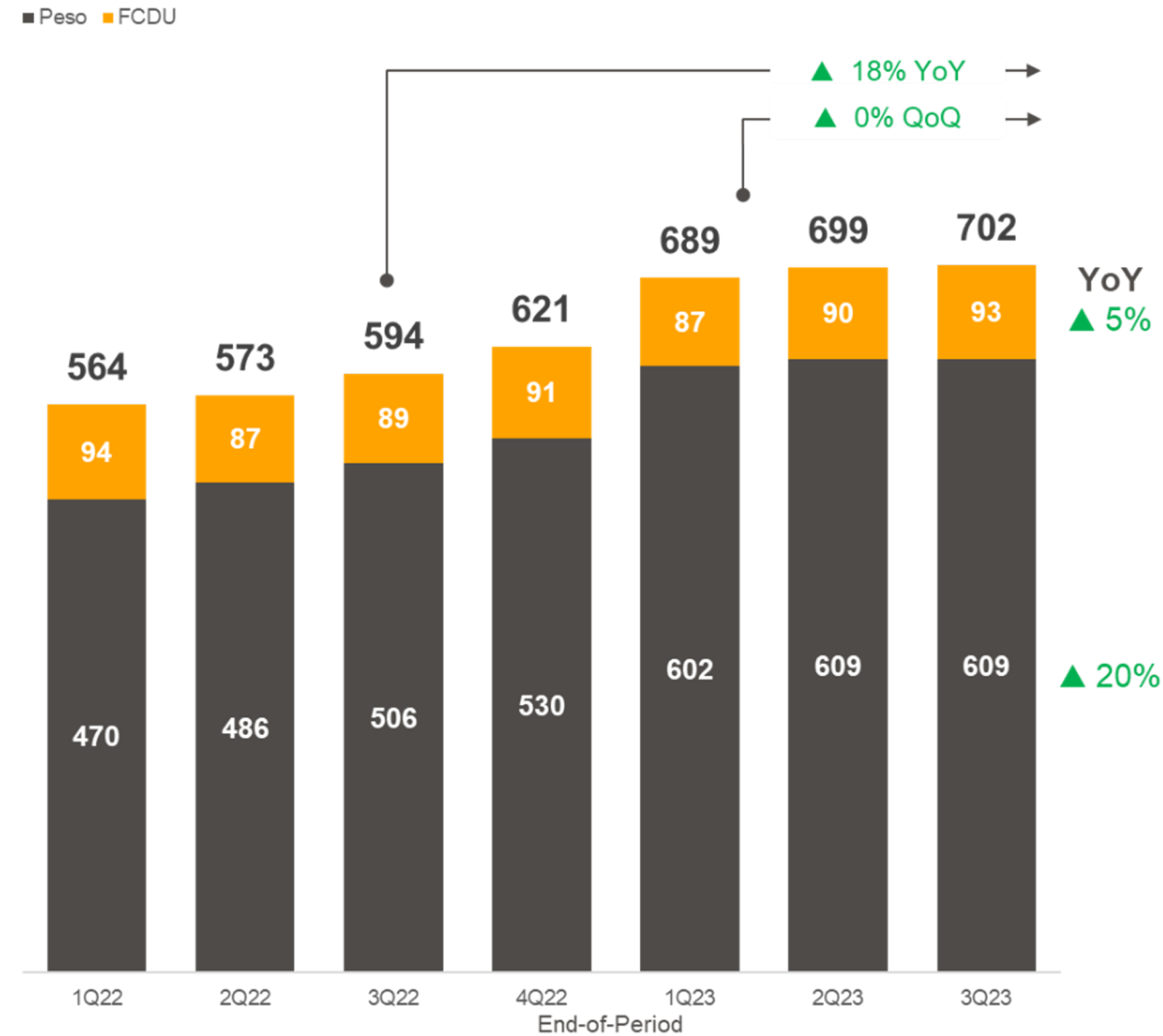


Gross Loans (OSB in PHP Bn)	Sep 2022	Sep 2023	Variance	%
<b>Corporate</b>	124	140	16	12%
<b>Commercial</b>	82	94	12	14%
<b>Consumer</b>	162	182	19	12%
Credit Card	65	71	6	9%
Home Loans	72	85	13	18%
Other Consumer Loans	25	26	1	2%
<b>Total Gross Loans of Parent</b>	<b>369</b>	<b>415</b>	<b>47</b>	<b>13%</b>
CitySavings and Subsidiaries	77	102	25	32%
UnionDigital	1	14	13	-
<b>Total Gross Loans of Subs</b>	<b>78</b>	<b>116</b>	<b>38</b>	<b>48%</b>
<b>Total Gross Loans</b>	<b>447</b>	<b>531</b>	<b>85</b>	<b>19%</b>
<b>% Consumer Loans</b>	<b>54%</b>	<b>56%</b>		

