

# Analysts' Briefing

March 15, 2024  
2:15 PM PHT



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



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# Agenda



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

1. Macroeconomic and Industry Outlook



**Dmi Lozano**  
Chief Financial Officer

2. Financial Performance

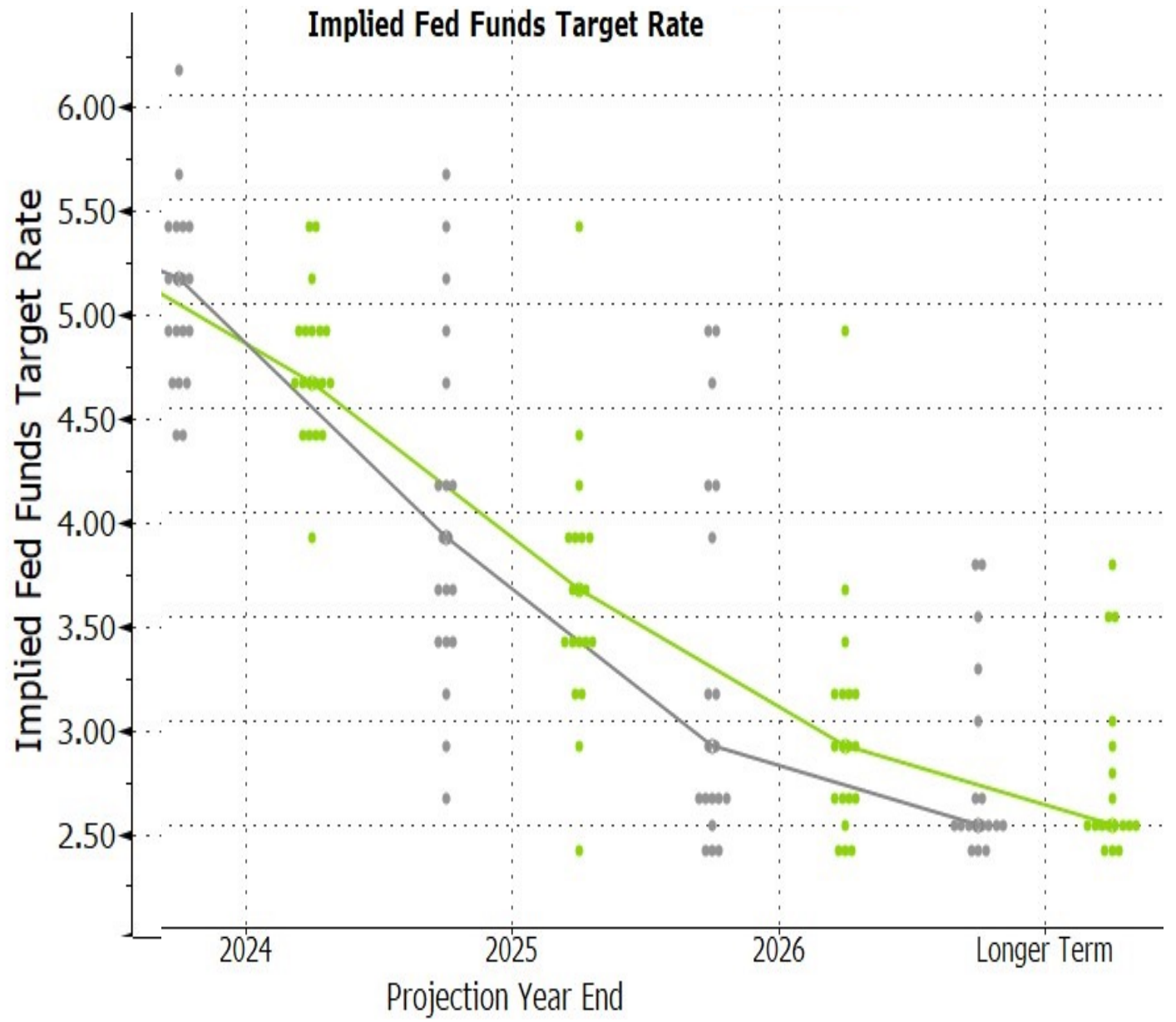
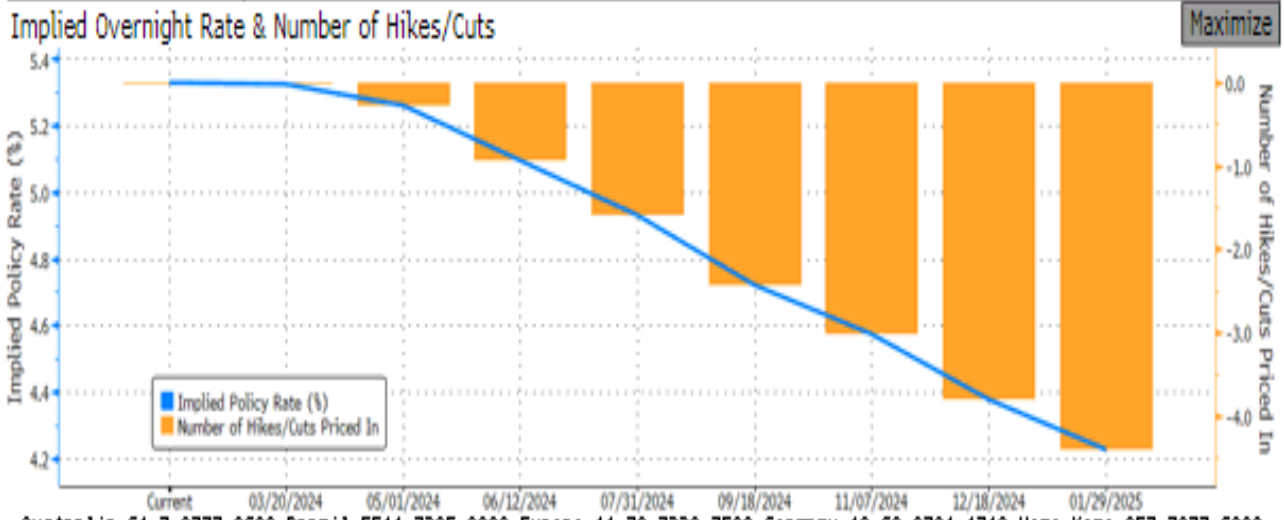
# Macroeconomic and Industry Outlook

# Policy expectations seemingly forming consensus around June cut

- Start of 2024 started with heavily priced in expectations of as much as 6.7 cuts
- Since then, rates have moved higher as rate cut expectations moderate
  - Fed speakers consistently trying to walk back cut expectations
- “Not far” from confidence needed to cut rates – Powell
  - We’re waiting to become more confident that inflation is moving sustainable at 2%
  - It would likely be appropriate to cut interest rates at some point this year
- ECB’s Lagarde: may be in a position to lower rates in June

# Market expecting 3.8 cuts vs. Fed Dots at 3.0 cuts

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
03/20/2024	-0.023	-2.3%	-0.006	5.323	0.250
05/01/2024	-0.271	-24.8%	-0.068	5.260	0.250
06/12/2024	-0.924	-65.3%	-0.231	5.097	0.250
07/31/2024	-1.583	-65.9%	-0.396	4.932	0.250
09/18/2024	-2.428	-84.5%	-0.607	4.721	0.250
11/07/2024	-3.023	-59.5%	-0.756	4.573	0.250
12/18/2024	-3.802	-77.9%	-0.951	4.378	0.250
01/29/2025	-4.403	-60.1%	-1.101	4.227	0.250

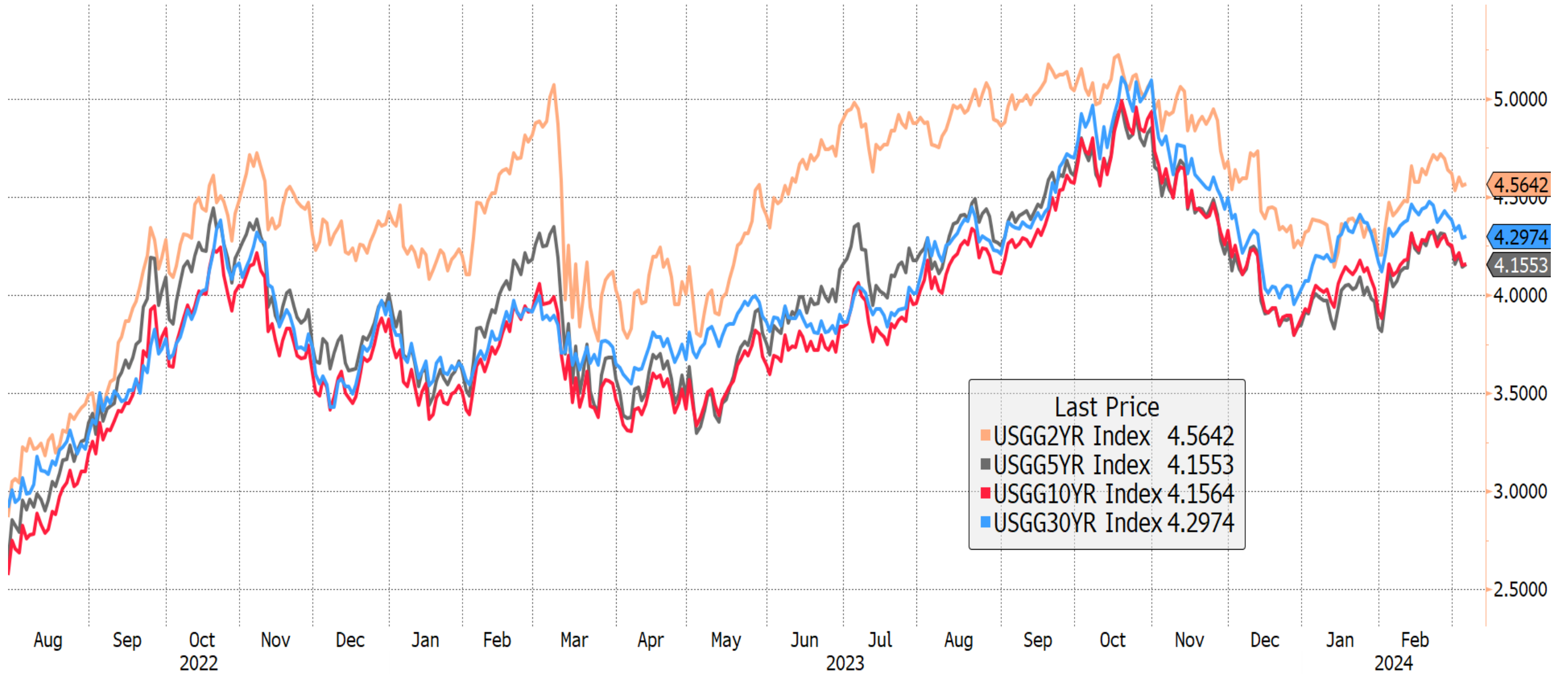


# EOY 2024 at 4.625 (3 cuts) seemingly where market consensus will converge





# USTs off the highs but still 26-30 bps higher for the year

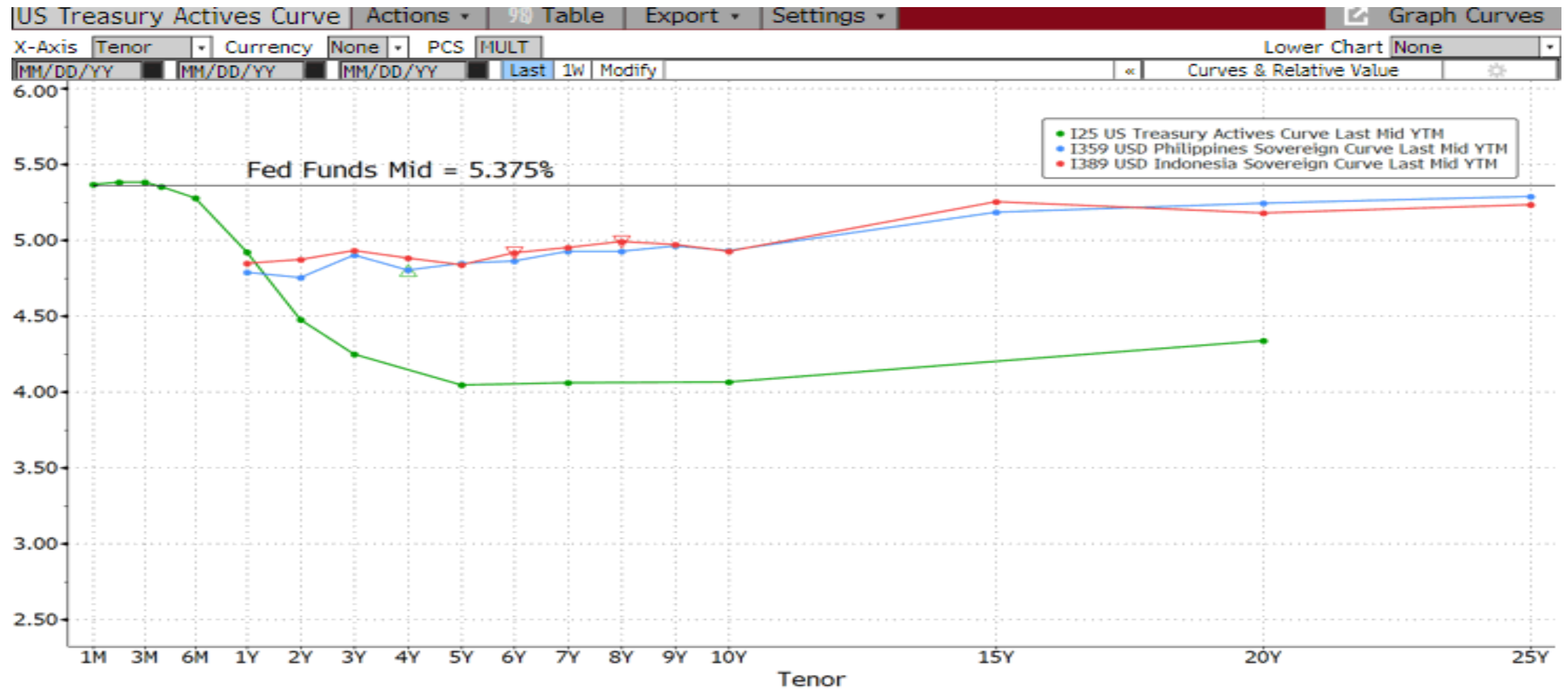


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# USD / Asian Sov Bond curve is inverted



