

Earnings Results Briefing

2 August 2024
2:30 PM PHT



Together we are building the Philippines' first **techglomerate**

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Agenda



Dominic Banal
Global Markets - Trading Head

1. Macroeconomic and Industry Outlook



Dmi Lozano
Chief Financial Officer

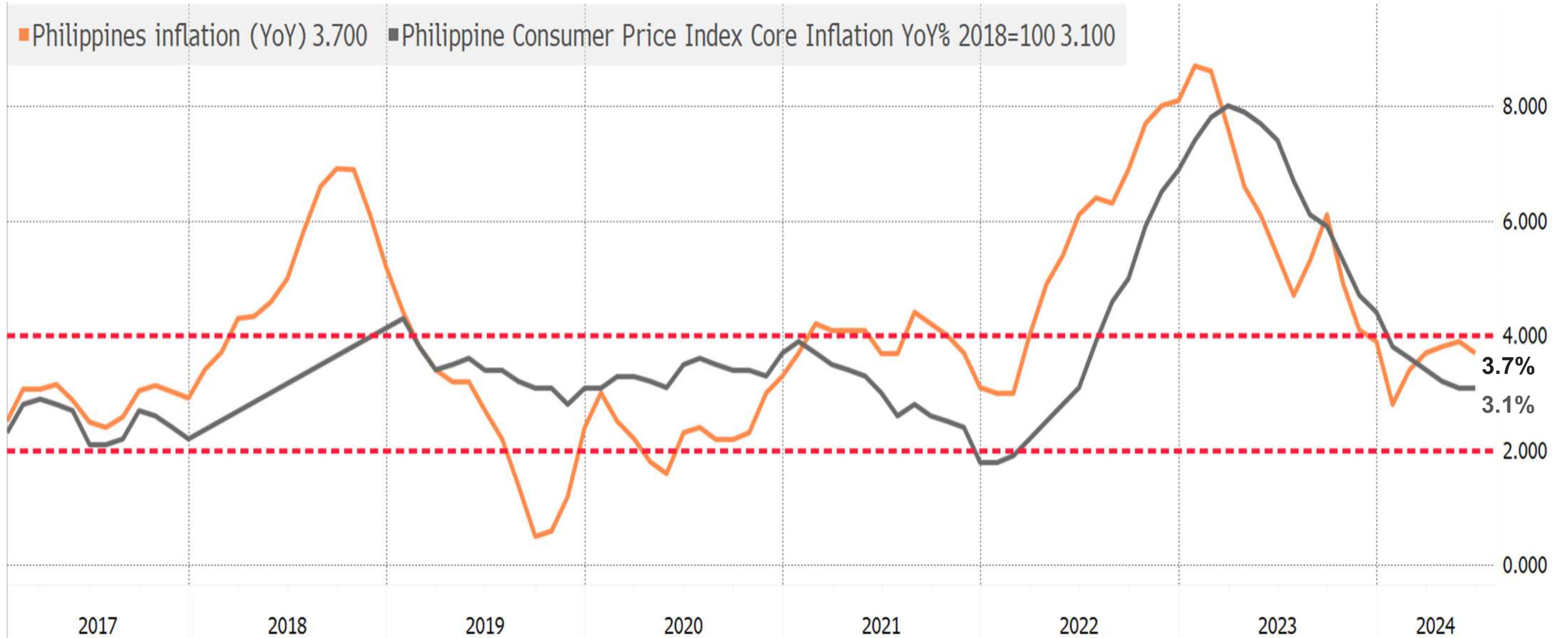
1. Financial Performance

Macroeconomic and Industry Outlook

BSP on track for 15 Aug rate cut

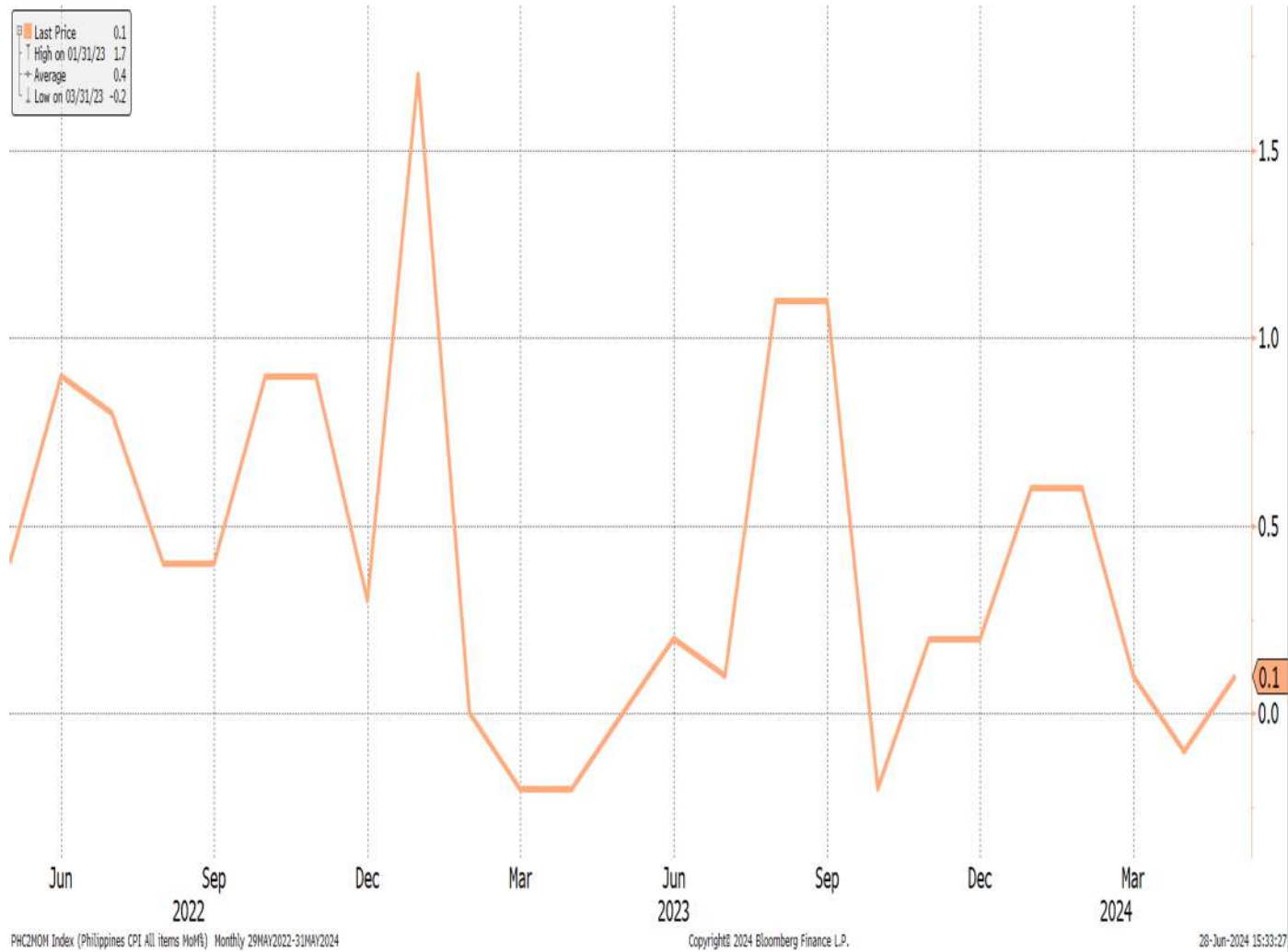
- **DOF's Recto says he is open to a cut in the policy rate next month if such move is backed by central bank Governor Eli Remolona**
 - o PH on track to hit 2024 fiscal target
 - o "I hope Philippines 2Q GDP growth is 6%"
- **BSP kept rates at 6.5%, latest comments remain dovish**
 - o "August rate cut somewhat more likely" - "On track to cut rate in 3Q"
 - o "50 bps cut (for the year) still on the table"
 - o "Lower rice tariffs shift CPI outlook to downside"
 - o "RRR timing hasn't been decided yet"
 - o "Don't want Peso to depreciate too sharply"
 - o "Active in FX market when there's stress"