# Sustained CASA growth

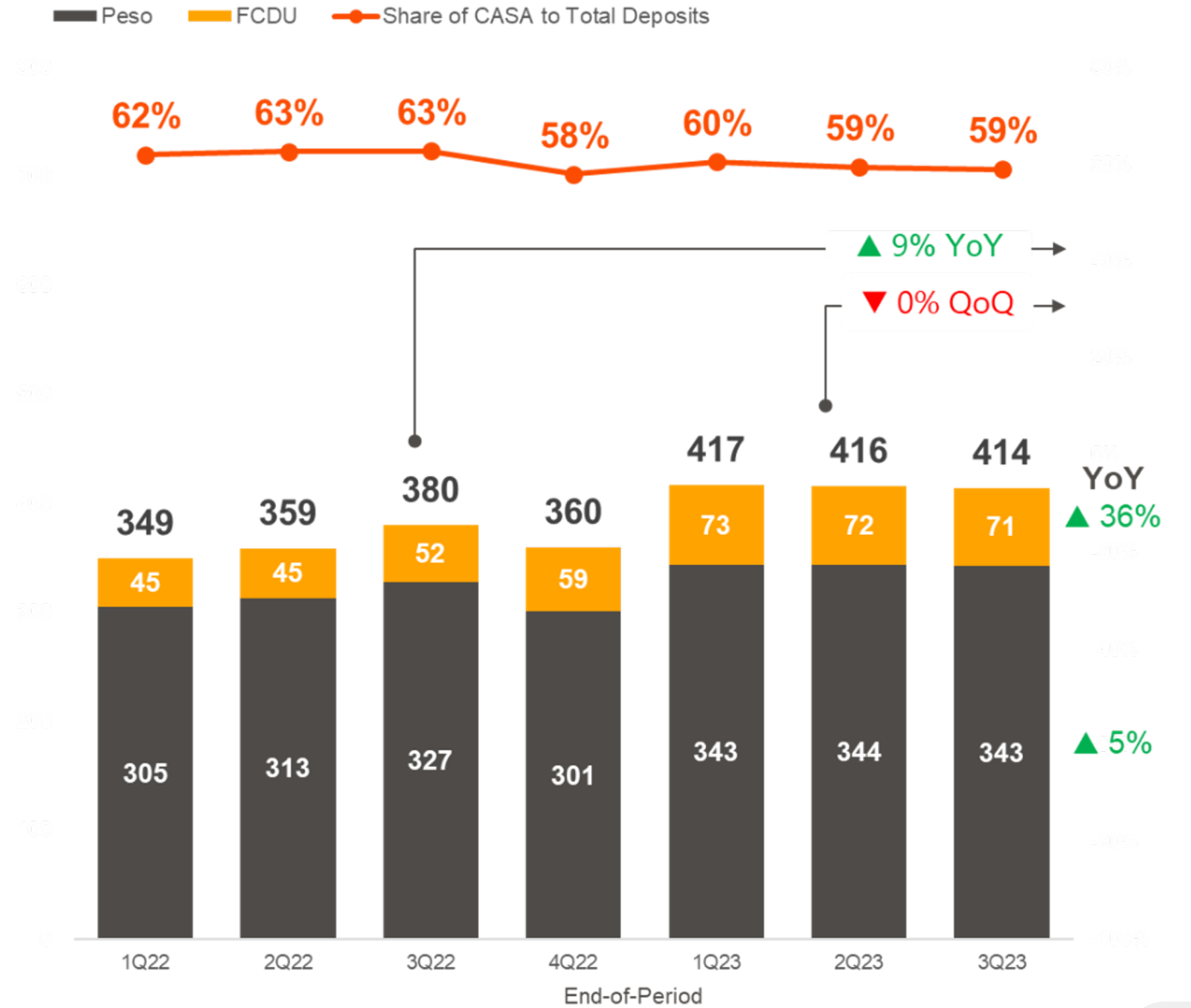
## Total Deposits (Consolidated)

(ADB in PHP Bn)



## CASA Deposits (Consolidated)

(ADB in PHP Bn)