# Risks: US Office REITS taking a beating



## Vornado Realty Trust

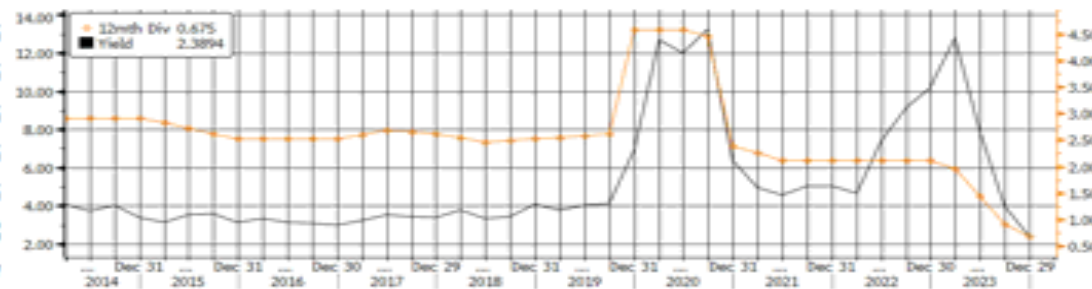
Range 2014 - 2023

Adjust for Capital Change

Currency As Reported

12 Month Yield  
Indicated Yield  
1 Yr Dividend Growth  
3 Yr Dividend Growth  
5 Yr Dividend Growth  
Last Price  
Payment Frequency

1.14%  
4.56%  
-84.73%  
-48.91%  
-34.82%  
USD 26.28  
Quarterly



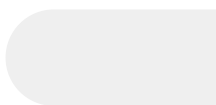
# Risks: Oil resistance at 84 holds, OPEC+ extend supply cuts into 2Q



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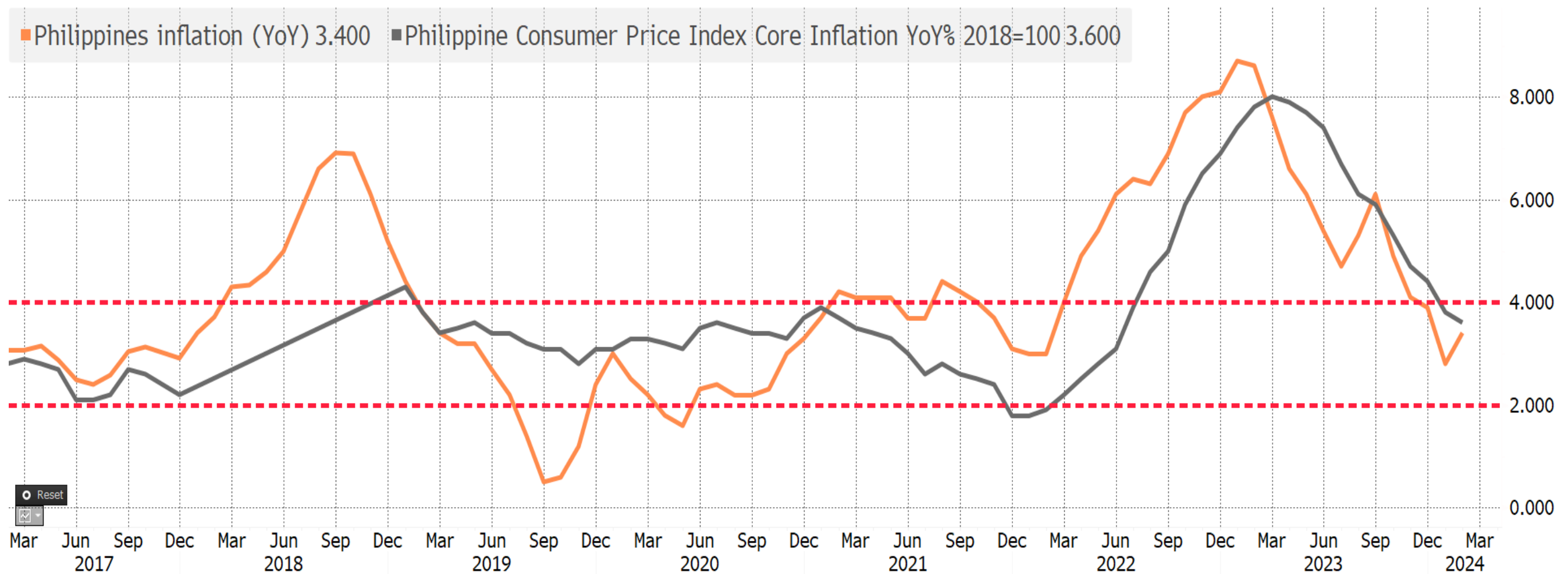


# BSP may not cut rates soon, says Governor

- Remolona on cutting rates at a press briefing:
  - “I can’t say that we’re going to ease soon. But it’s unlikely that we will tighten some more but let’s see what the data says”
  - “Still too soon to say inflation comfortably within BSP’s 2%-4% goal
  - “The models and the data seem to suggest it’s still too soon to declare victory,”
  - “We seem to be able to manage price expectations”
- Headline CPI rose more than expected in Feb
  - February CPI rose to 3.4%, exceeded consensus of 2.9%, at the higher end of BSP’s range 2.8% - 3.6%
  - Steady easing in core inflation (3.6% from 3.8% y/y) to within the target range could give BSP the confidence that supply shocks are not leading to second-round effects or generalized price pressures
- BTr raised record high P585bn via RTBs; trading at par in the secondary market
  - PH exceeded its 400Bn+ projection
- Expect that BSP settles on path similar to Fed and other global CBs, with a slight lag

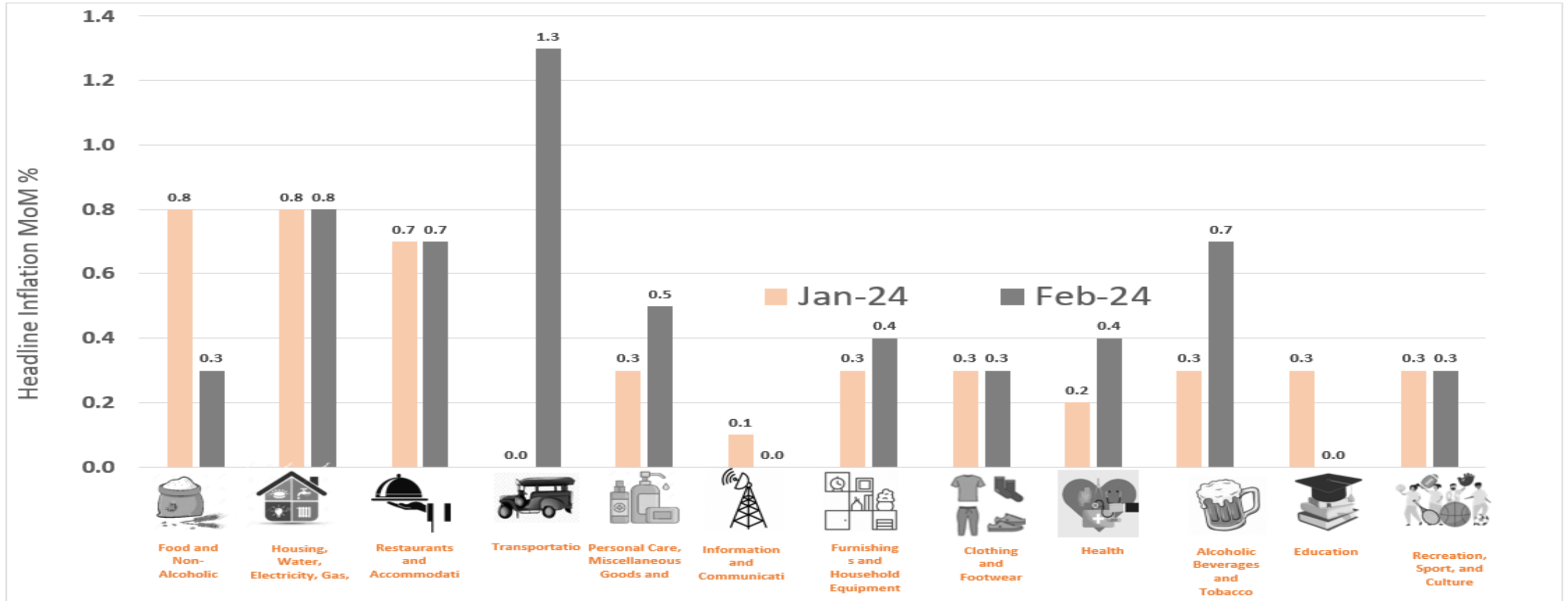


# February inflation rose 3.4%, ending 4-month decline

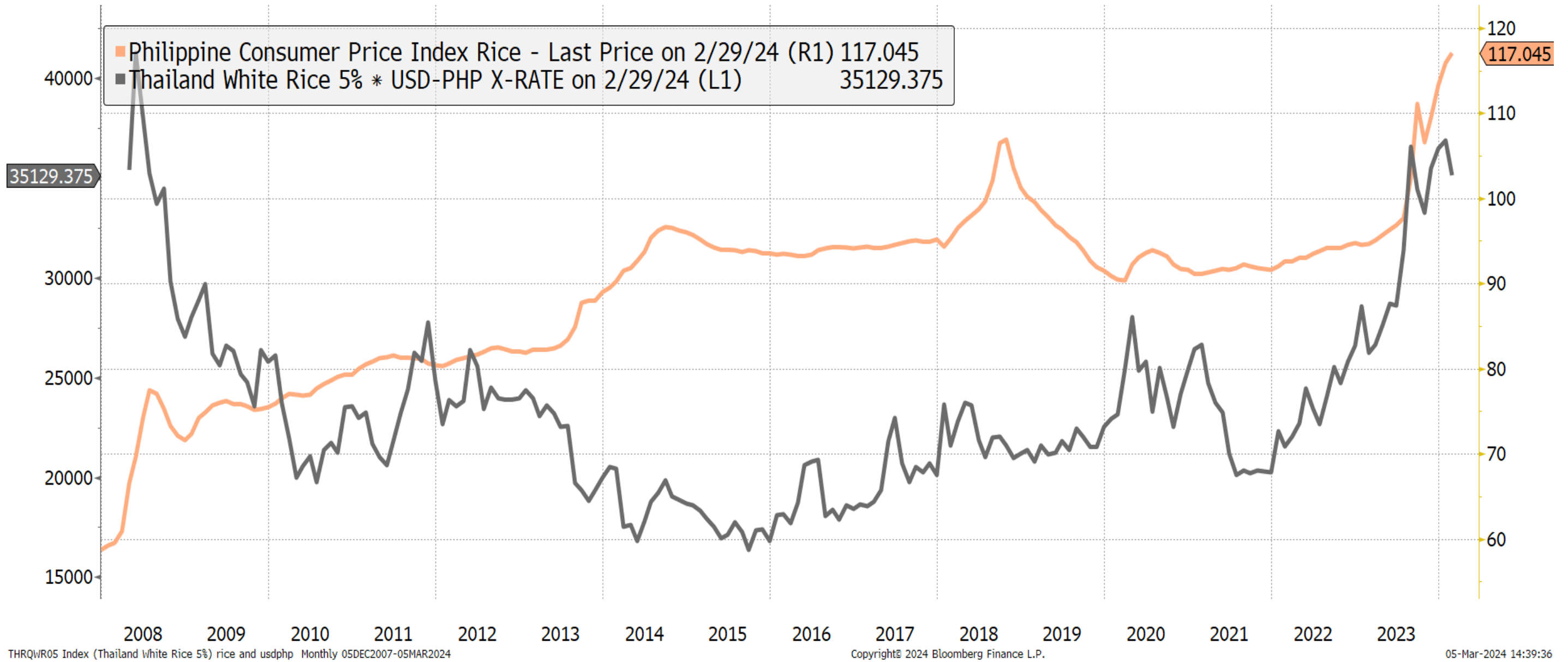


- PH CPI comes in at 3.4% vs 3.0% expected vs 2.8% previous
- MoM at 0.6% vs 0.3% expected vs 0.6% previous

# Transport prices rose 1.3% m/m driven by sequential increase in fuel prices while passenger transport inflation remain stable