June inflation 3.7% YoY, down from 3.9% YoY previous



- August rate cut more feasible with lower June inflation – BSP Governor Eli Remolona
- Inflation likely have peaked, policy rate cut “soon” – Finance Secretary Ralph Recto

Relief from base effects in Aug/Sep as 2.2% rolls off vs total of -0.1% in Feb-July



Range 01/31/2021 - 05/31/2024

Market Last Price Mid Px

View Price Table

Period Monthly

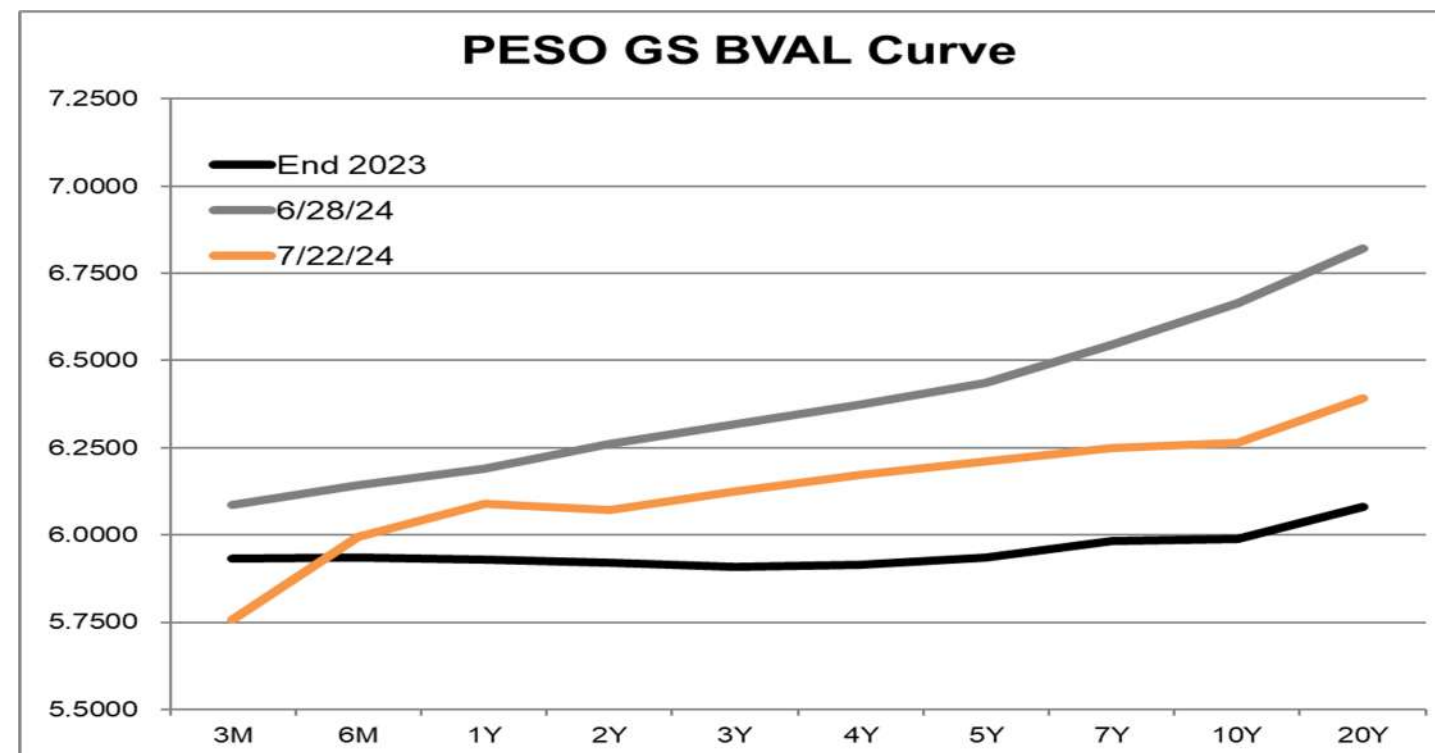
Currency

Low Average Net Chg

Date	Last Price	Mid Px	Date	Last Price	Mid Px
12/31/24			12/31/23	0.2	0.2
11/30/24			11/30/23	0.2	0.2
10/31/24			10/31/23	-0.2	-0.2
09/30/24			09/30/23	1.1	1.1
08/31/24			08/31/23	1.1	1.1
07/31/24			07/31/23	-0.1	0.1
06/30/24			06/30/23	0.2	0.2
05/31/24	0.1	0.1	05/31/23	0.0	0.0
04/30/24	-0.1	-0.1	04/30/23	-0.2	-0.2
03/31/24	0.1	0.1	03/31/23	-0.2	-0.2
02/29/24	0.6	0.6	02/28/23	0.0	0.0
01/31/24	0.6	0.6	01/31/23 H	1.7	1.7

BVAL curve is lower by around 35bps

PESO GS BVAL RATES					
Tenor	End 2023	6/28/24	7/22/24	MoM Change	YTD Change
3M	5.9320	6.0860	5.7562	-0.33	-0.18
6M	5.9350	6.1430	5.9934	-0.15	0.06
1Y	5.9290	6.1890	6.0884	-0.10	0.16
2Y	5.9200	6.2600	6.0706	-0.19	0.15
3Y	5.9090	6.3180	6.1244	-0.19	0.22
4Y	5.9140	6.3750	6.1726	-0.20	0.26
5Y	5.9350	6.4350	6.2101	-0.22	0.28
7Y	5.9820	6.5470	6.2485	-0.30	0.27
10Y	5.9900	6.6650	6.2638	-0.40	0.27
20Y	6.0800	6.8200	6.3914	-0.43	0.31



- Consistent dovish tone from BSP bolster demand for bonds
- Strong demand in auctions in full display this July
- Rally was dampened by BTr's aggressive awards in its tap facility
 - o 10Y auction, initially P30B, but upsized to P60B after strong demand
- At this point, August cut fully priced into curve

Regional currencies still down YTD despite recent dollar weakness

Symbol	Price	Net Chg	Time	1D%	5D%	1M%	3M%	6M%	YTD%
10) USDHKD BGN	7.8064	-.0005	11:55	+.006	+.020	+.019	+.364	+.197	+0.065
11) USDINR BGN	83.6250	-.0425	11:55	+.051	-.042	-.185	-.338	-.557	-.498
12) USDMYR BGN	4.6710	-.0110	11:55	+.235	+.124	+.899	+2.340	+1.214	-1.648
13) USDSGD BGN	1.3443	-.0017	11:55	+.126	-.007	+.632	+1.272	-.223	-1.785
14) USDCNH BGN	7.2867	-.0094	11:55	+.129	+.033	-.048	-.360	-1.637	-2.208
15) USDCNY BGN	7.2737	-.0001	11:55	+.000	-.071	-.197	-.392	-1.401	-2.388
16) USDIDR BGN	16190	-31	11:53	+.185	-.062	+1.260	+.185	-3.416	-4.886
17) USDPHP BGN	58.315	-.070	11:55	+.120	+.139	+.857	-1.398	-3.699	-5.024
18) USDTHB BGN	36.232	-.078	11:55	+.213	-.610	+1.123	+1.962	-1.471	-5.454
19) USDKRW BGN	1382.95	-4.94	11:55	+.357	+.177	+.449	-.338	-3.586	-6.644
20) USDTWD BGN	32.809	-.057	11:55	+.174	-.625	-1.283	-.655	-4.465	-6.797
21) USDJPY BGN	156.27	-.76	11:55	+.493	+1.331	+2.144	-.921	-5.068	-9.746

Dollar slumped in July



USDPHP retreats from historical highs; Further clearing way for cut



- USD/PHP dropped on the back of broad dollar weakness, local bond inflows, and effective BSP intervention