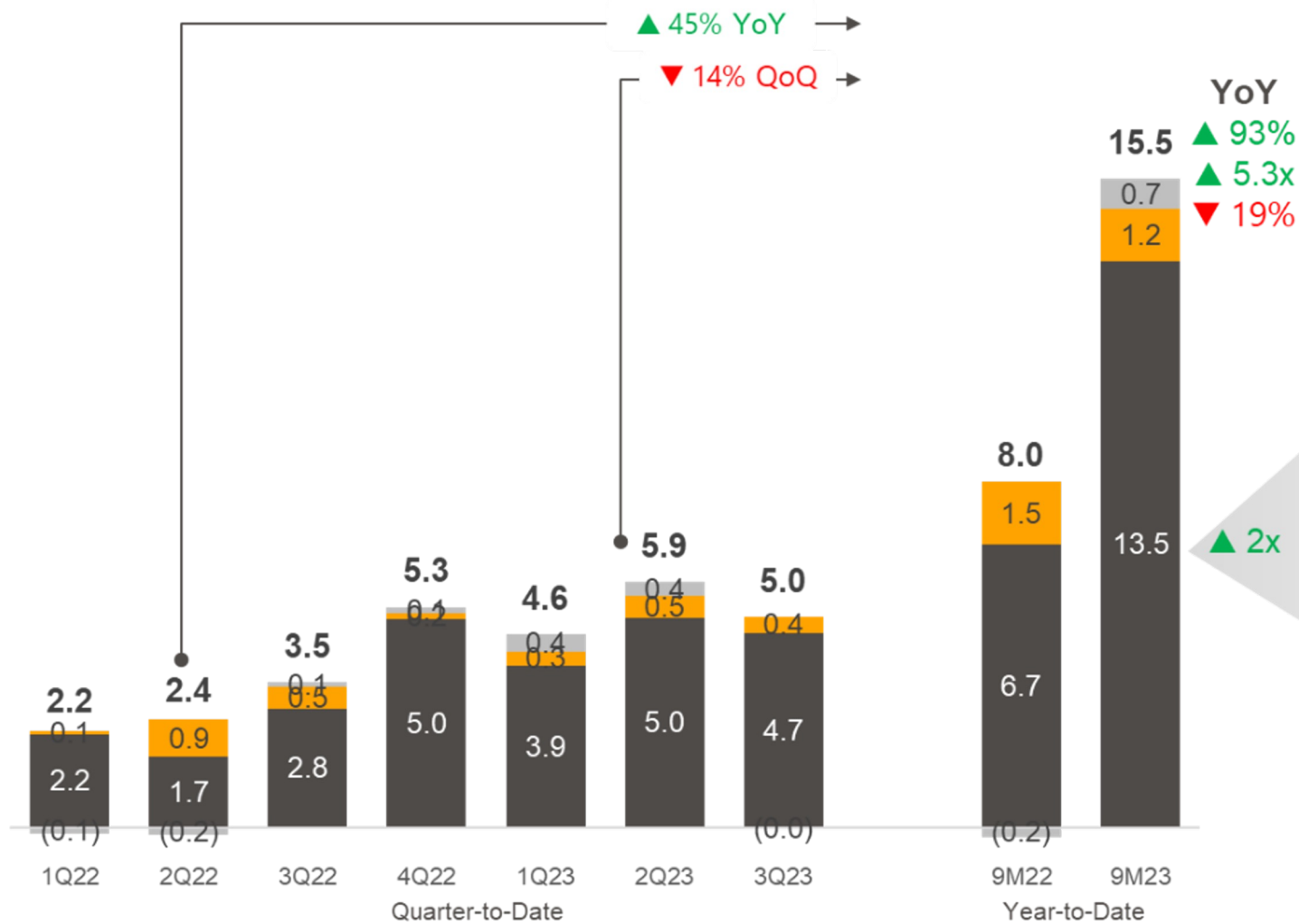


# Customer transactions driving recurring fee and other income

## Non-Interest Income

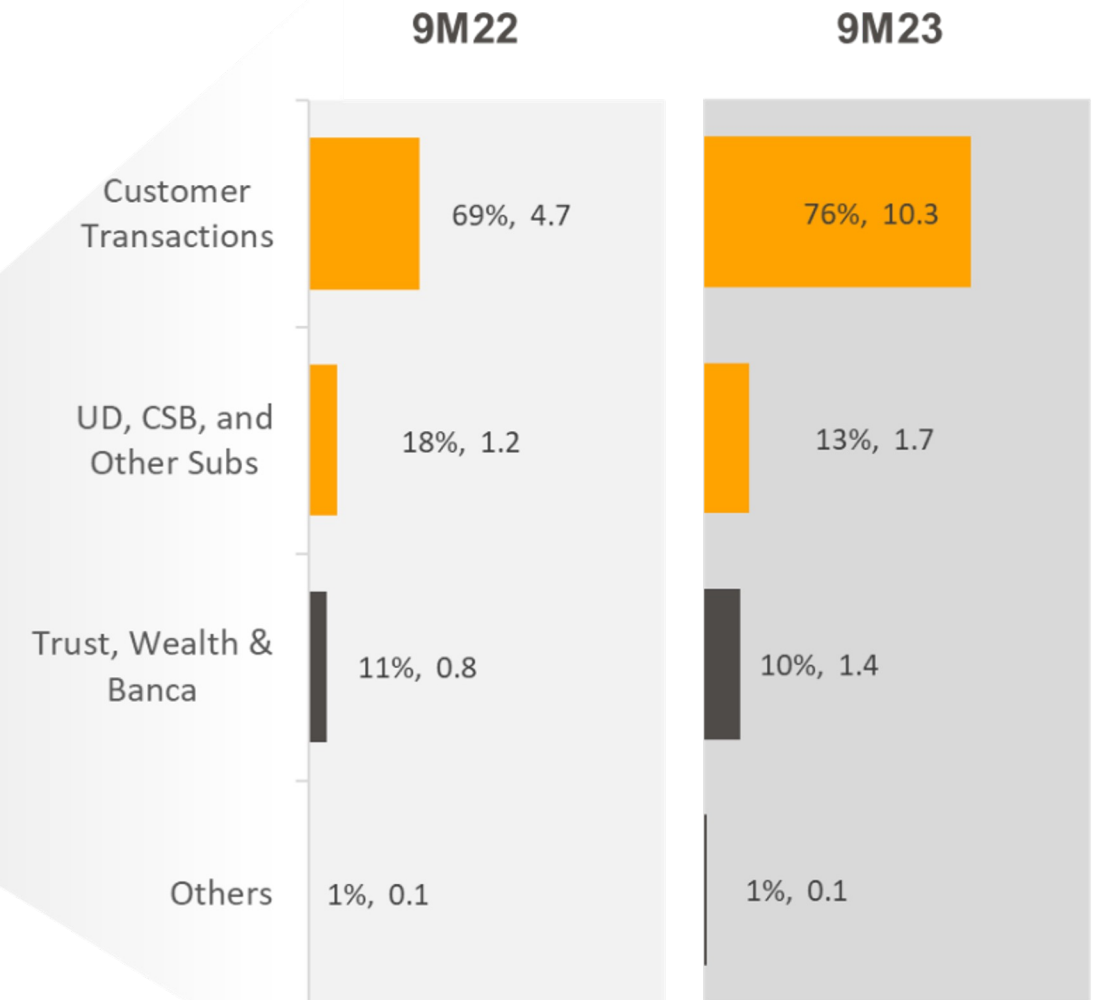
(in PHP Bn)