# Rice inflation highest since February 2009 at 23.7% y/y

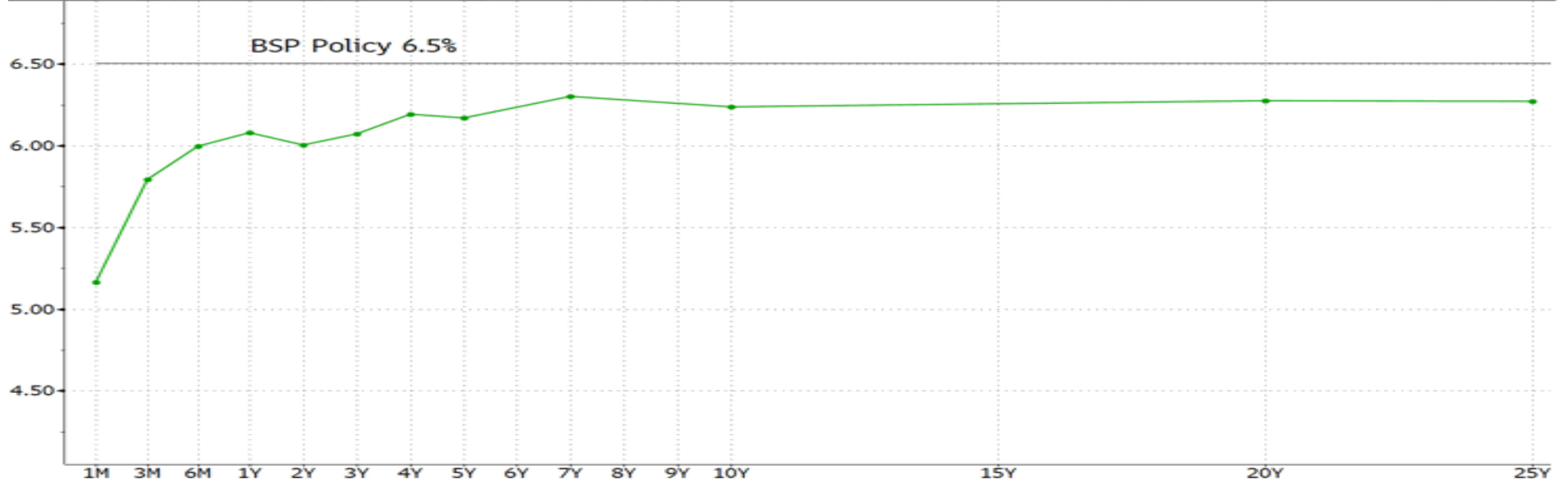


# GS curve below policy a reflection of cut expectations, system liquidity

YCGT010 3m 5.7 6m 5.9 1y 6.0 2y 5.9 5y 6.1 10y 6.2 25y 6.2

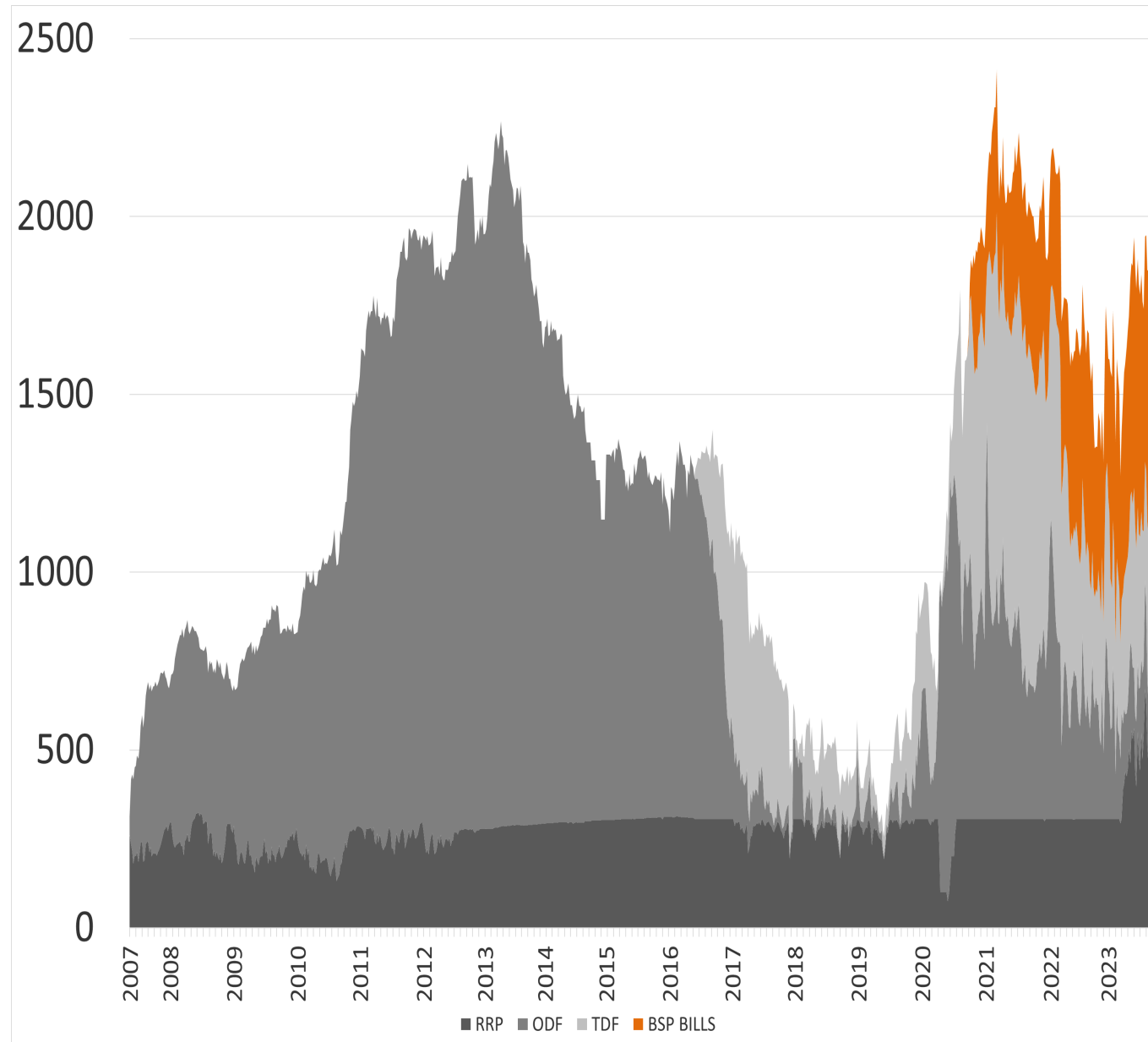
PHP Philippine Sovereign Curve

PHP Philippine Sovereign (		Actions	98 Table	Export	Settings	Graph Curves	
X-Axis	Tenor	Y-Axis	Mid YTM	Currency	None	PCS	BVT5
MM/DD/YY	MM/DD/YY	MM/DD/YY	Last	1w	Modify	Lower Chart None	
						Curves & Relative Value	





# System liquidity to net 1.89Tn after RTB and jumbo maturities



Issue Size

RTB Settlement

Feb 28

Swap

Total Outflow

Current System Liquidity

System Liquidity after RTB settlement

Maturities

Mar 9-12

Swapped

Total Inflow

System Liquidity

**RTB 5-18**

<b>584.86</b>
-584.86
243.45
-341.41
1,778
1,436
699
-243.45
455.55
<b>1,892</b>

# USD/PHP consolidating since start of the year



USDPHP Curncy (USD-PHP X-RATE) usdphp candle Daily 20FEB2022-06MAR2024

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- USD/PHP has been fairly stable for 2024 surprisingly without any BSP intervention.
- Foreign Reserves up to \$103.4B, + 0.87% m/m

# Financial Performance

## FY 2023

# UBP leader in digital metrics

Highest NPS rating among banks conducted by BAIN Consulting<sup>1</sup>

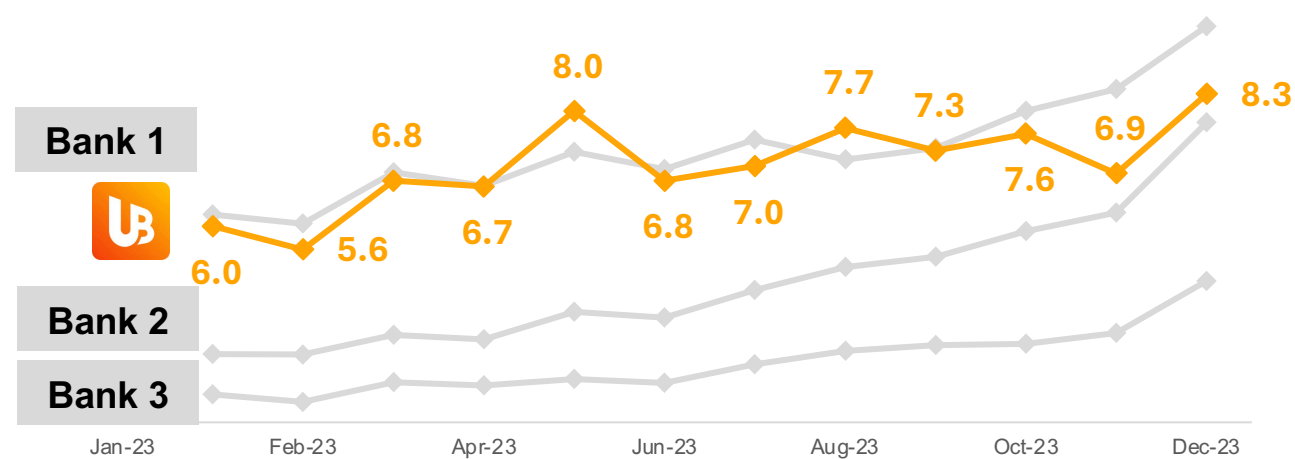
# 55% / 62%

Brand Relationship

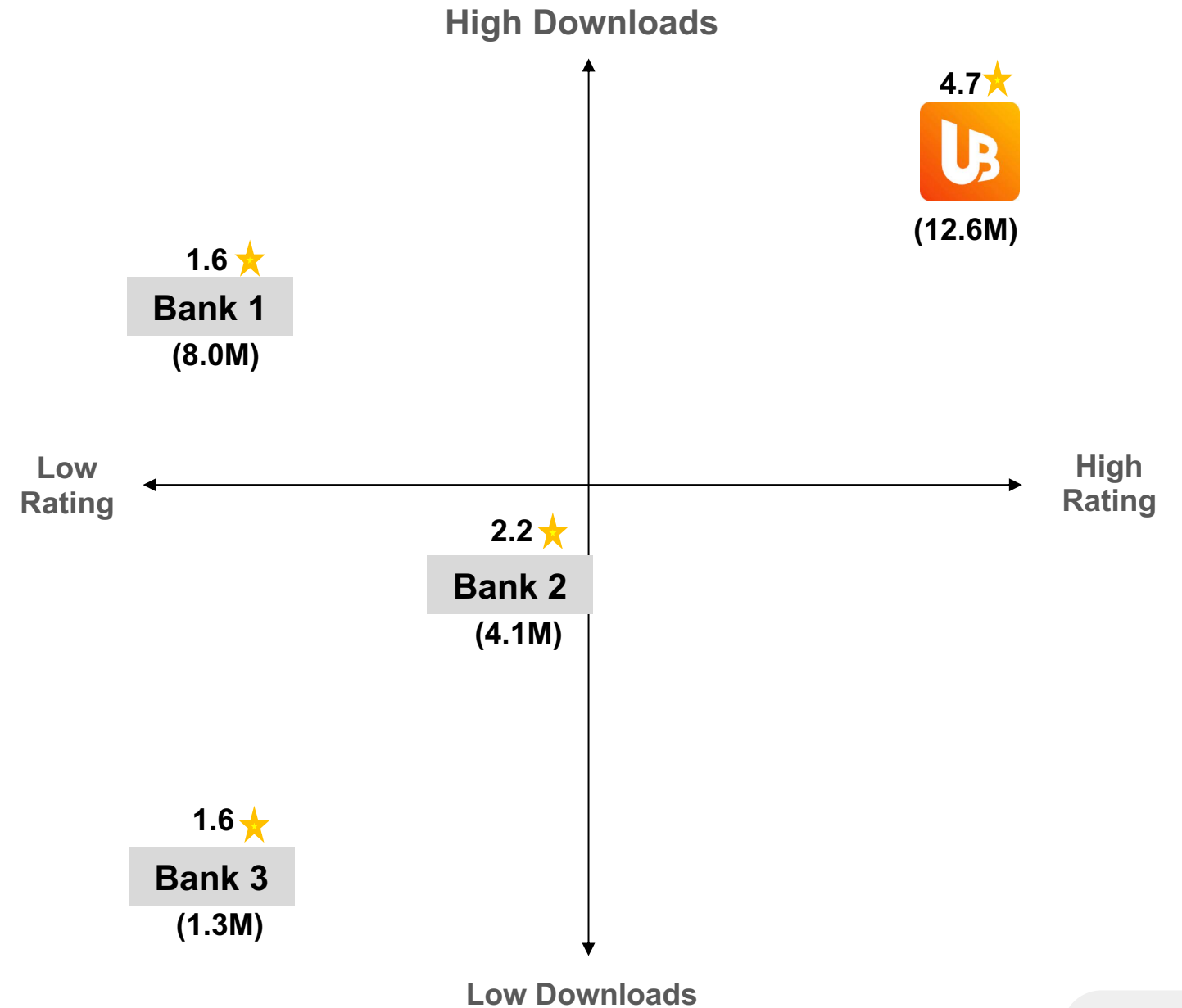
Mobile App  
Brand Channel

UBP among the top in digital transactions

Instapay Txns (In M, #)



Highly rated most downloaded banking APP in Google Playstore<sup>1</sup>

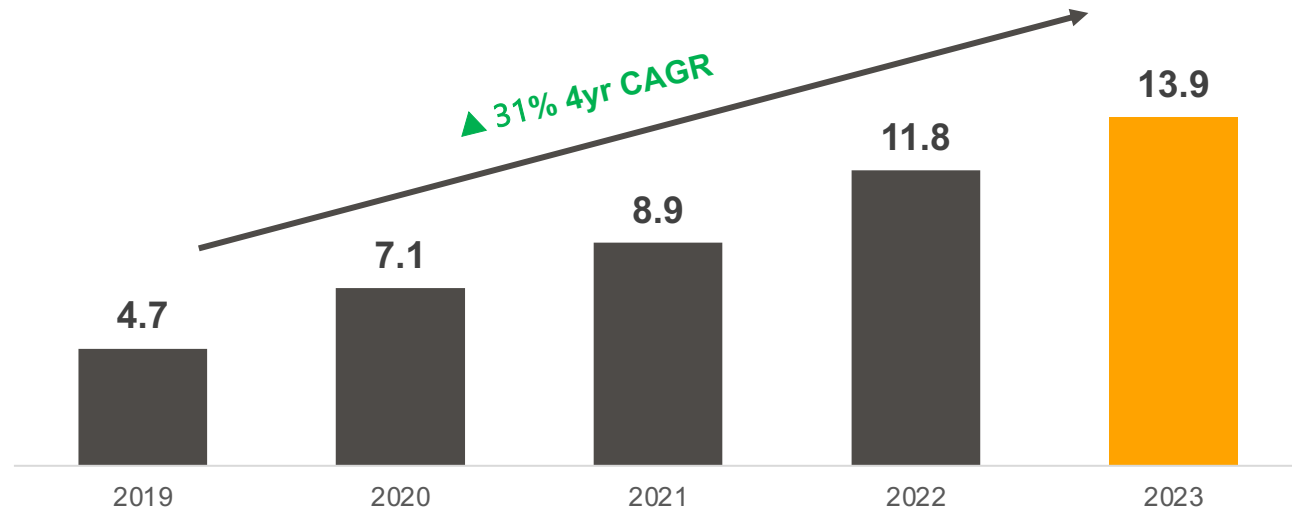




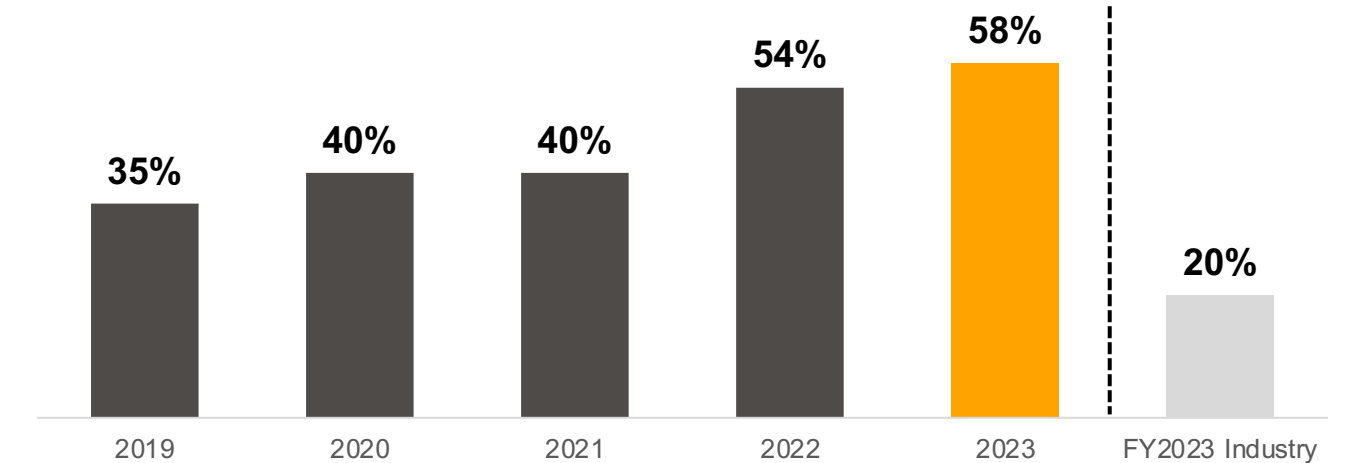
# Strong growth in customers & revenues

## Customer Growth

(in #, Mn)