FOMC keeps rates steady at 5.25% - 5.50%, signals cuts is nearer

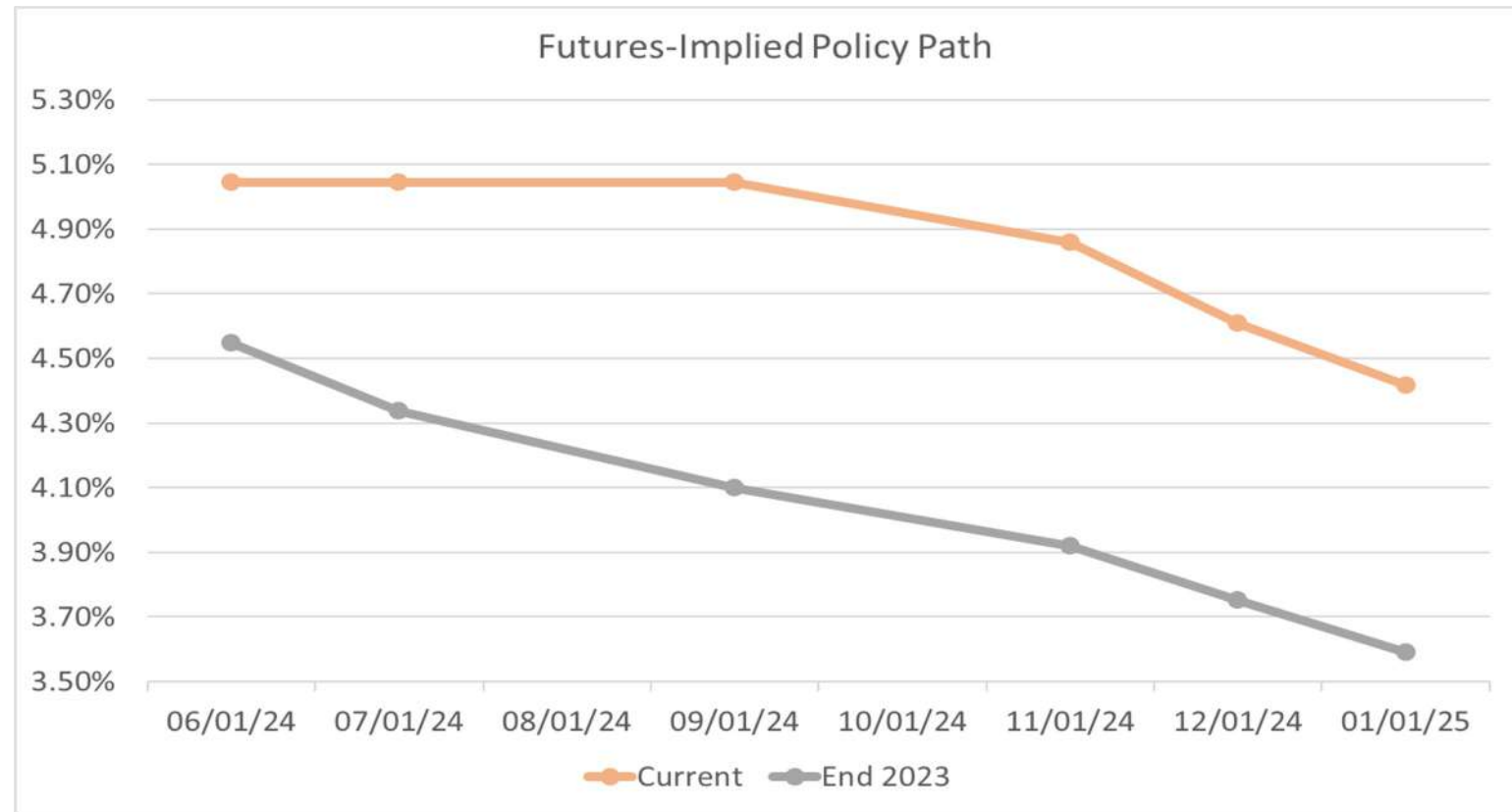
- **Powell says Fed could cut rates 'as soon as' September meeting**
 - o Jerome Powell said a rate cut could come as soon as September and officials said they're watching risks on both sides of the Fed's mandate, putting jobs into focus alongside inflation
 - o They also noted "some further progress" on getting prices down as the labor market cools
 - o Revision in the policy statement stating the committee is attentive to "the risks to both sides of its dual mandate," suggest rising awareness to the softening in the labor market
- **Key US data show sign of cooling economy**

June Data	Actual	Survey	Prior
ISM Manufacturing PMI	48.5	49.2	48.7
CPI y/y	3.0%	3.1%	3.3%
PPI y/y	2.6%	2.3%	2.2%
PCE Price index y/y	2.5%	2.5%	2.6%
Advanced GDP q/q	2.8%	2.0%	1.4%
Retail Sales m/m	0.0%	-0.3%	0.3%
Unemployment Rate	4.1%	4.0%	4.0%
Change in Nonfarm Payrolls	206K	191K	218K

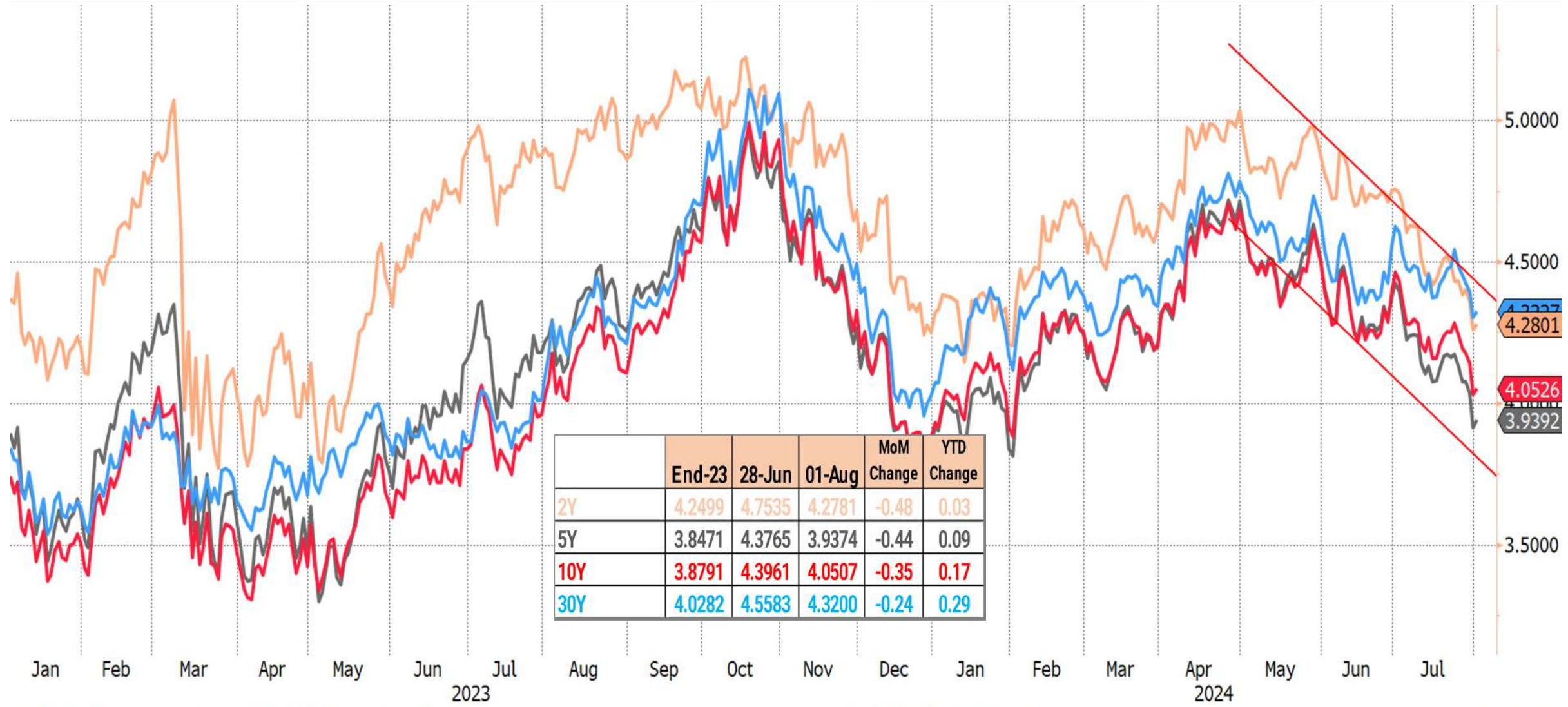
WIRP rate cut projections pricing in 2-3 cuts for the year