■ Fee and Other Income   ■ Gain on Sale/Foreclosure   ■ Securities Trading Gains



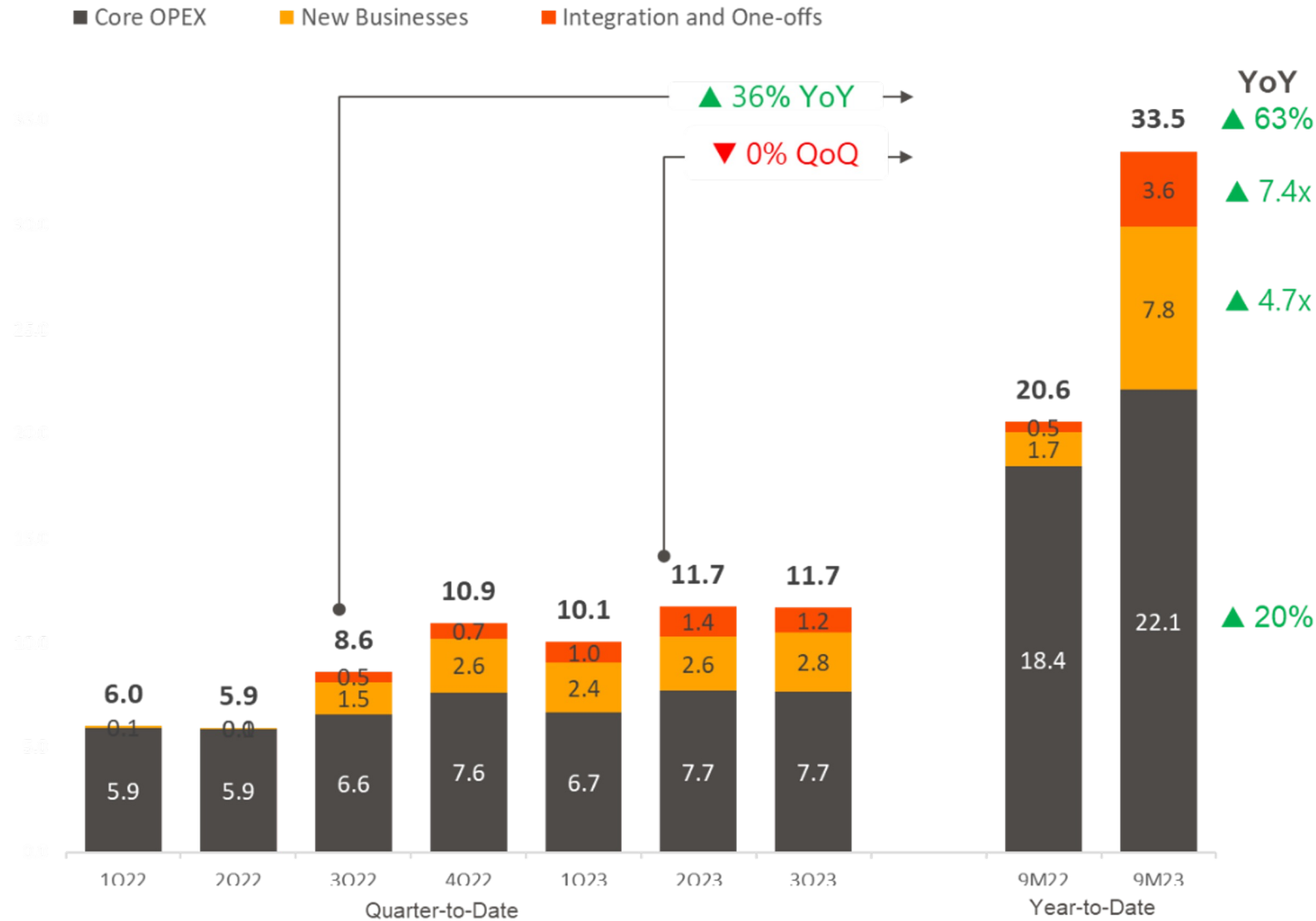
## YTD Fee and Other Income

(in PHP Bn)