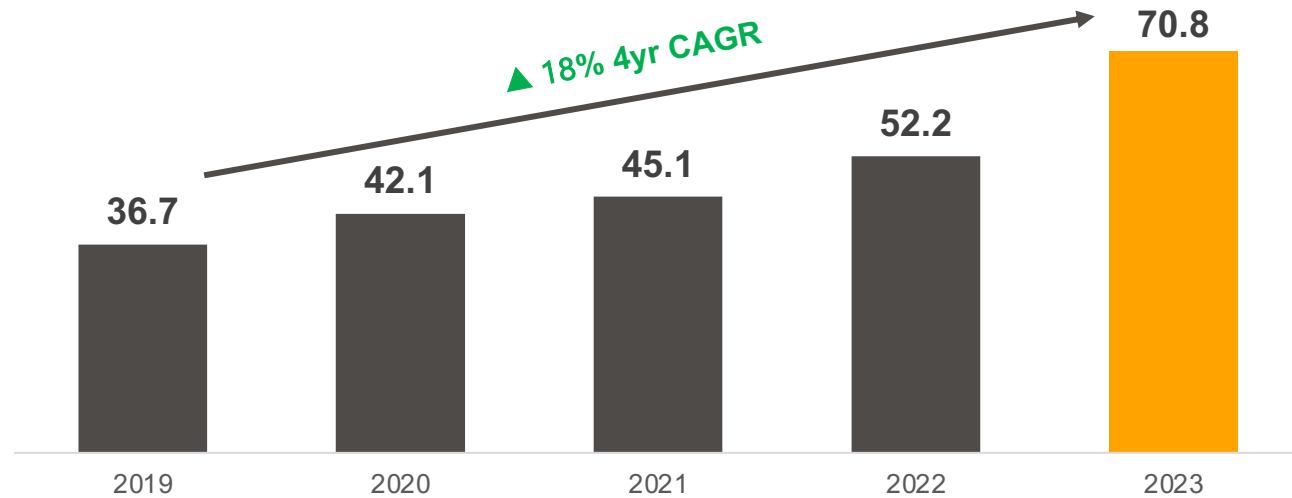


## Retail Loans to Total Loans

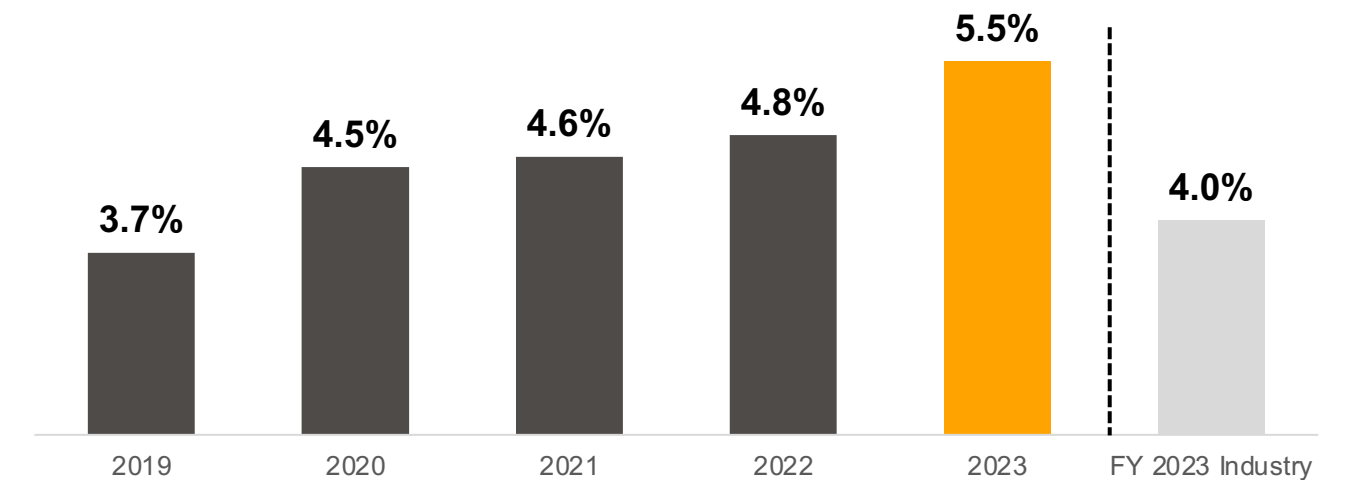


## Net Revenues

(in P, Mn)



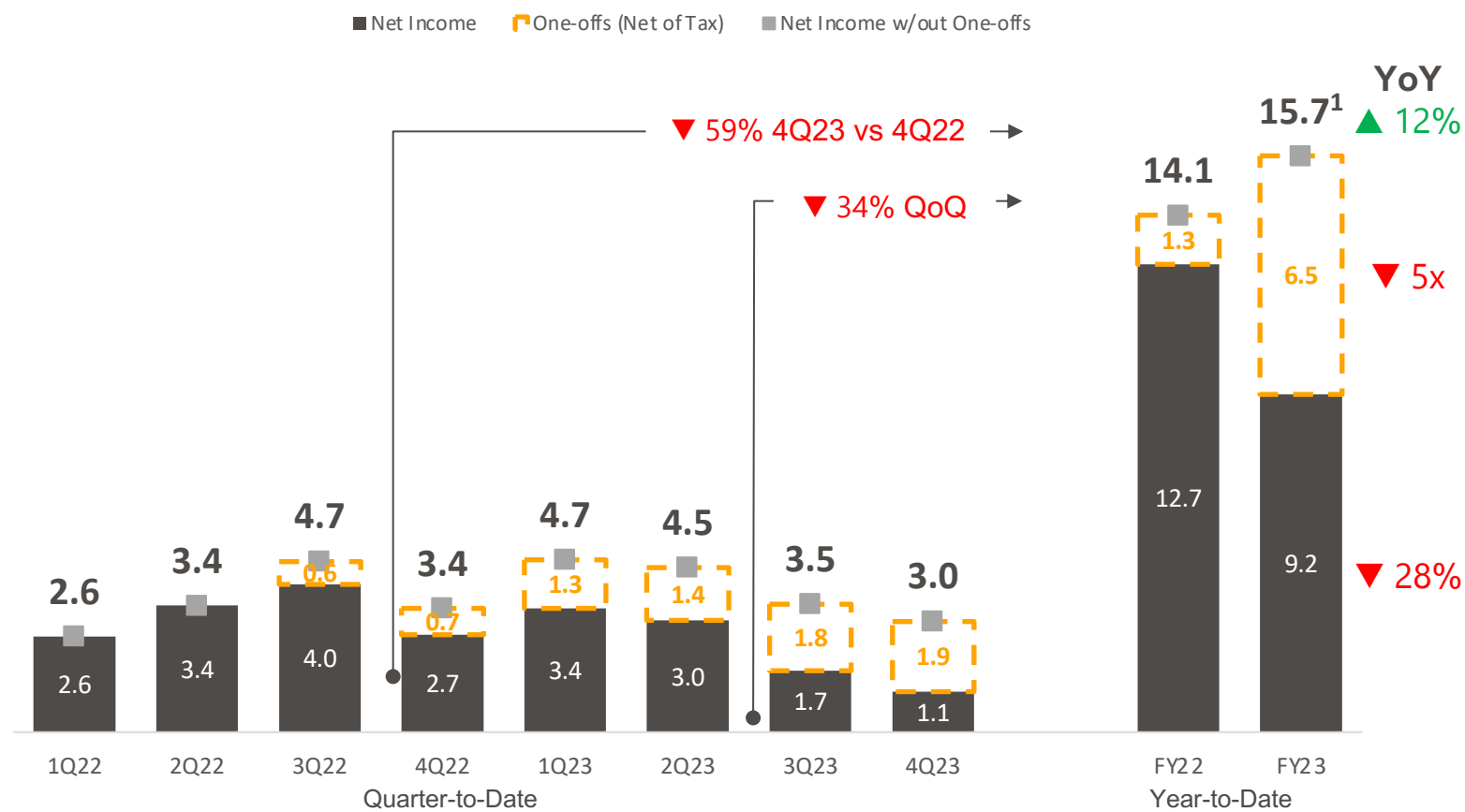
## Net Interest Margin



# UnionBank FY2023 net income at P9.2 bn

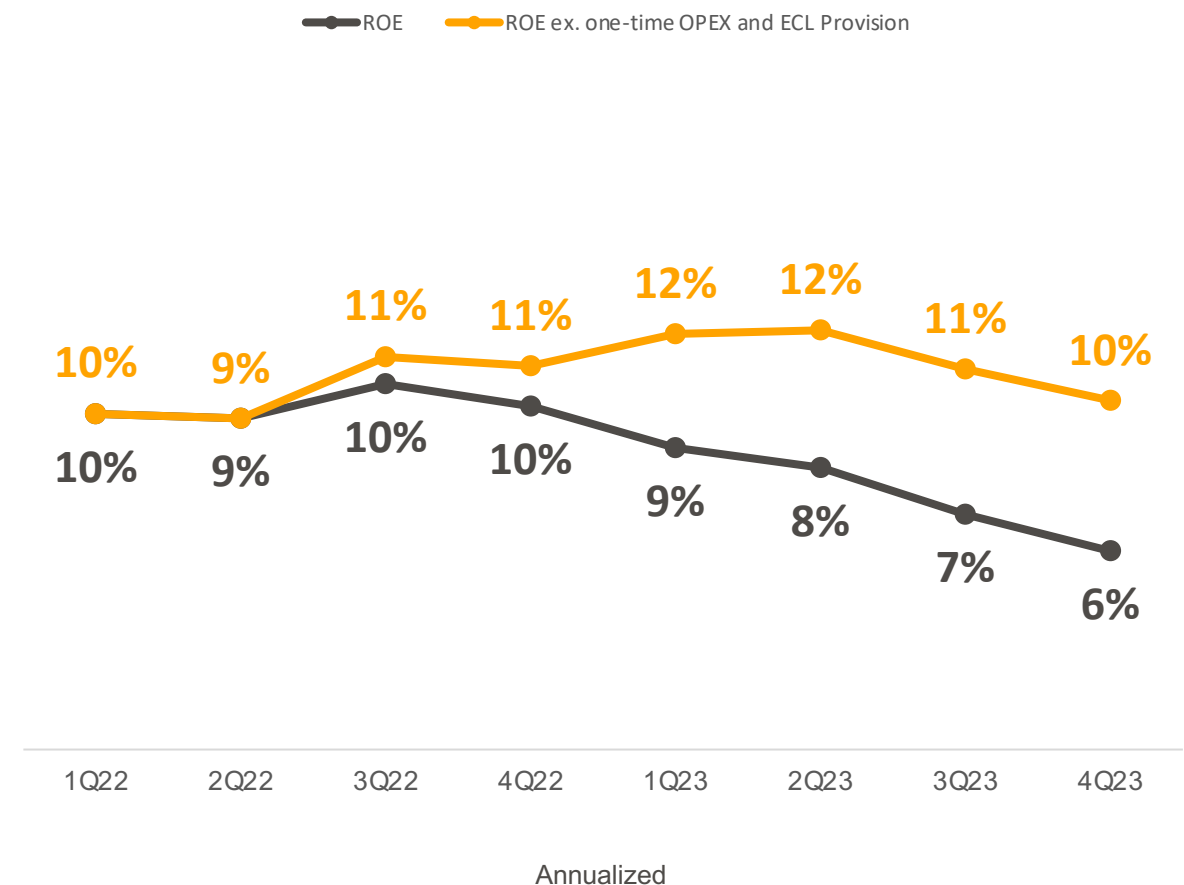
- ▶ Net income slowdown is driven by one-time integration cost of the acquired Citi business and other non-recurring costs.
- ▶ Business fundamentals remain strong and the Bank's topline revenues continue to record robust growth.
- ▶ The diversified consumer portfolio and the growing customer base drive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