Latest WIRP – August 01

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate
09/18/2024	-1.126	-112.6%	-0.282	5.045
11/07/2024	-1.872	-74.5%	-0.468	4.858
12/18/2024	-2.878	-100.6%	-0.720	4.607
01/29/2025	-3.655	-77.7%	-0.914	4.413



UST yields trending lower



USGG2YR Index (US Generic Govt 2 Yr) 5y 10y 30y USGG Daily 31DEC2022-01AUG2024

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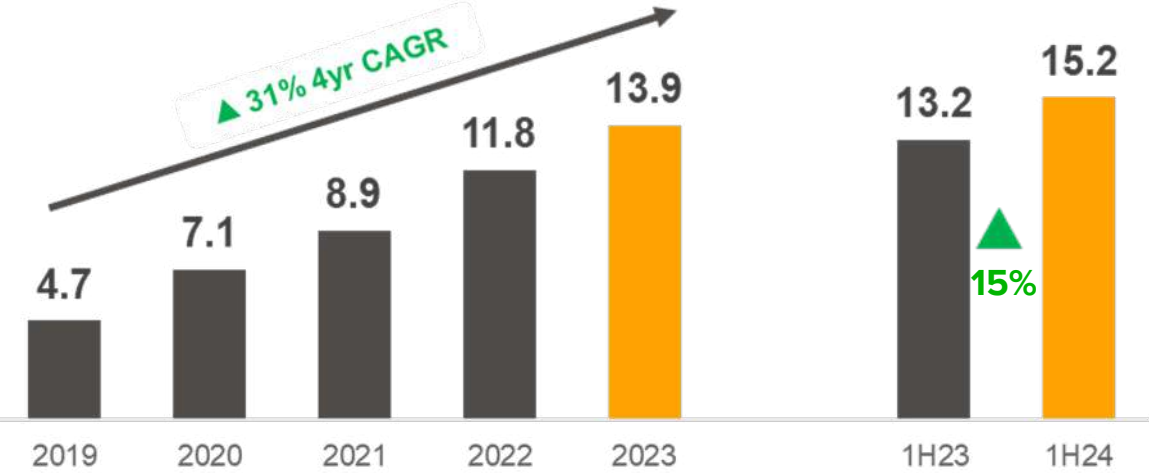
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Financial Performance

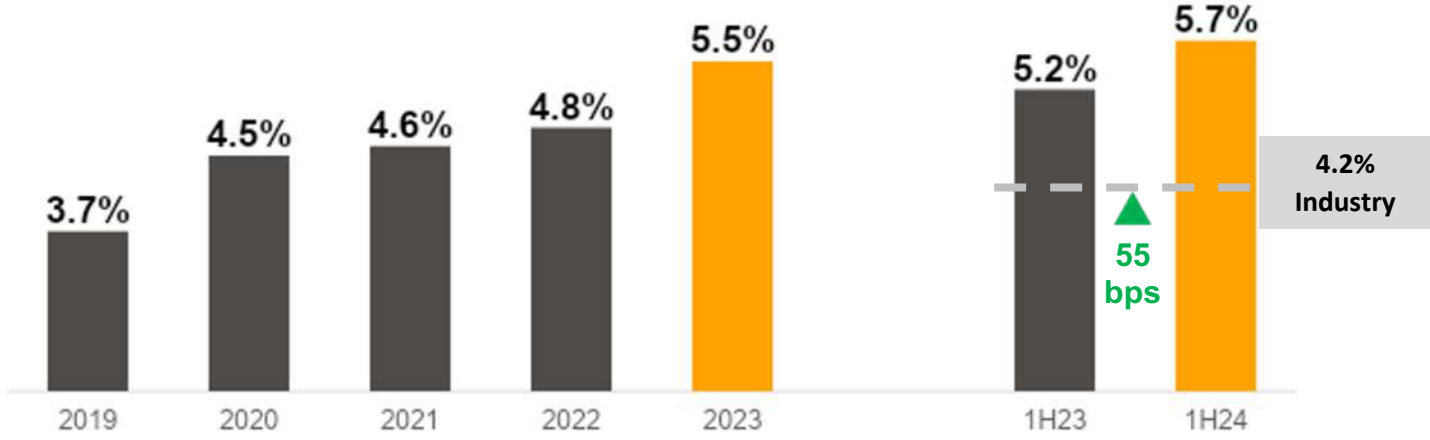
1H 2024

Strong growth in customers & revenues

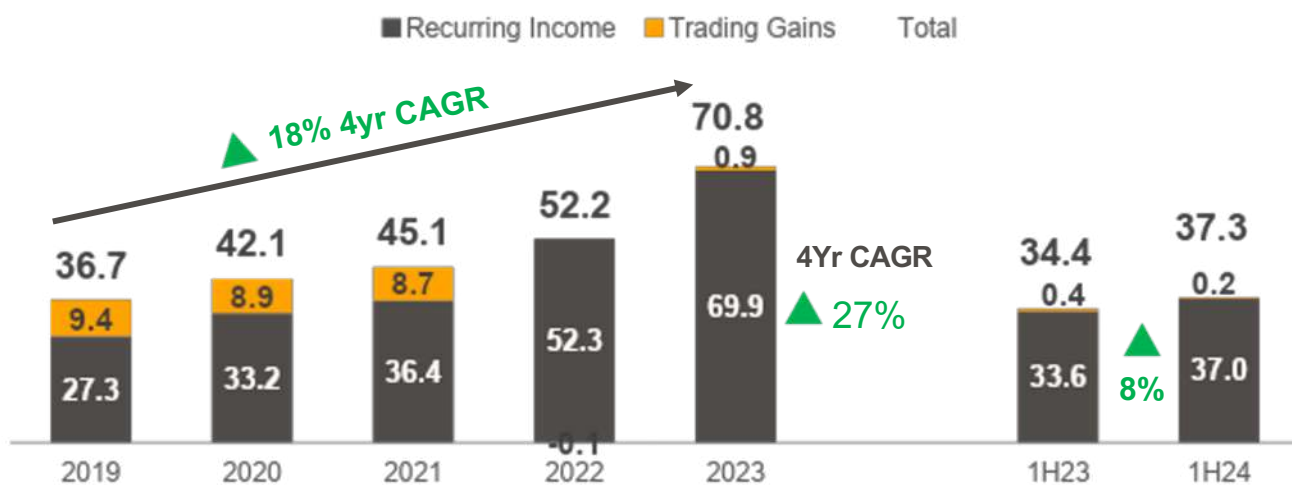
Customer Growth (in m)



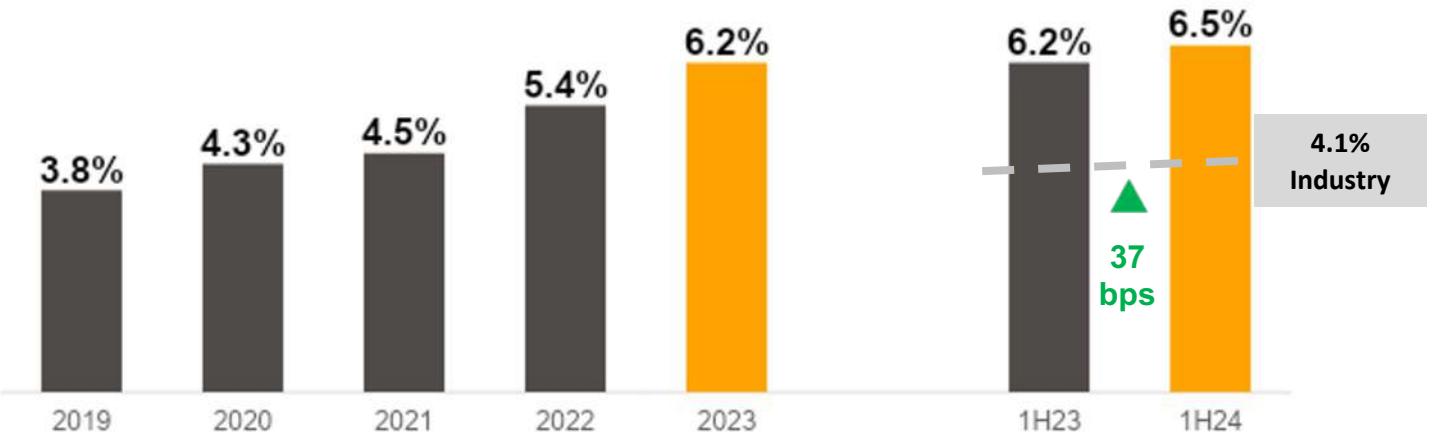
Net Interest Margin



Net Revenues (in PHPb)