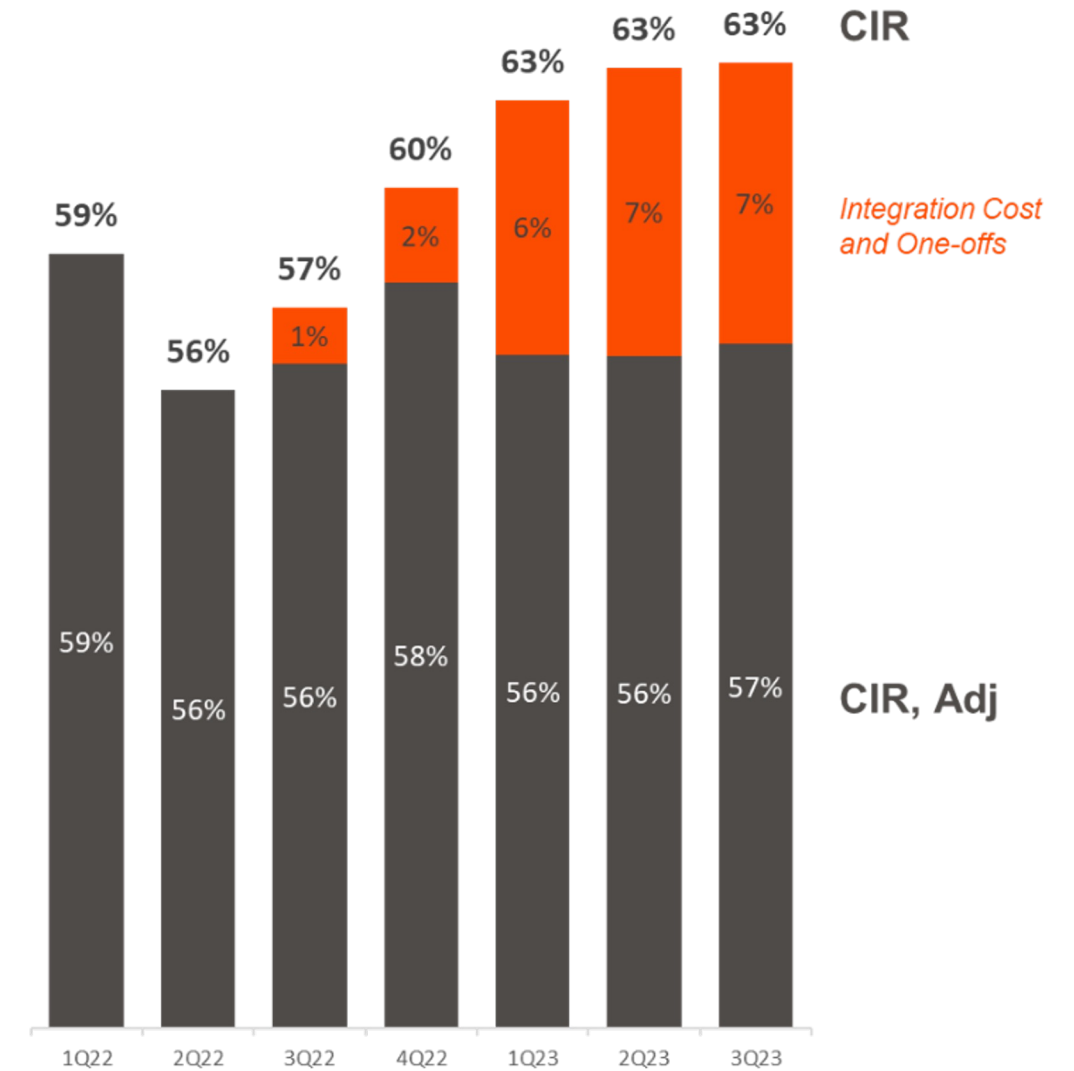


# OPEX growth mainly due to new businesses and one-time cost

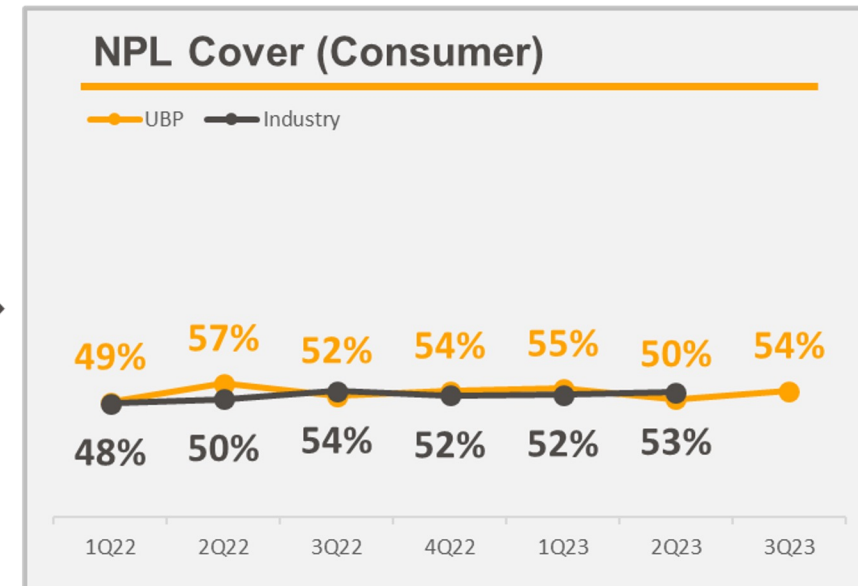
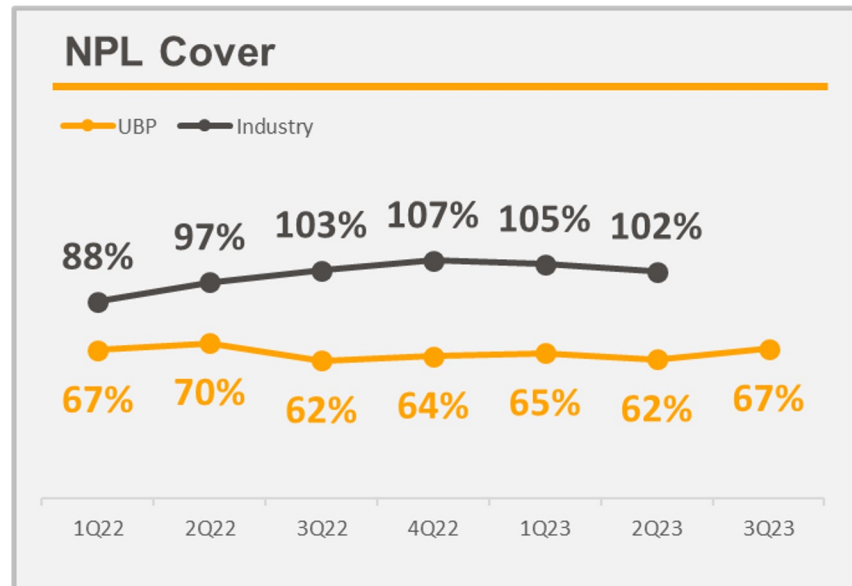
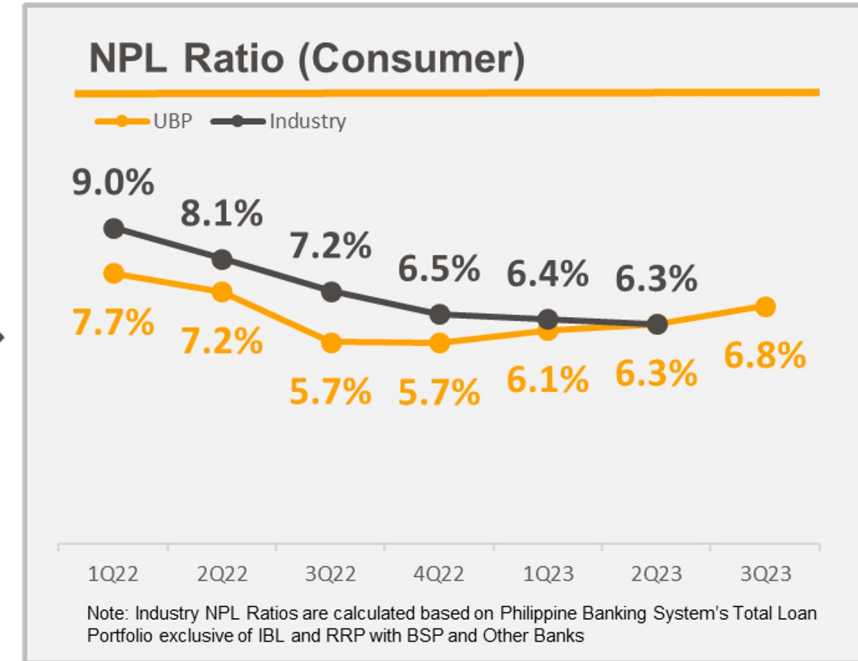
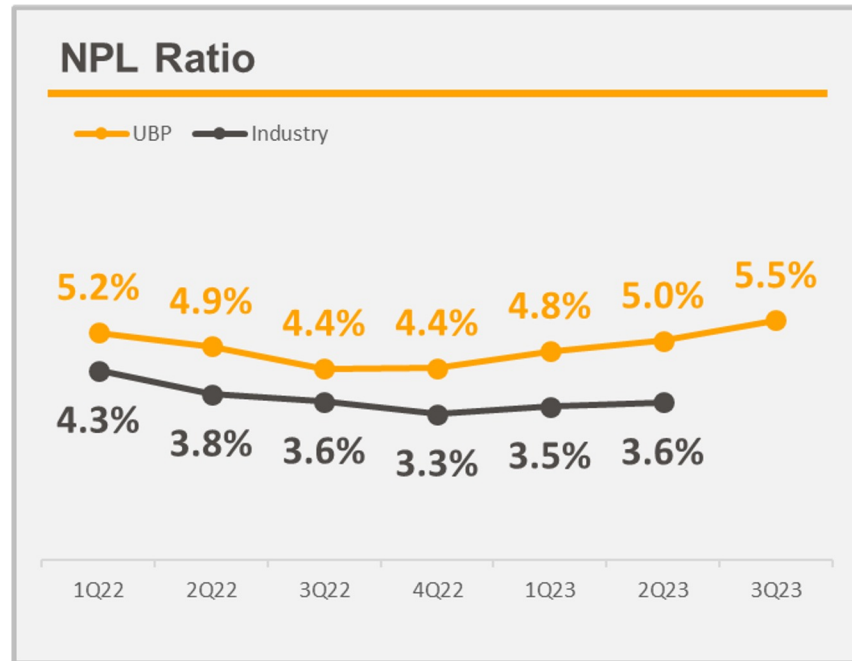
**Operating Expenses**  
(in PHP Bn)