## Net Income (in PHP Bn)



<sup>1</sup> Estimated Net Income net of one-offs

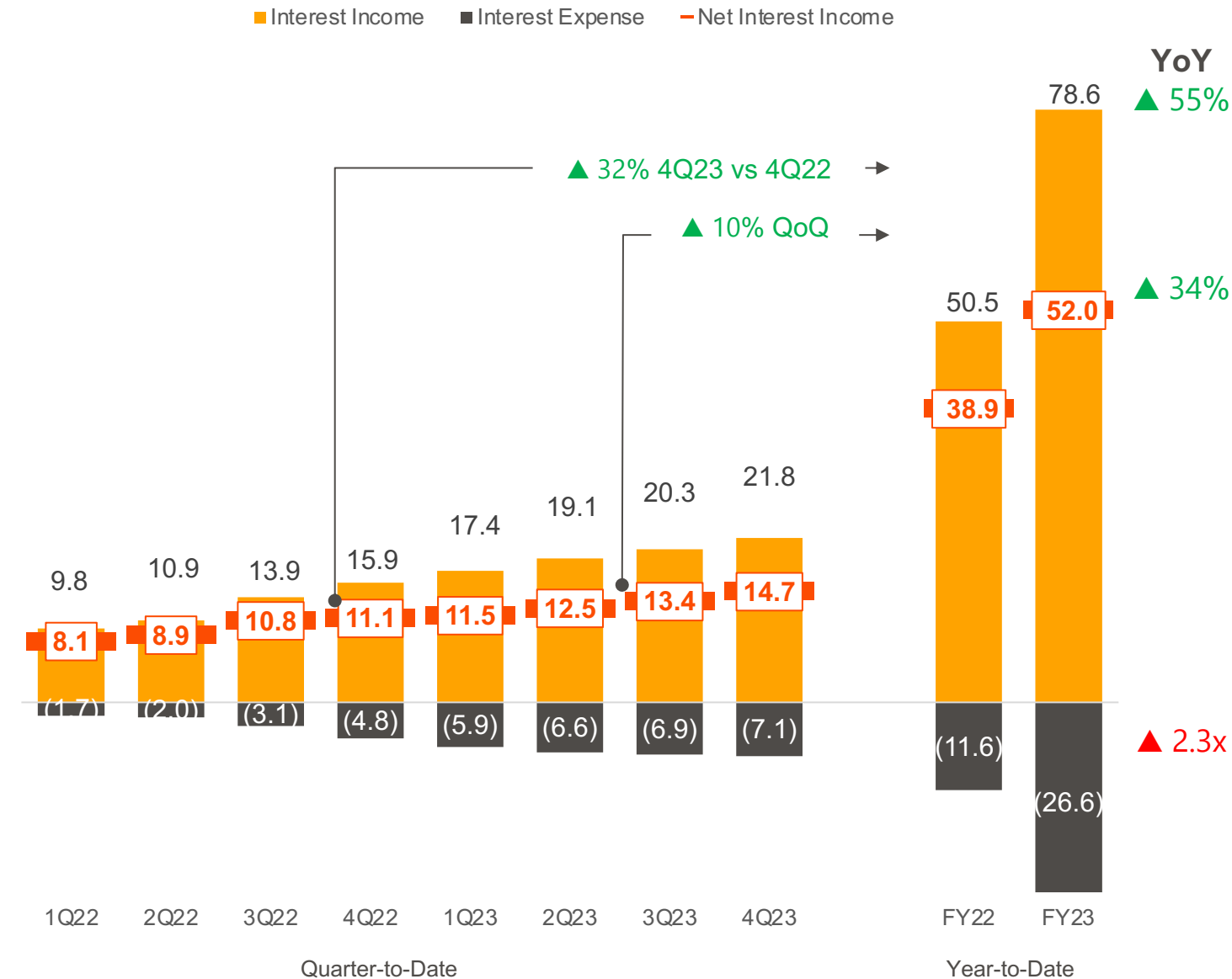
## Return on Equity (Ave)



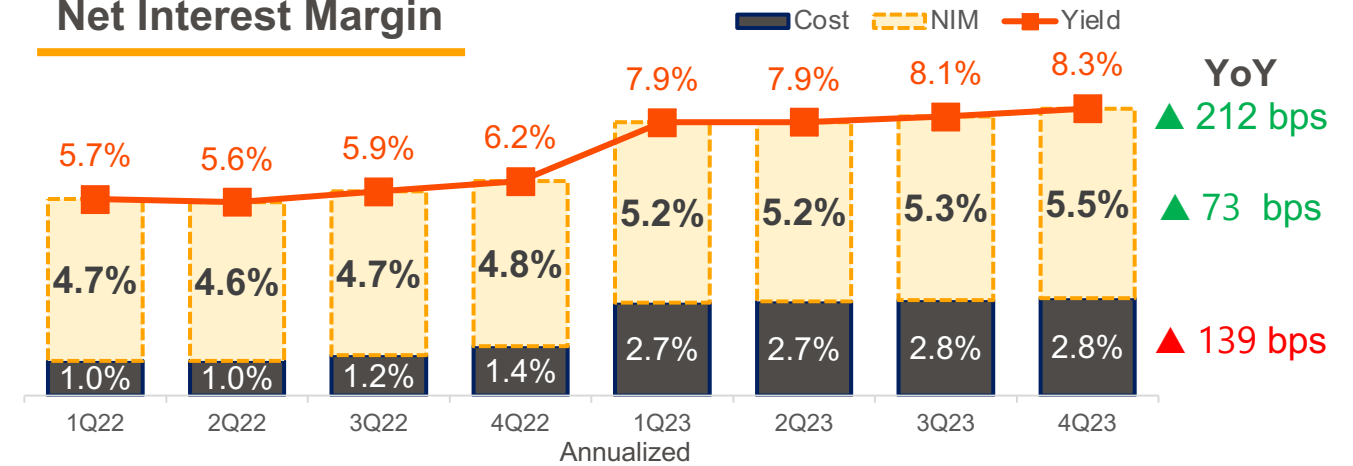
# NII up 34% due to higher margins and earning assets growth

## Net Interest Income

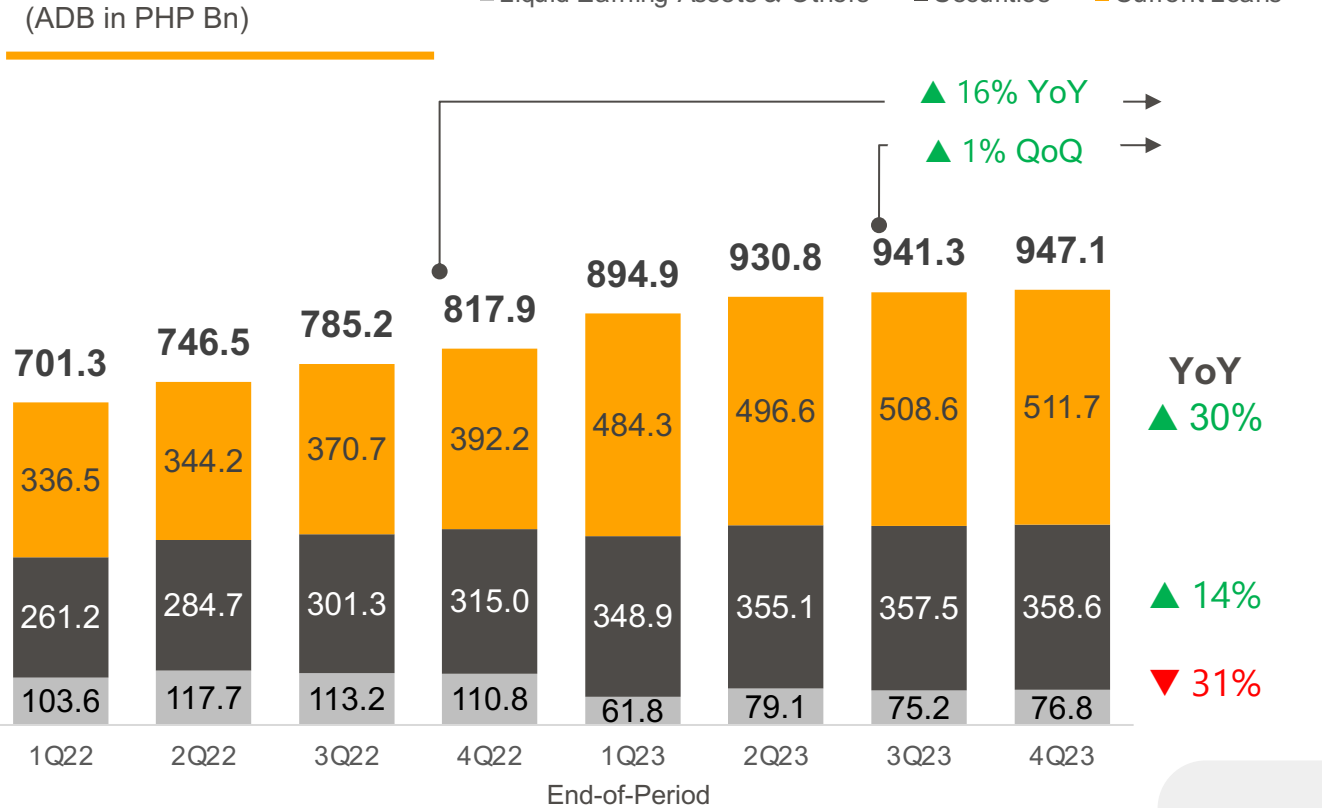
(in PHP Bn)



## Net Interest Margin



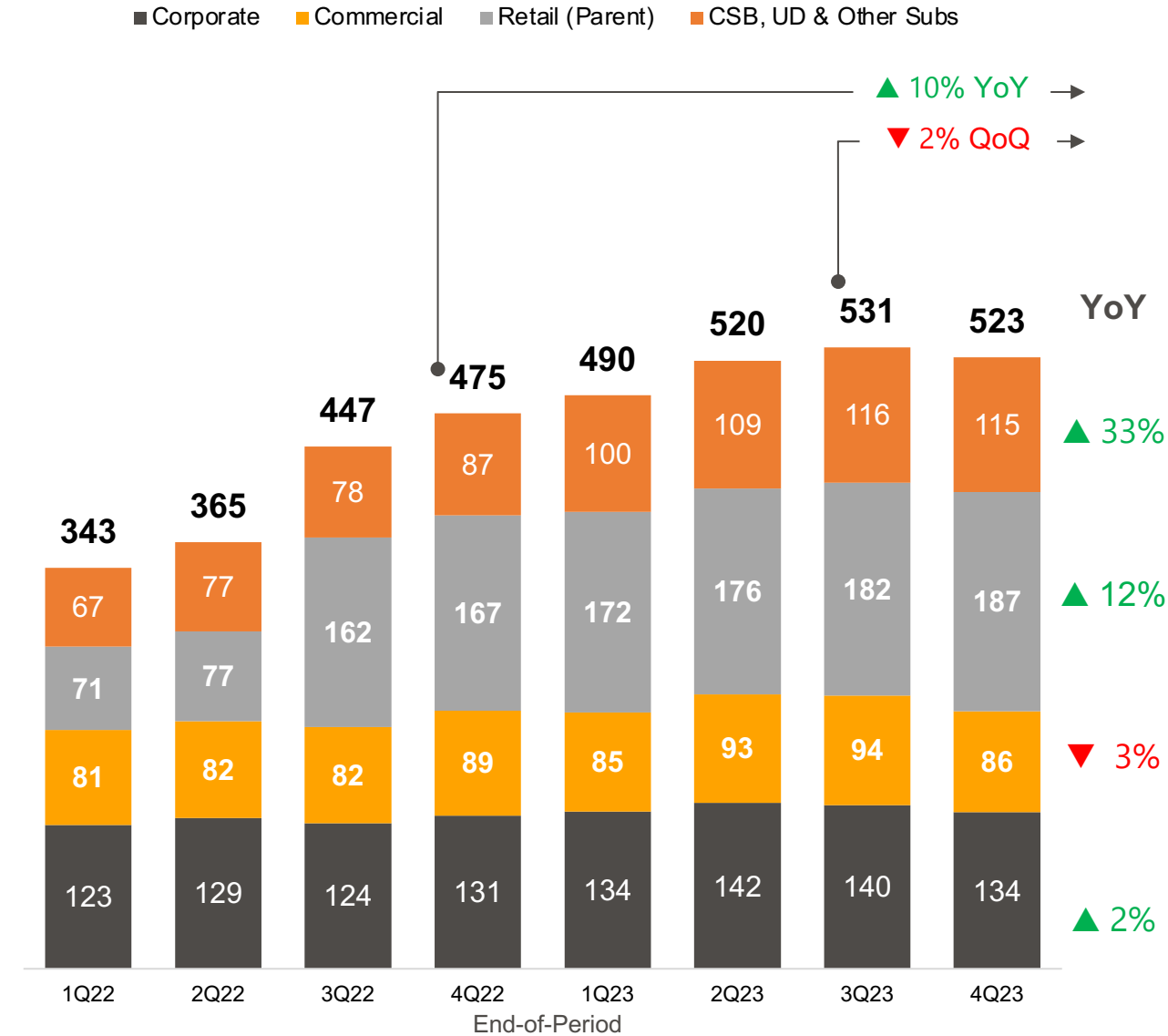
## Earning Assets



# Diversified consumer loans post double-digit growth

## Gross Loans

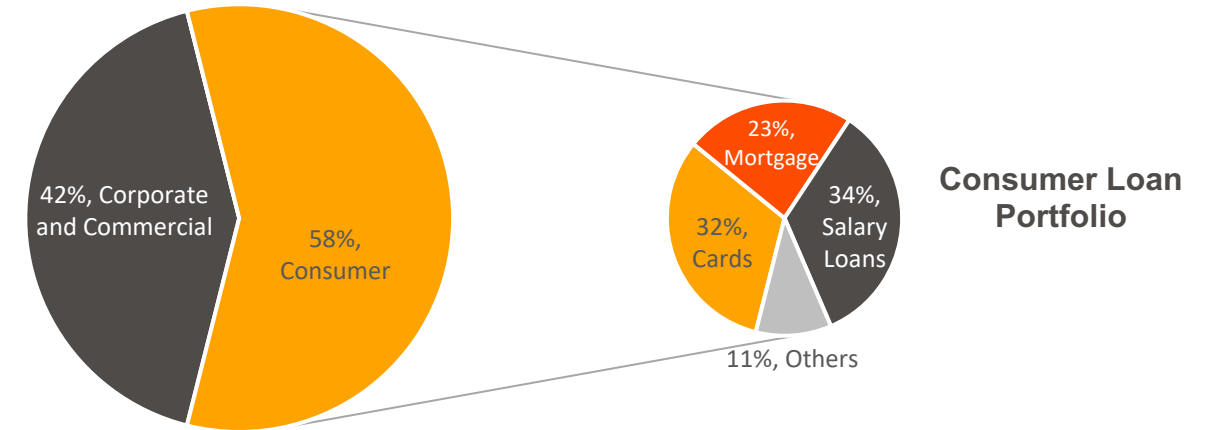
(OSB in PHP Bn)



## Loan Mix

(%)