Net Revenues (ex-trading) to Assets

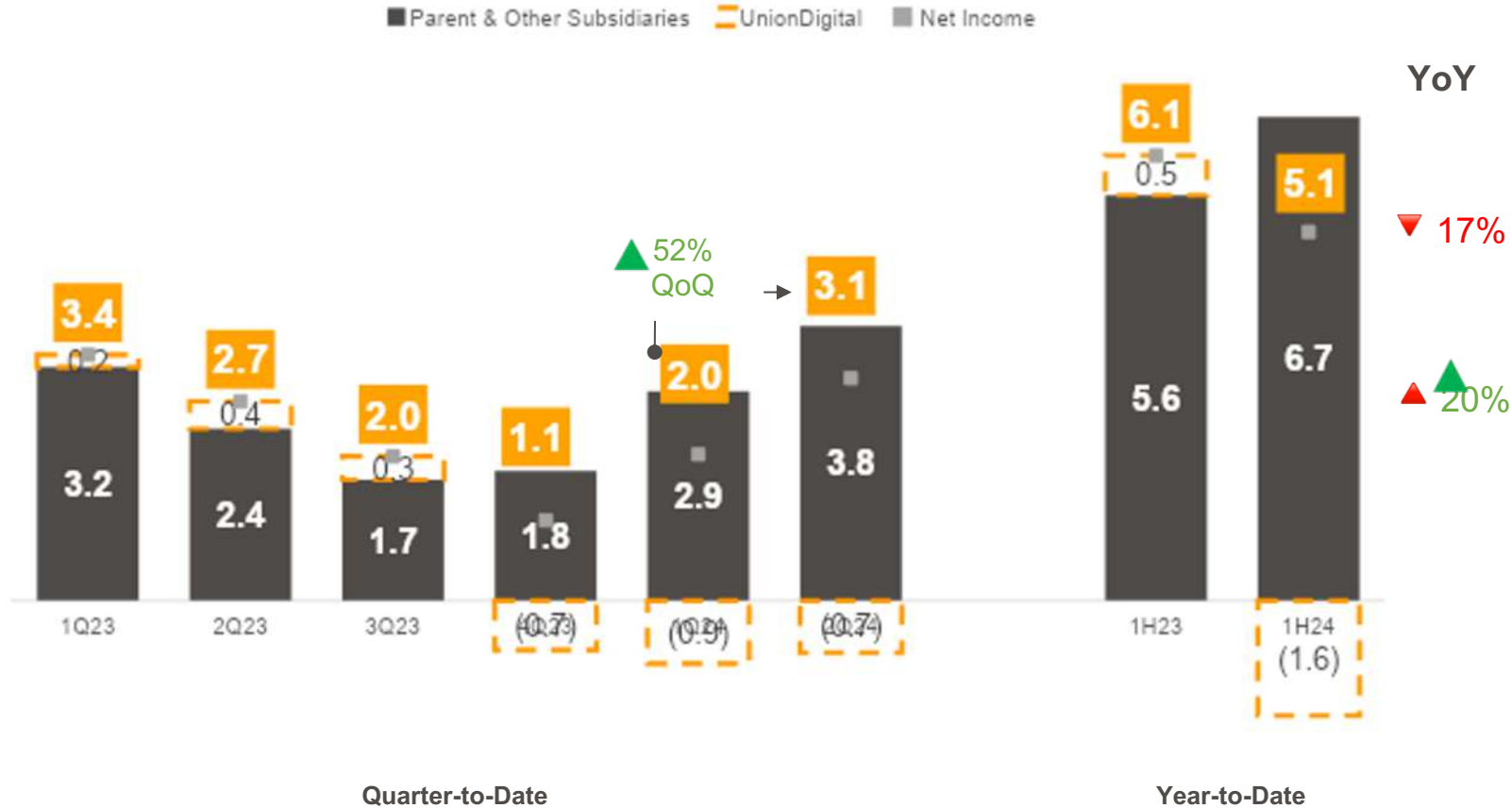


Average Industry data is based on 1Q24 figures

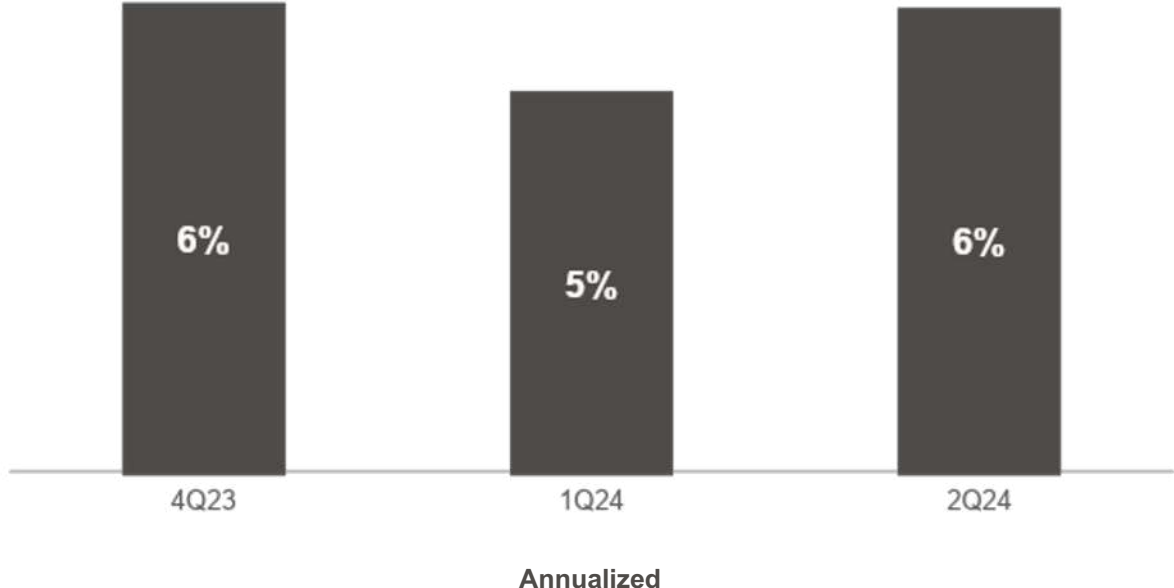
Unionbank 1H24 net income at PHP5b

- UnionBank’s retail business remains strong, driving the group’s topline revenues.
- The parent bank’s net income is higher year-on-year with better net interest margins (NIMs), higher proportion of consumer business, and increased customer transactions.
- The decrease in net income is due to the decline in the profitability of UnionDigital.