**Cost-to-Income Ratio**  
(%)



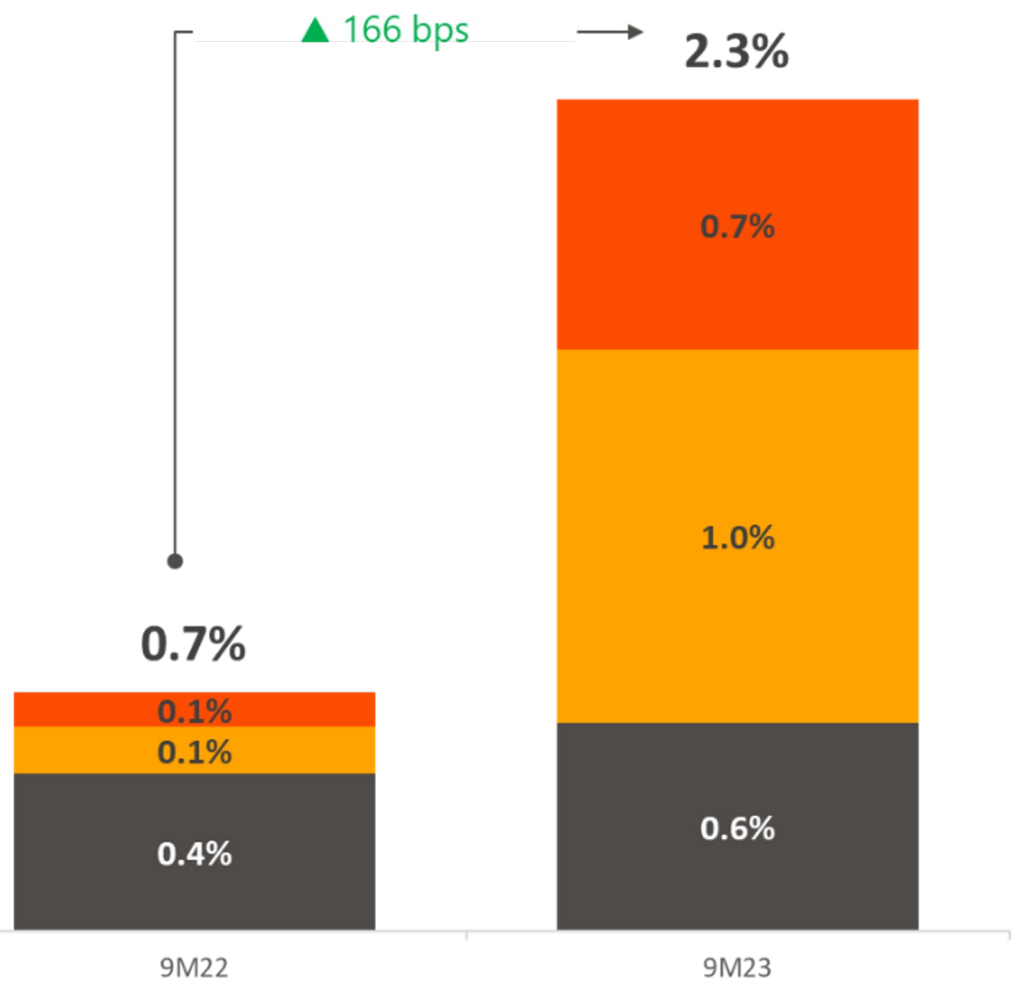
# Consumer NPL Ratio is in line with industry average