Industry's Consumer Loans – 20%  
Based on FY 2023 BSP data



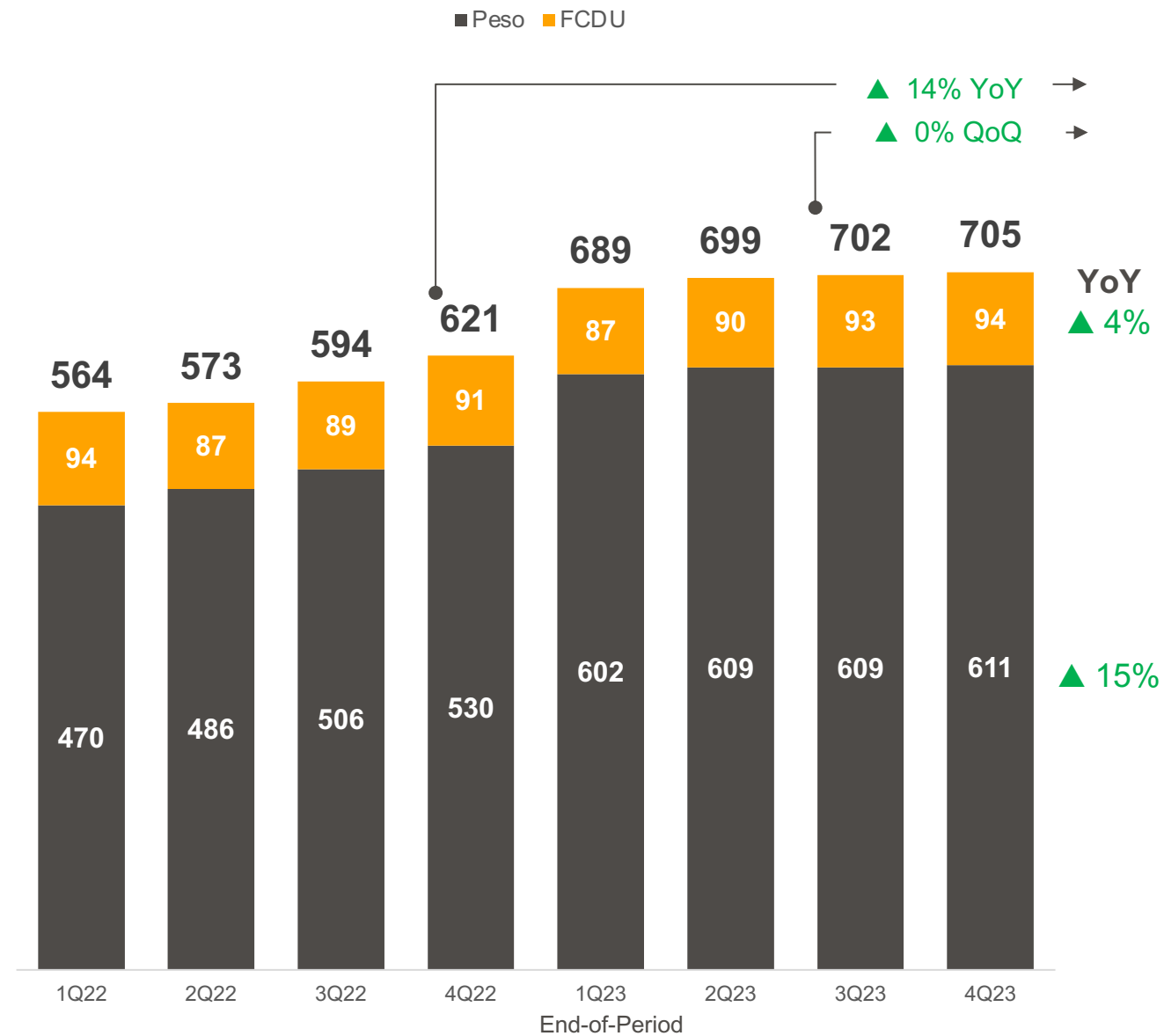
Gross Loans (OSB in PHP Bn)	Dec 2022	Dec 2023	Variance	%
<b>Corporate</b>	131	134	3	2%
<b>Commercial</b>	89	86	-3	-3%
<b>Consumer</b>	167	187	20	12%
Home Loans	66	71	5	8%
Credit Card	80	97	17	21%
Other Consumer Loans	22	20	-2	-9%
<b>Total Gross Loans of Parent</b>	<b>388</b>	<b>407</b>	<b>20</b>	<b>5%</b>
CitySavings and Subsidiaries	81	104	22	27%
UnionDigital	6	12	6	105%
<b>Total Gross Loans of Subs</b>	<b>87</b>	<b>115</b>	<b>28</b>	<b>33%</b>
<b>Total Gross Loans</b>	<b>475</b>	<b>523</b>	<b>48</b>	<b>10%</b>
<b>% Consumer Loans<sup>1</sup></b>	<b>54%</b>	<b>58%</b>		

<sup>1</sup> Loan mix of 58% is ahead of our 56% target for FY 2023

# Sustained CASA growth

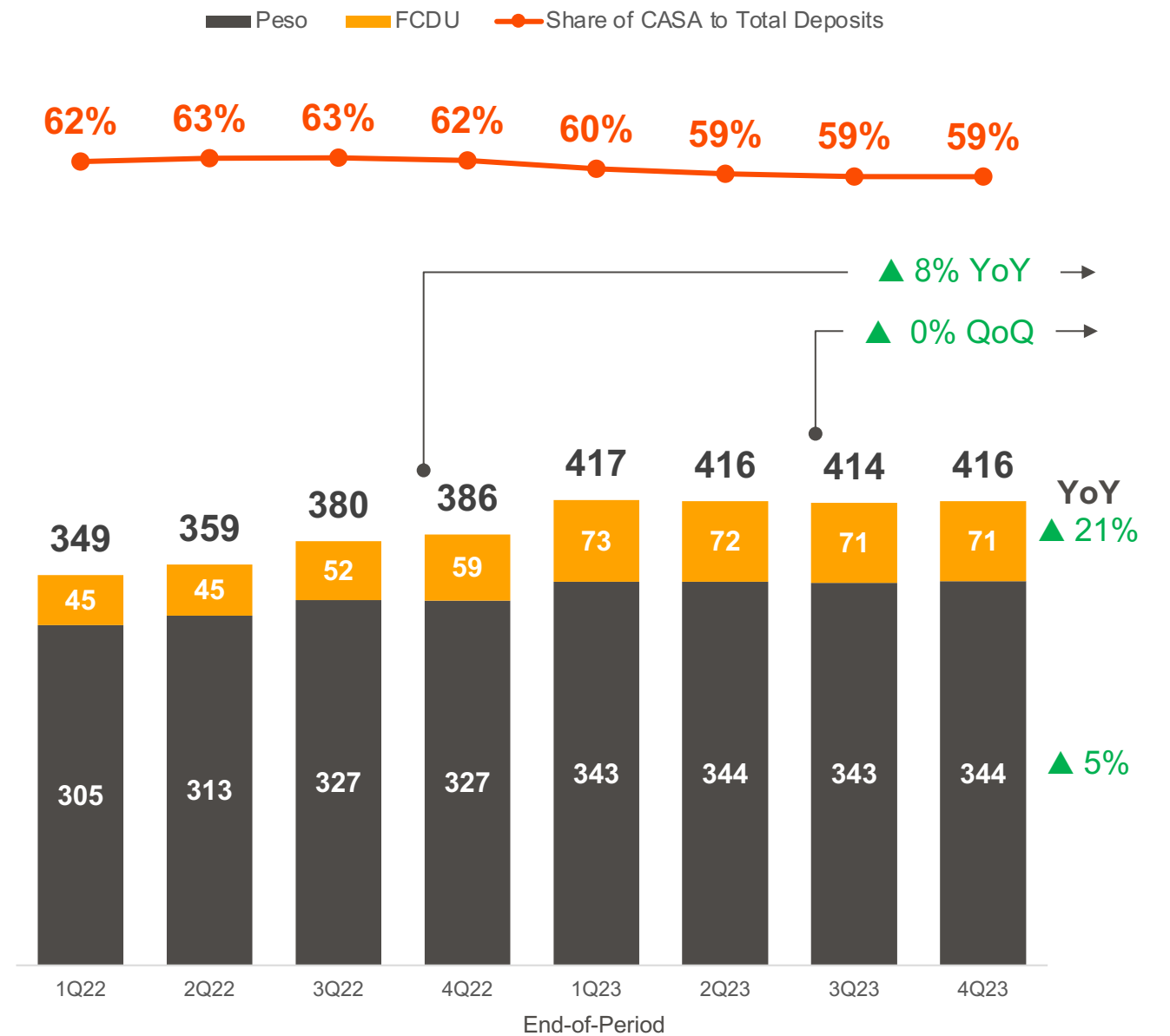
## Total Deposits (Consolidated)

(ADB in PHP Bn)



## CASA Deposits (Consolidated)

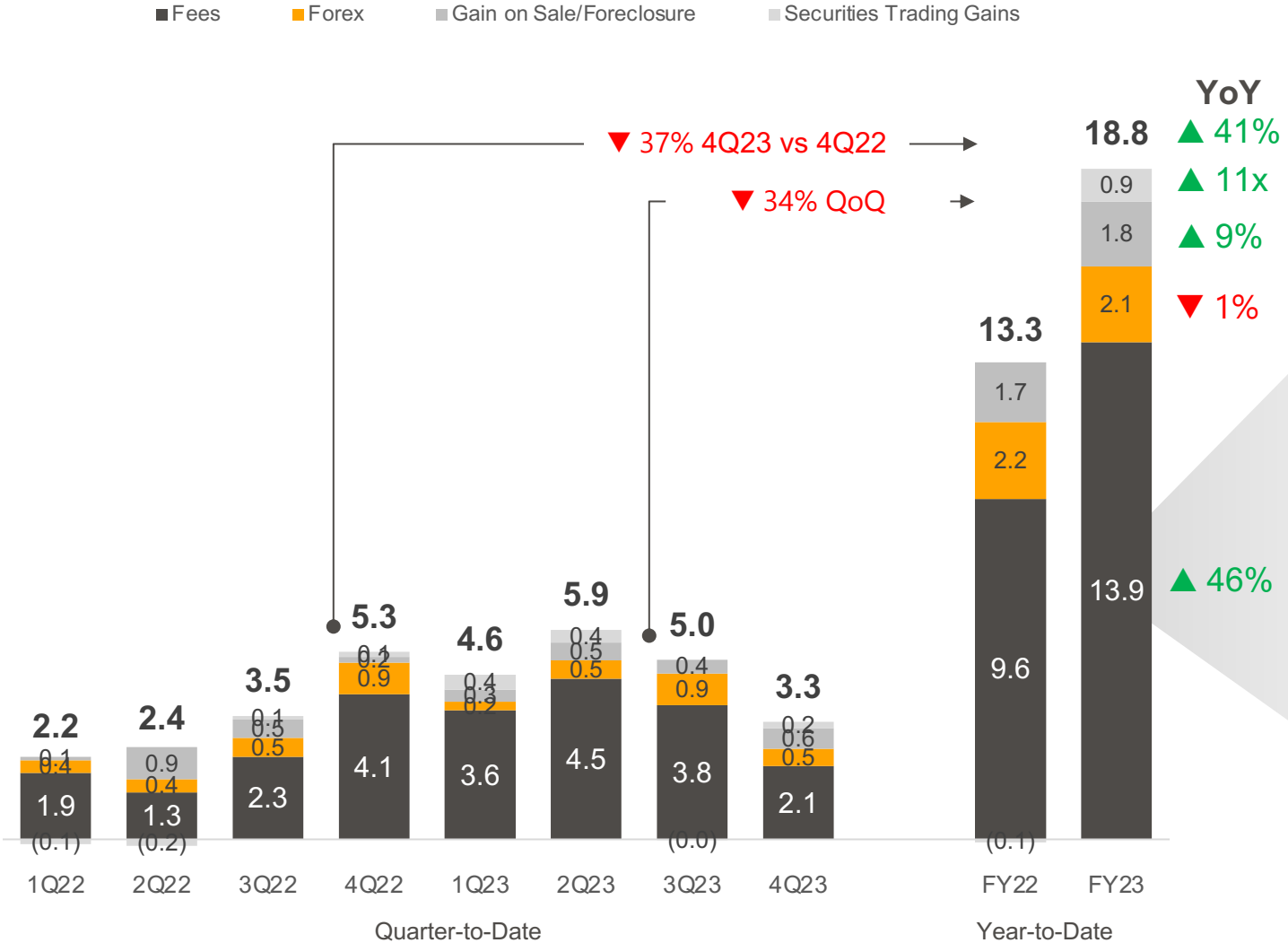
(ADB in PHP Bn)