Net Income (in PHPb)



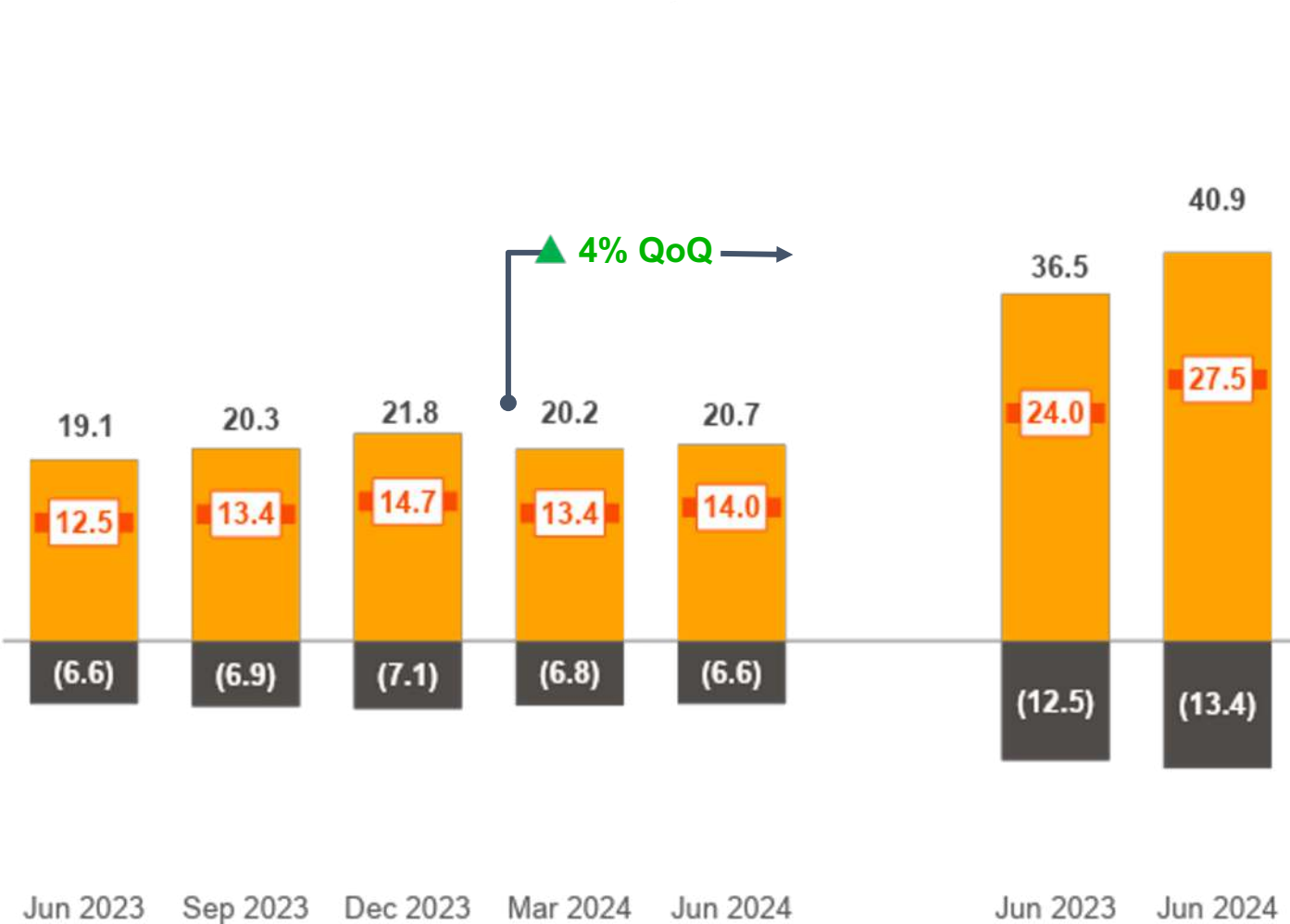
Return on Equity (Ave)



Net interest income up 15% due to higher margins

Net Interest Income (in PHPb)

Interest Income Interest Expense Net Interest Income



Net Interest Margin

Cost NIM Yield

YoY

▲ 12%

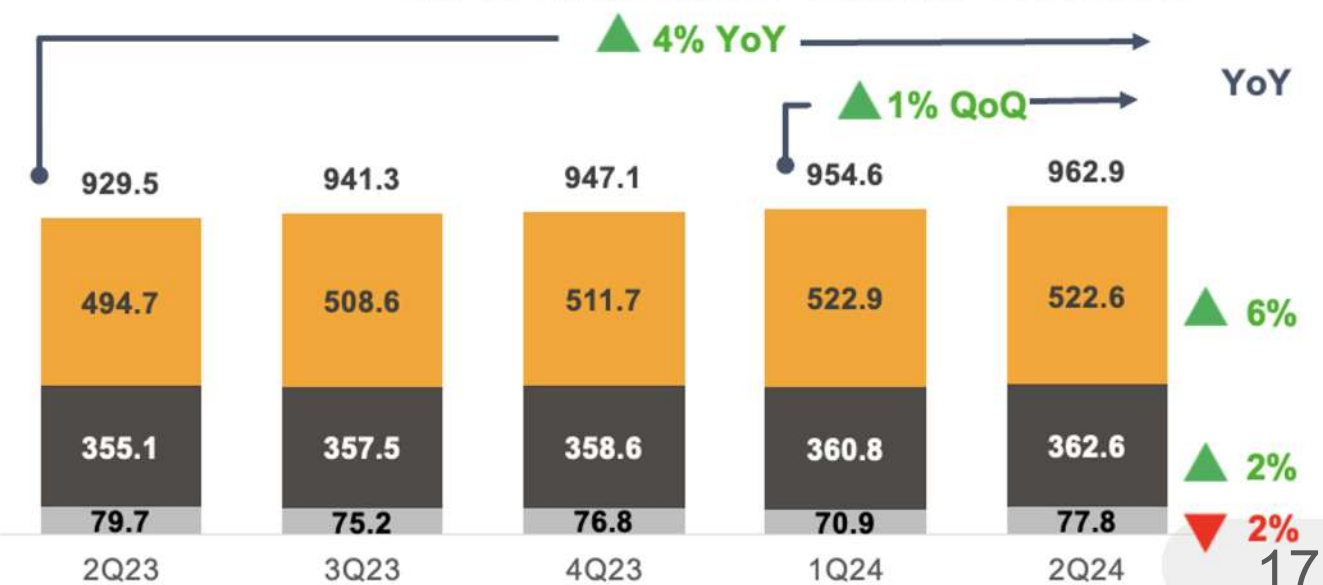
▲ 15%



Earning Assets

(ADB in PHP Bn)

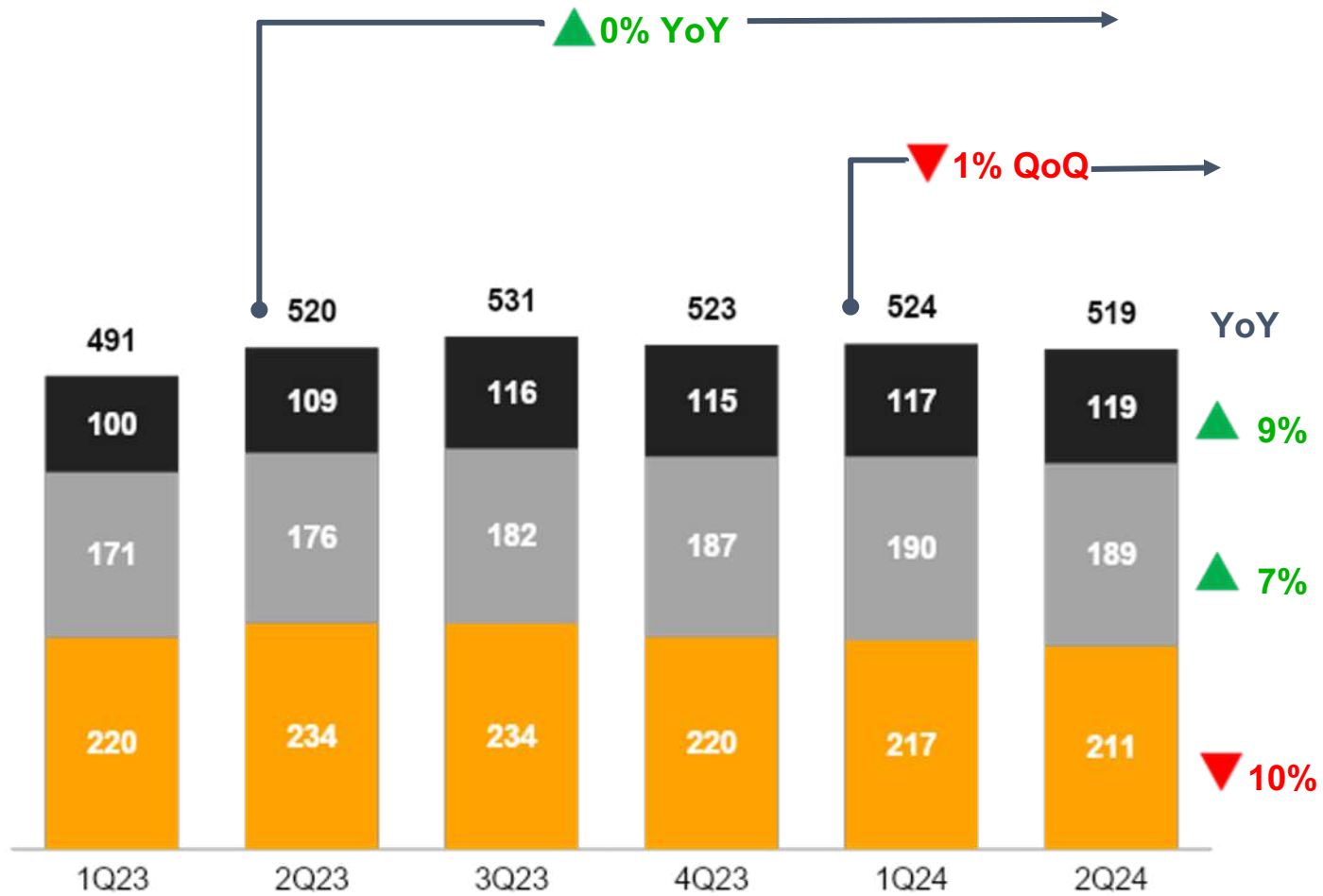
Liquid Earning Assets & Others Securities Current Loans