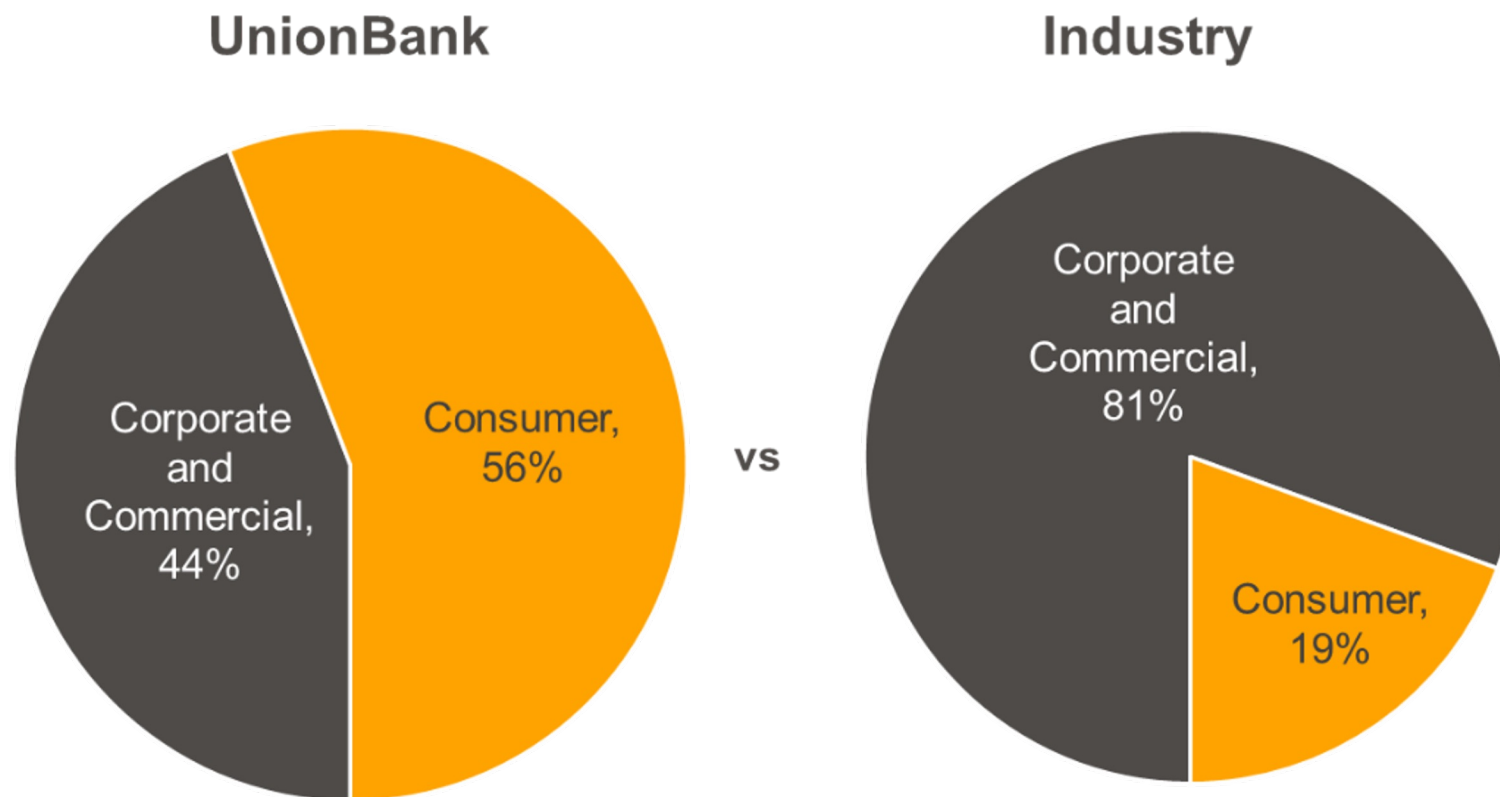
# Provision for credit losses increased due to new businesses and select legacy corporate accounts