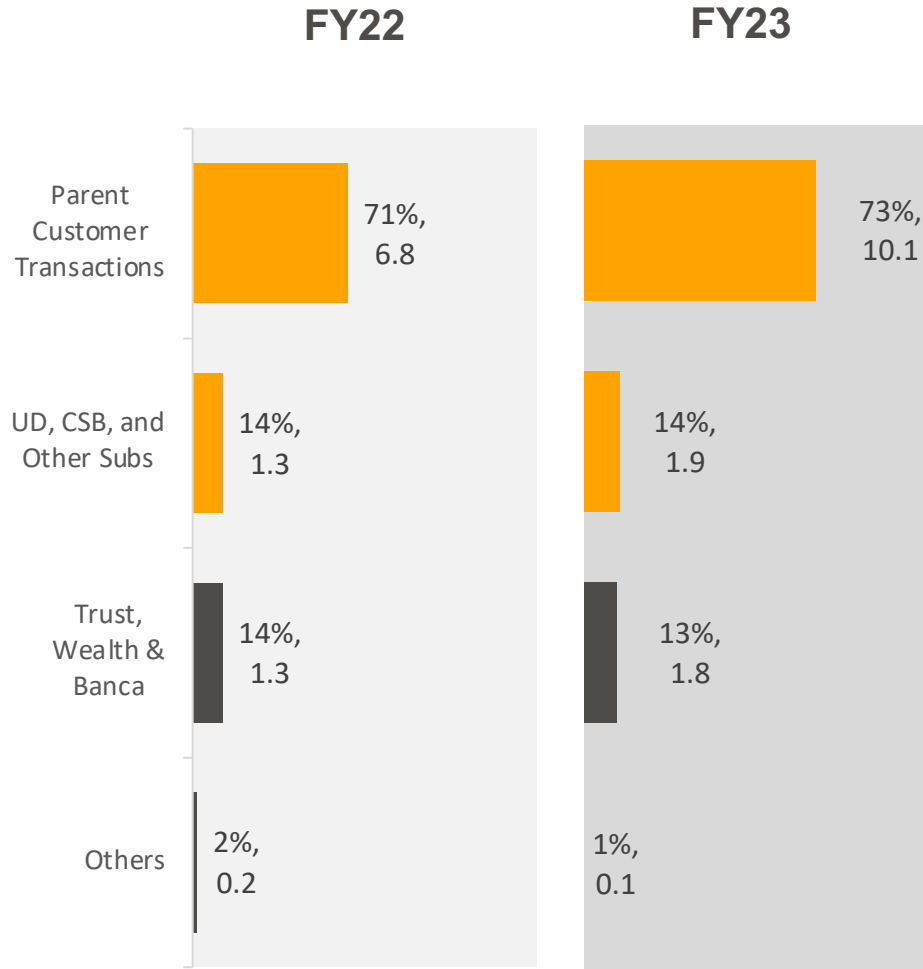


# Retail customer transactions driving fee income

## Non-Interest Income (in PHP Bn)

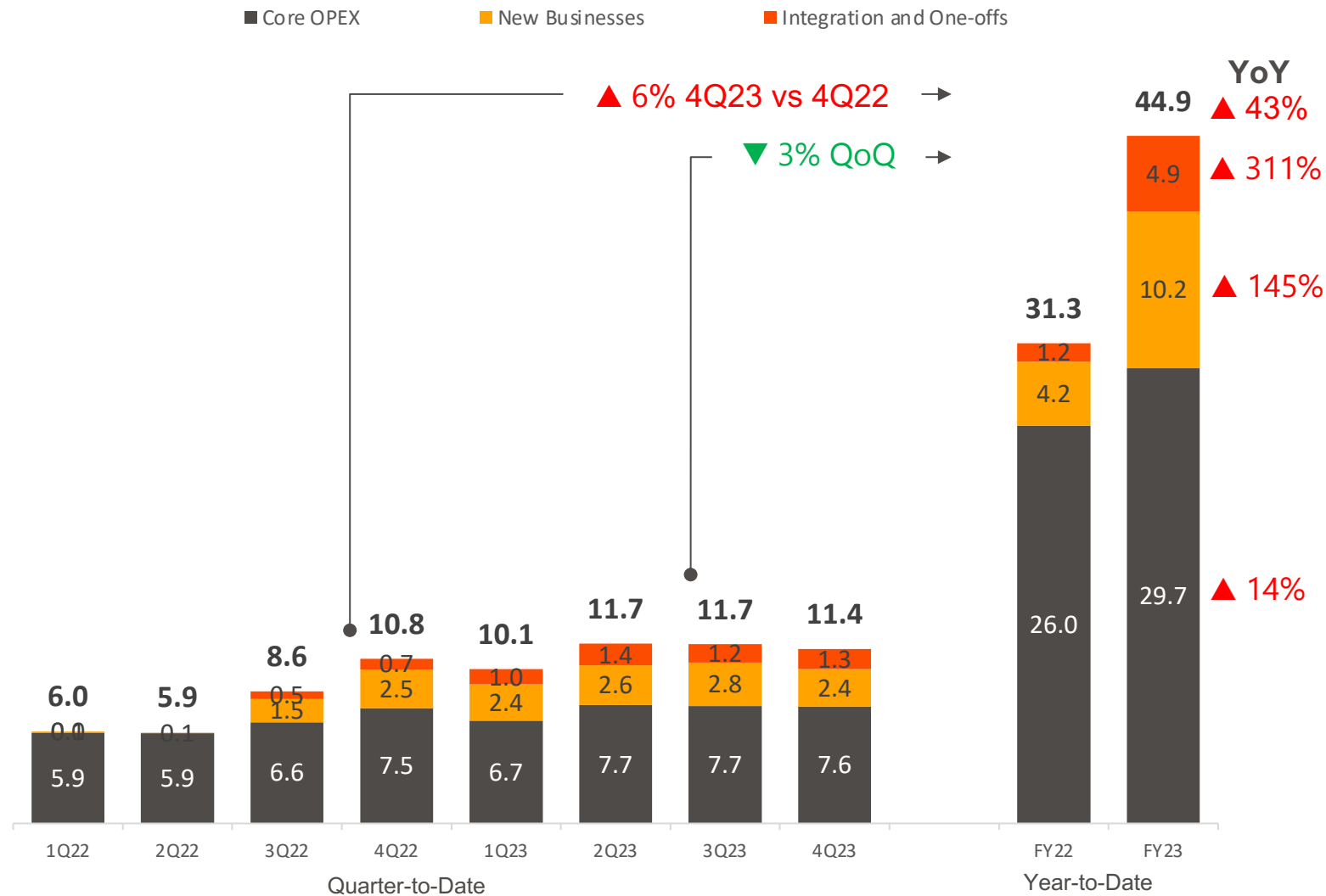


## YTD Fees (in PHP Bn)

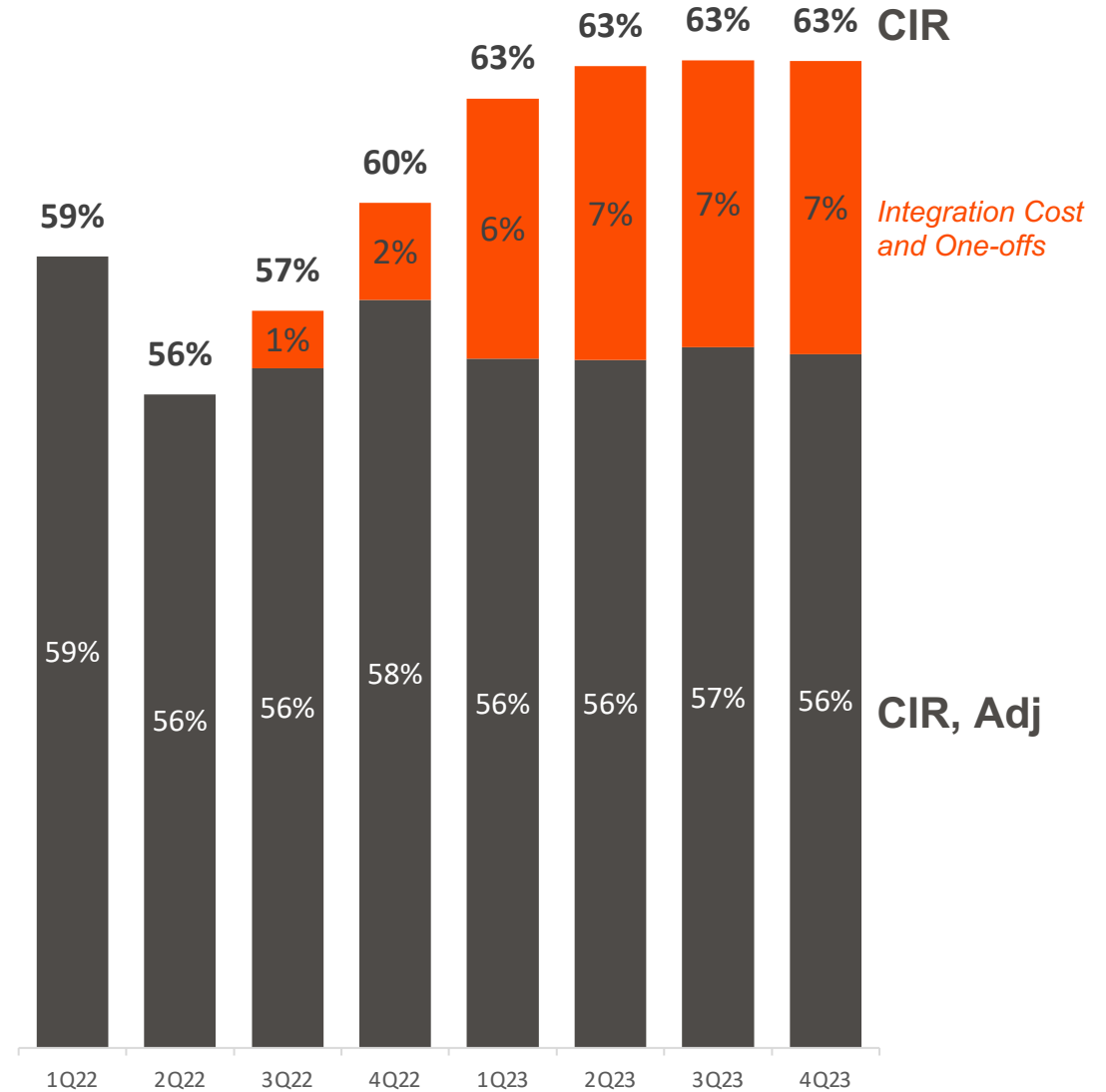


# OPEX growth mainly due to one-time cost integration cost

**Operating Expenses**  
(in PHP Bn)

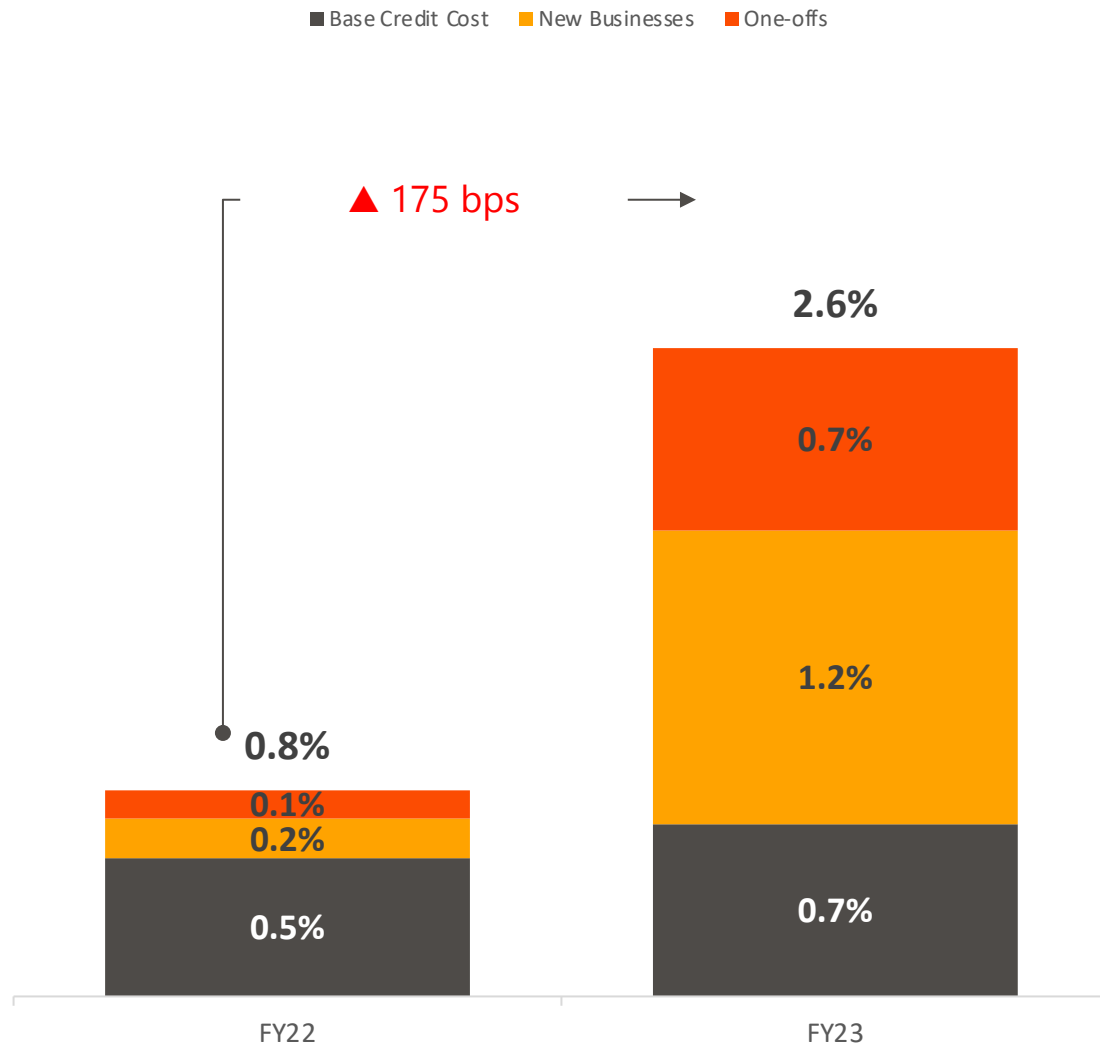


**Cost-to-Income Ratio**  
(%)

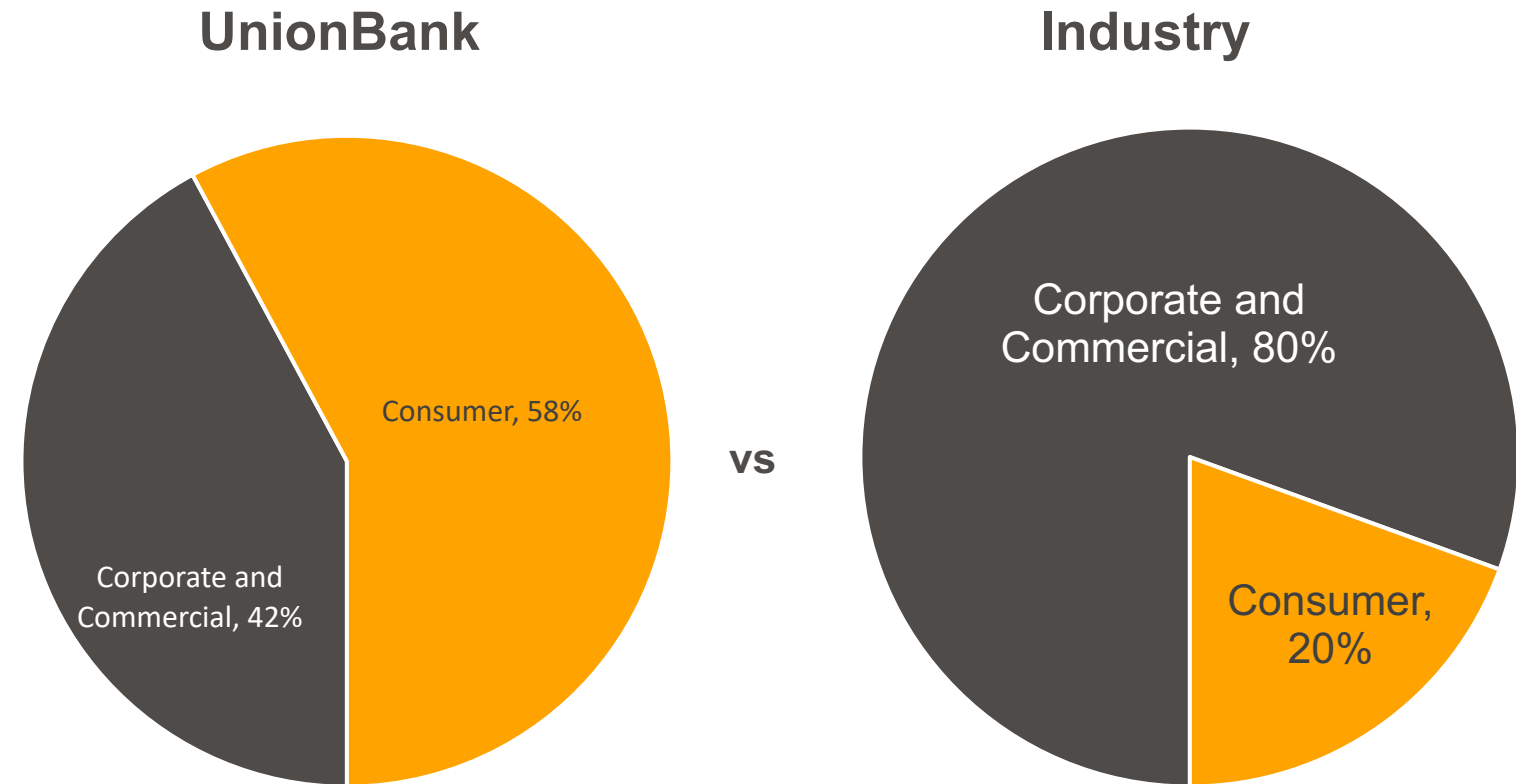


# Credit cost inc. due to new businesses & select legacy corporate accounts

## Credit Cost

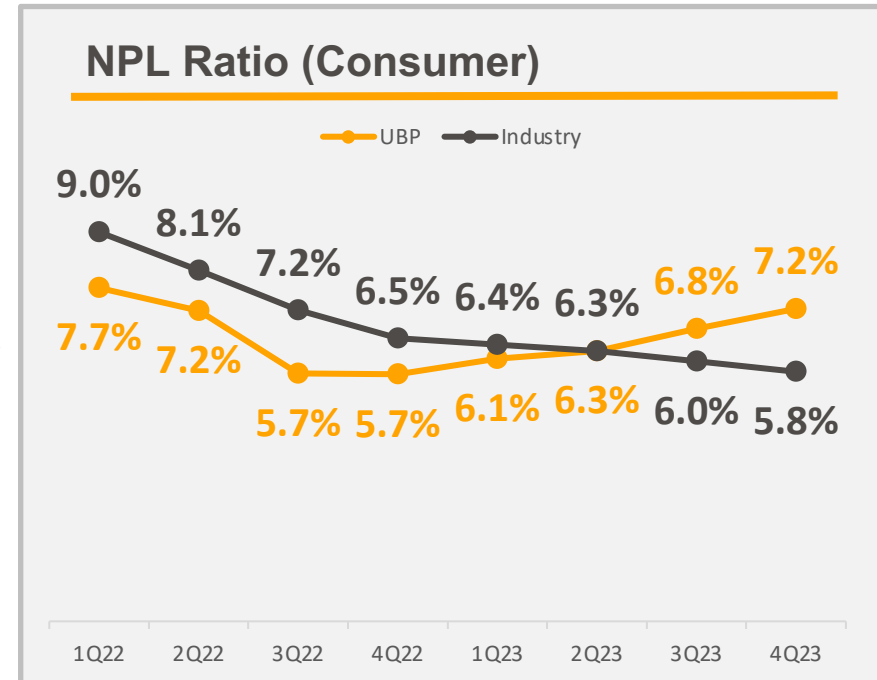
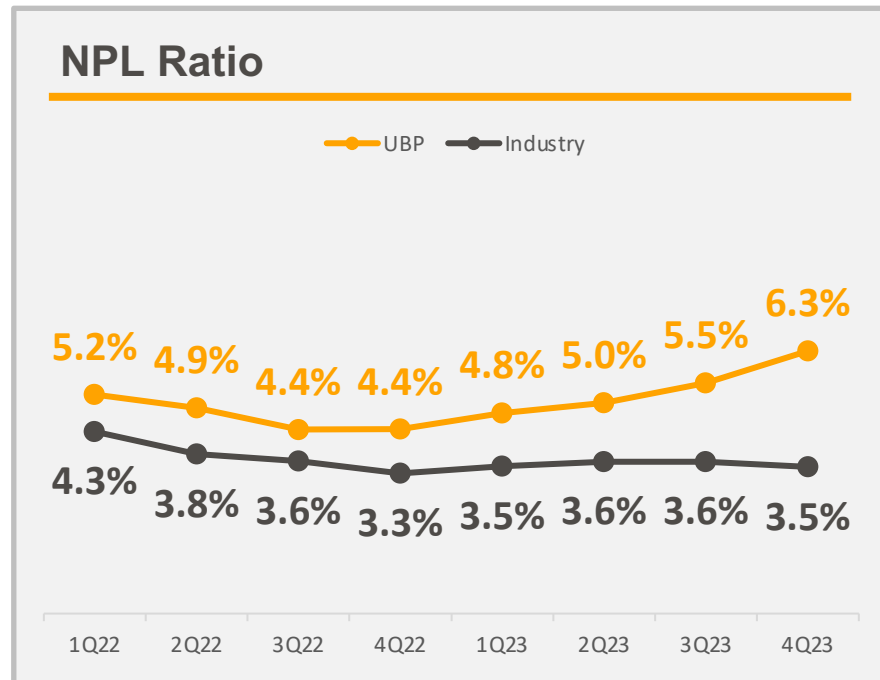


## Loan Mix



Source: FY 2023 BSP Data

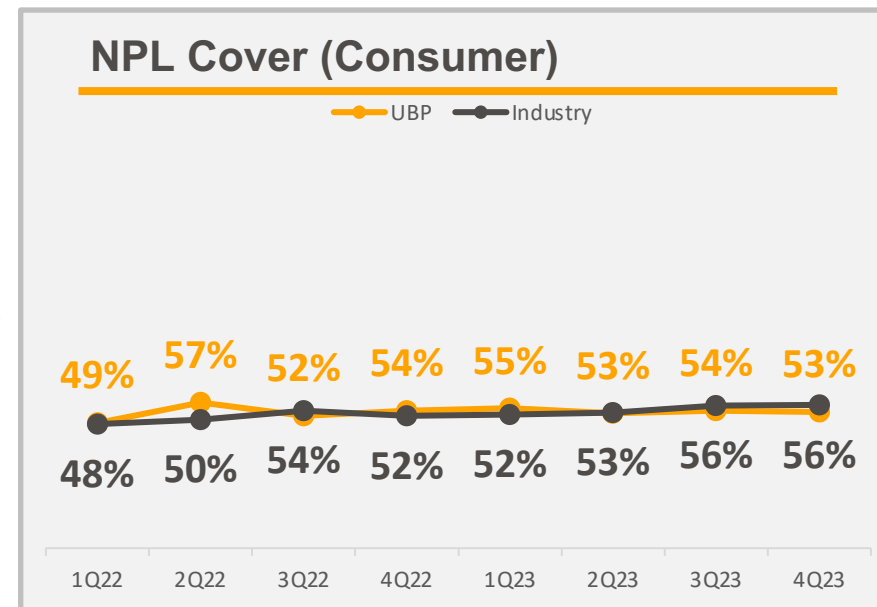
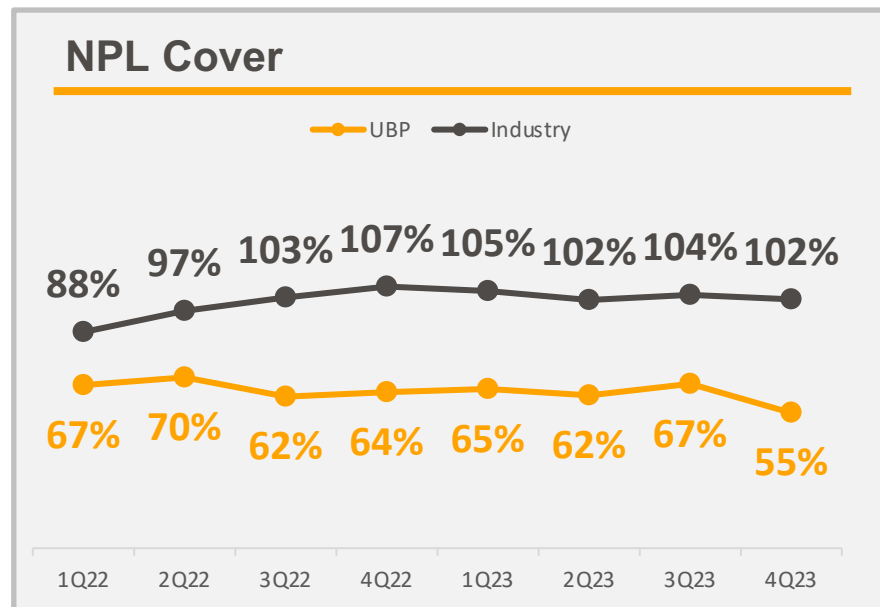
# NPL ratio reflect growing consumer portfolio



**5.3%**

Parent Consumer  
NPL Ratio

▼ 43bps  
Vs Industry



**69%**

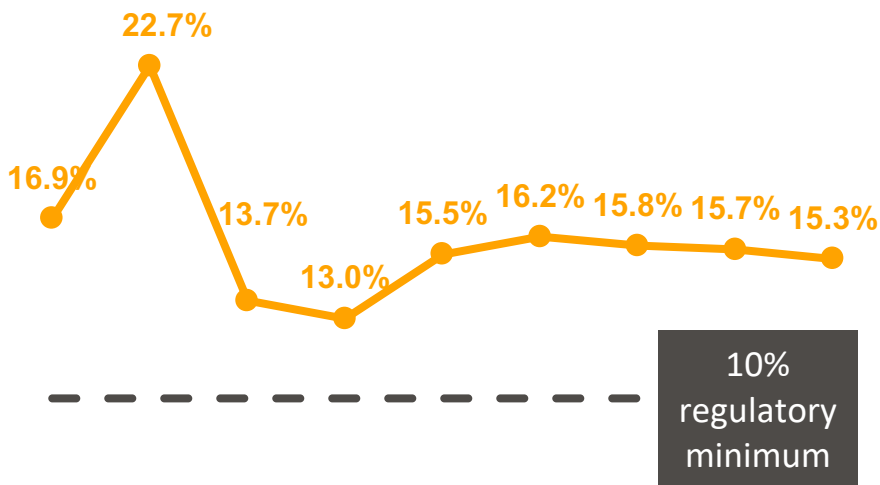
Parent Consumer  
Coverage Ratio

▲ 13bps  
Vs Industry

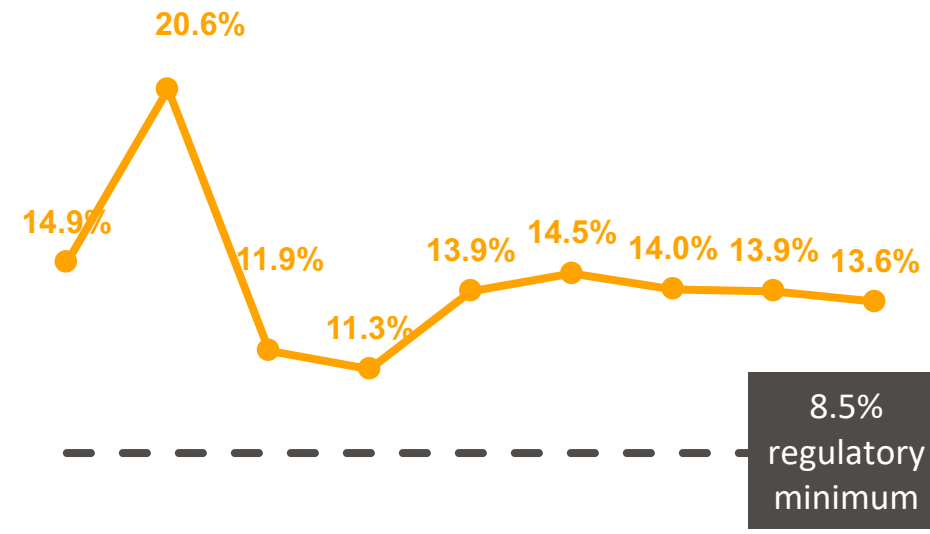
Note: Industry NPL Ratios are calculated based on Philippine Banking System's Total Loan Portfolio exclusive of IBL and RRP with BSP and Other Banks