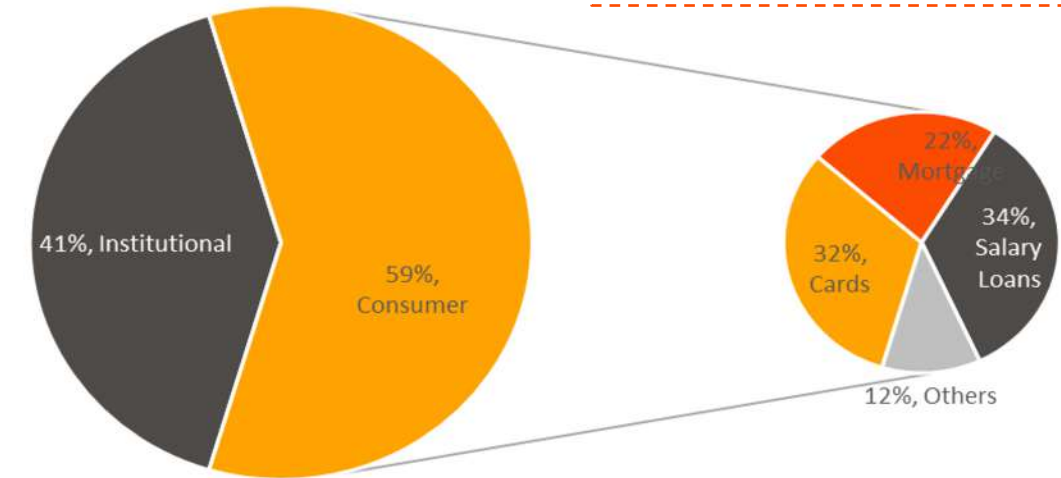
Loan growth driven by credit cards and CitySavings

Gross Loans (in PHPb)

■ Institutional
 ■ Retail (Parent)
 ■ CSB, UD & Other Subs
 Total Loans



Loan Mix

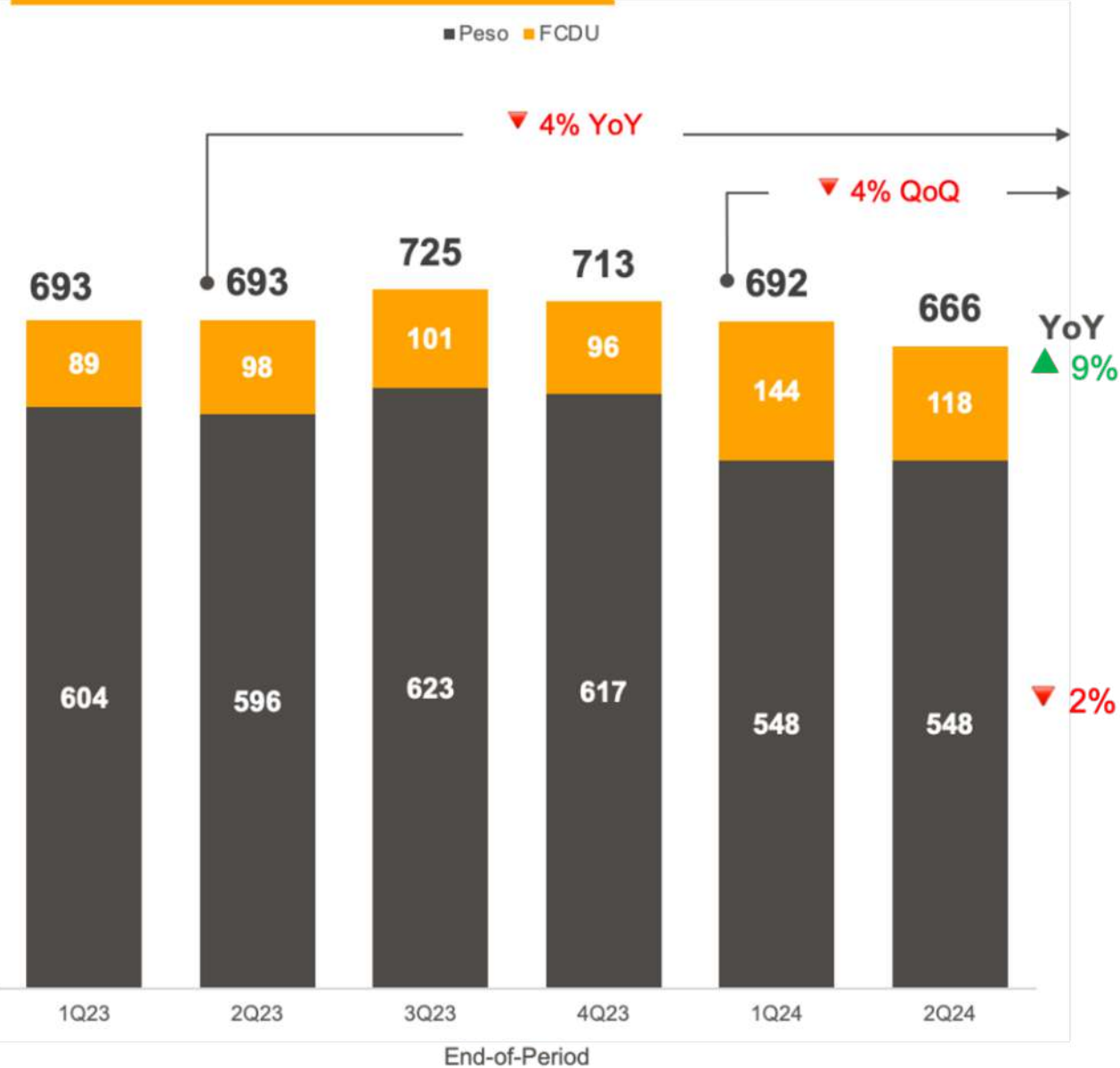


Institutional	234	211	-23	-10%
Consumer	176	189	12	7%
Home Loans	69	69	0	0%
Credit Card	87	98	11	12%
Other Consumer Loans	20	22	2	8%
Total Gross Loans of Parent	411	400	(11)	-3%
CitySavings and Subsidiaries	96	108	12	12%
UnionDigital	13	10	-2	-19%
Total Gross Loans of Subs	109	119	10	9%
Total Gross Loans	520	519	(1)	0%
% Consumer Loans	55%	59%		