## Credit Cost

■ Base Credit Cost ■ New Businesses ■ One-offs



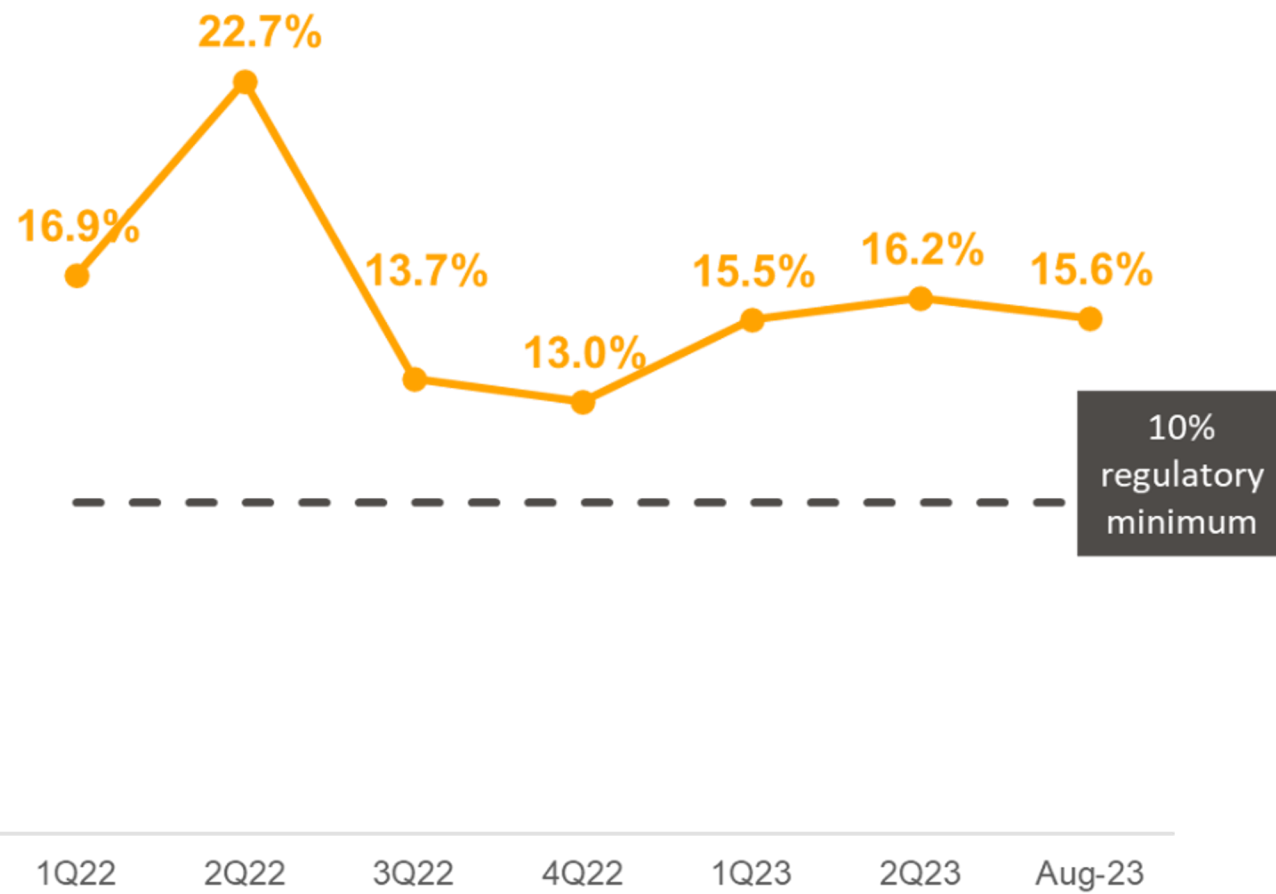
## Loan Mix



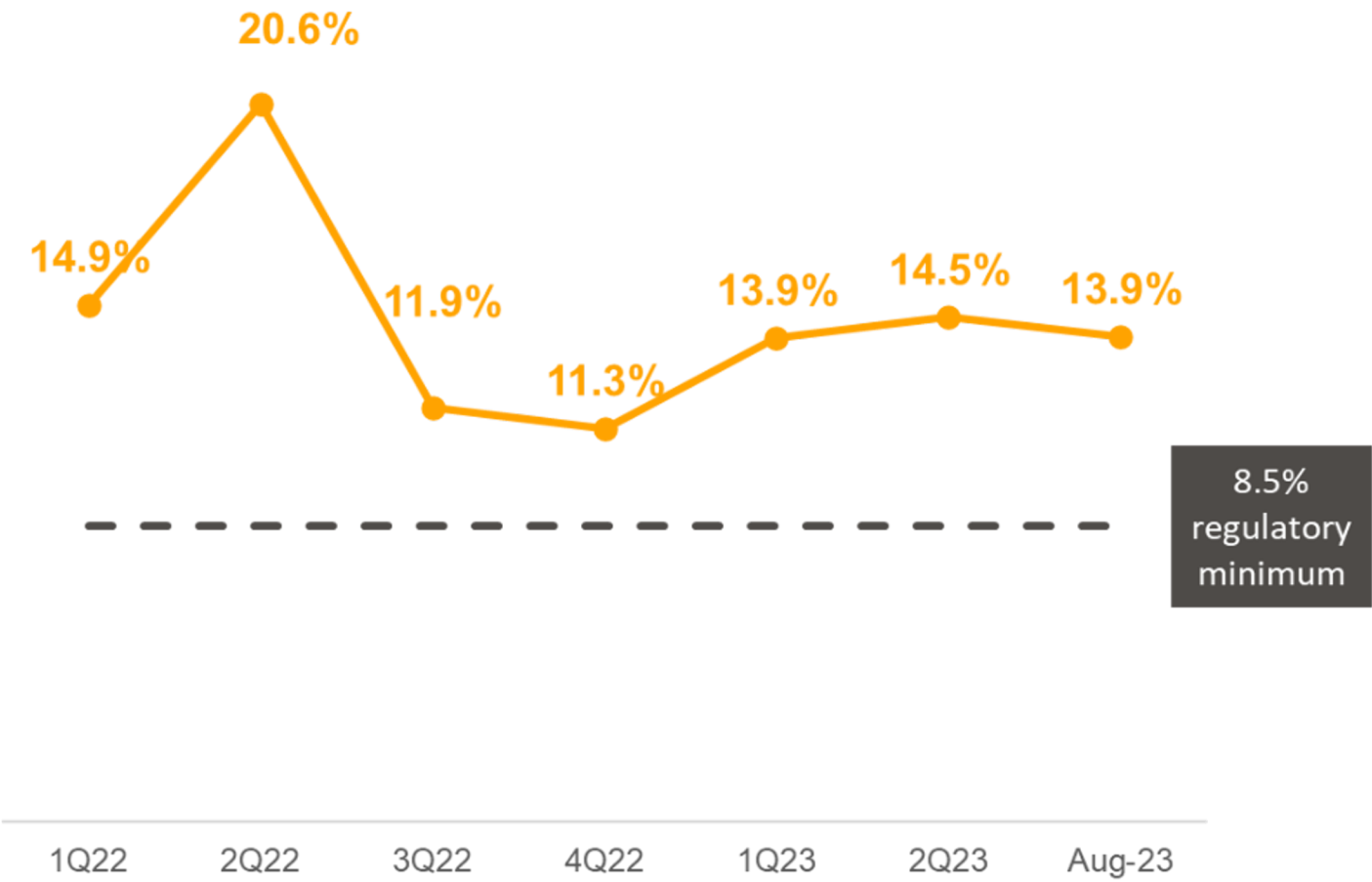
Source: BSP Data as of June 30, 2023

# Capital ratios provide room for growth

## Capital Adequacy Ratio (CAR)



## Common Equity Tier 1 Capital Ratio (CET1)



# Key Takeaways



- 1 Diversified consumer portfolio and growing customer base drive recurring income
- 2 Costs were elevated due to one-time integration costs of the acquired Citi consumer business and other non-recurring costs
- 3 Excluding the impact of the one-time costs, normalized ROE would be in double digit
- 4 In 2024, we expect the Bank's financials to go back to what we historically deliver, once we complete the integration and implement growth initiatives and synergies



**Thank You!**