# Capital ratios above regulatory limits

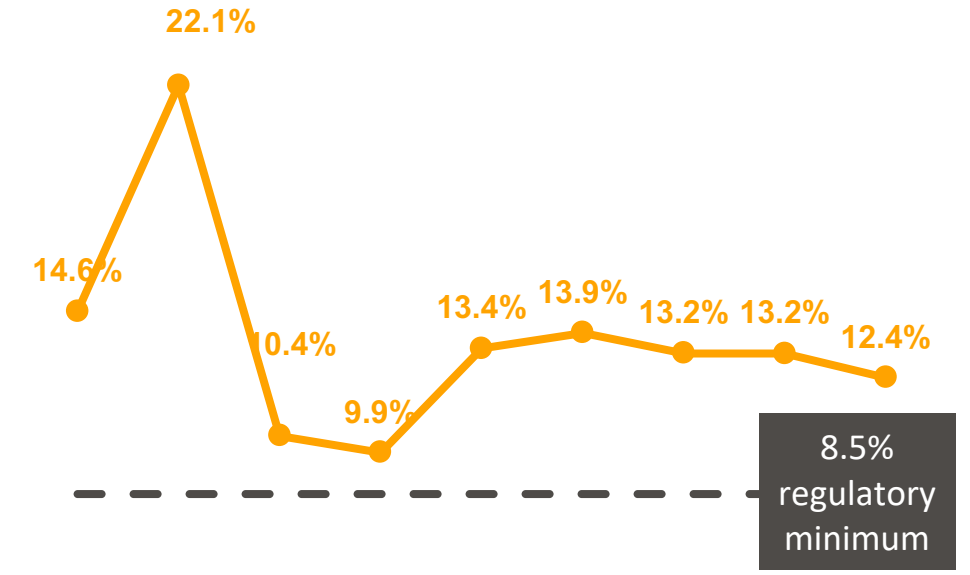
Capital Adequacy Ratio Group (CAR)



Common Equity Tier 1 Capital Ratio Group (CET1)



Common Equity Tier 1 Capital Ratio Parent (CET1)



1Q22 2Q22 3Q22 4Q22 1Q23 2Q23 3Q23 4Q23 Jan 24

1Q22 2Q22 3Q22 4Q22 1Q23 2Q23 3Q23 4Q23 Jan 24

1Q22 2Q22 3Q22 4Q22 1Q23 2Q23 3Q23 4Q23 Jan 24



# Key Takeaways



1

The bank is the leader in digital metrics, showing strong brand equity, substantial transaction volumes and the most highly rated and most downloaded banking app in Google Playstore.

2

The bank's top-line revenues experienced robust growth, driven by a strong growth in the consumer segment, which led to high NIMs and Fees to Assets.

3

Excluding the impact of the one-time costs from the one-time integration costs of the acquired Citi consumer business and credit costs from legacy accounts, normalized ROE would be in double digit

4

Once we complete the integration and implement growth initiatives and synergies, we anticipate the bank achieving financial metrics (ROE, ROA & Cost to Income) that surpass industry standards

Thank You!