Steady growth in CASA

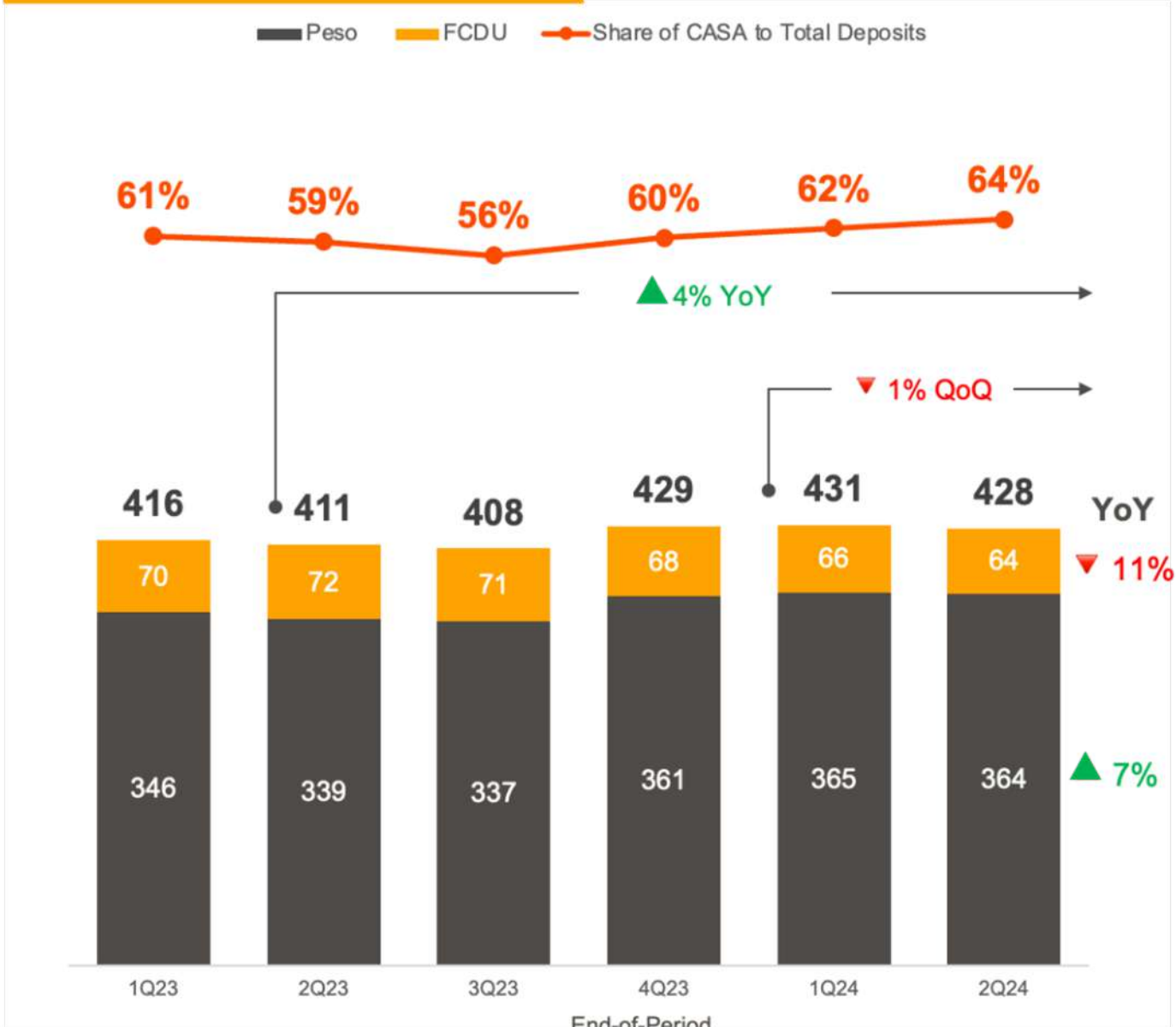
Total Deposits (Consolidated)

(Outstanding Balance in PHPb)



CASA Deposits (Consolidated)

(Outstanding Balance in PHPb)

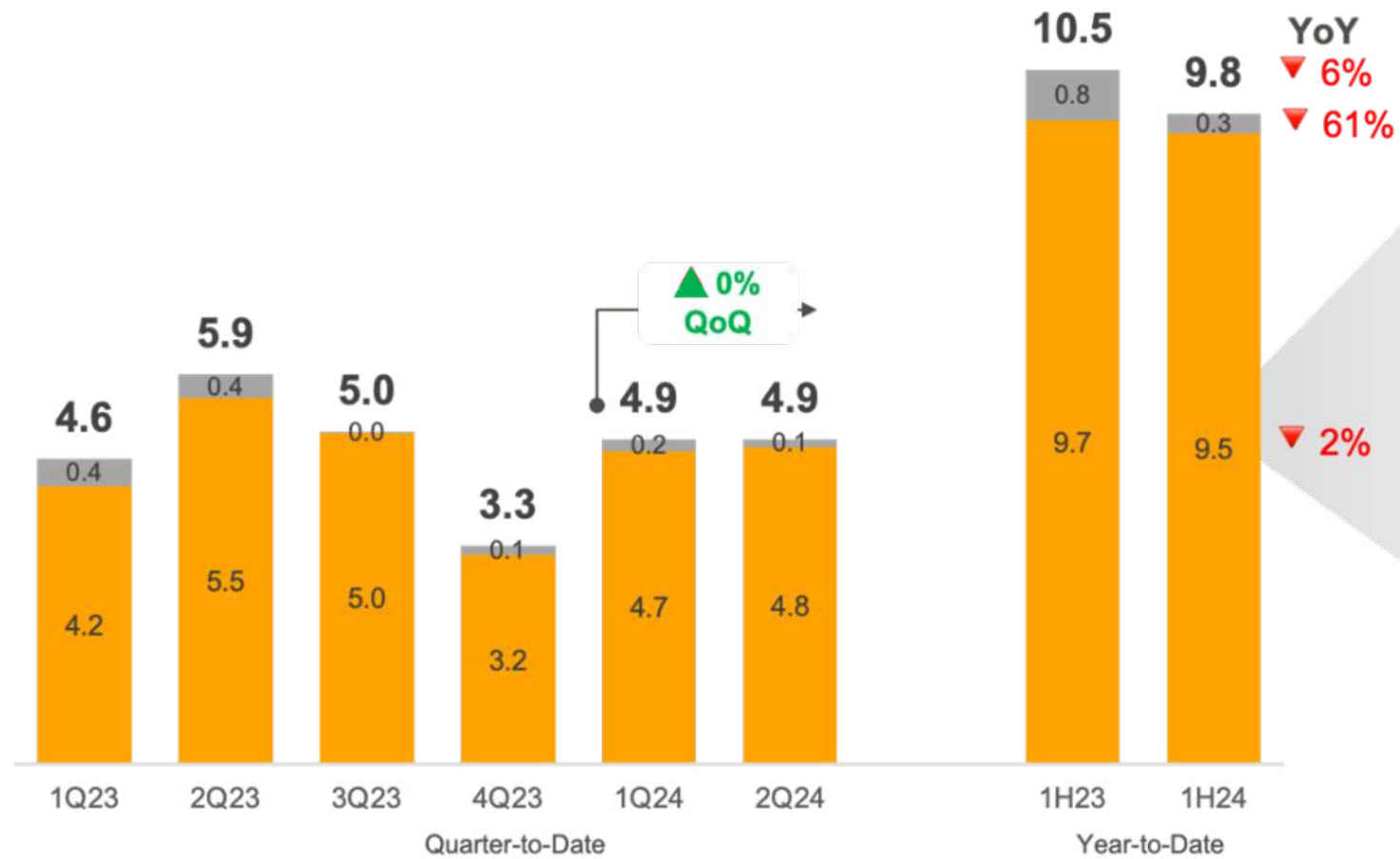


Note: BSP Balance Sheet Data show that the PH Banking Industry CASA grew by ~5% YoY as of May 2024

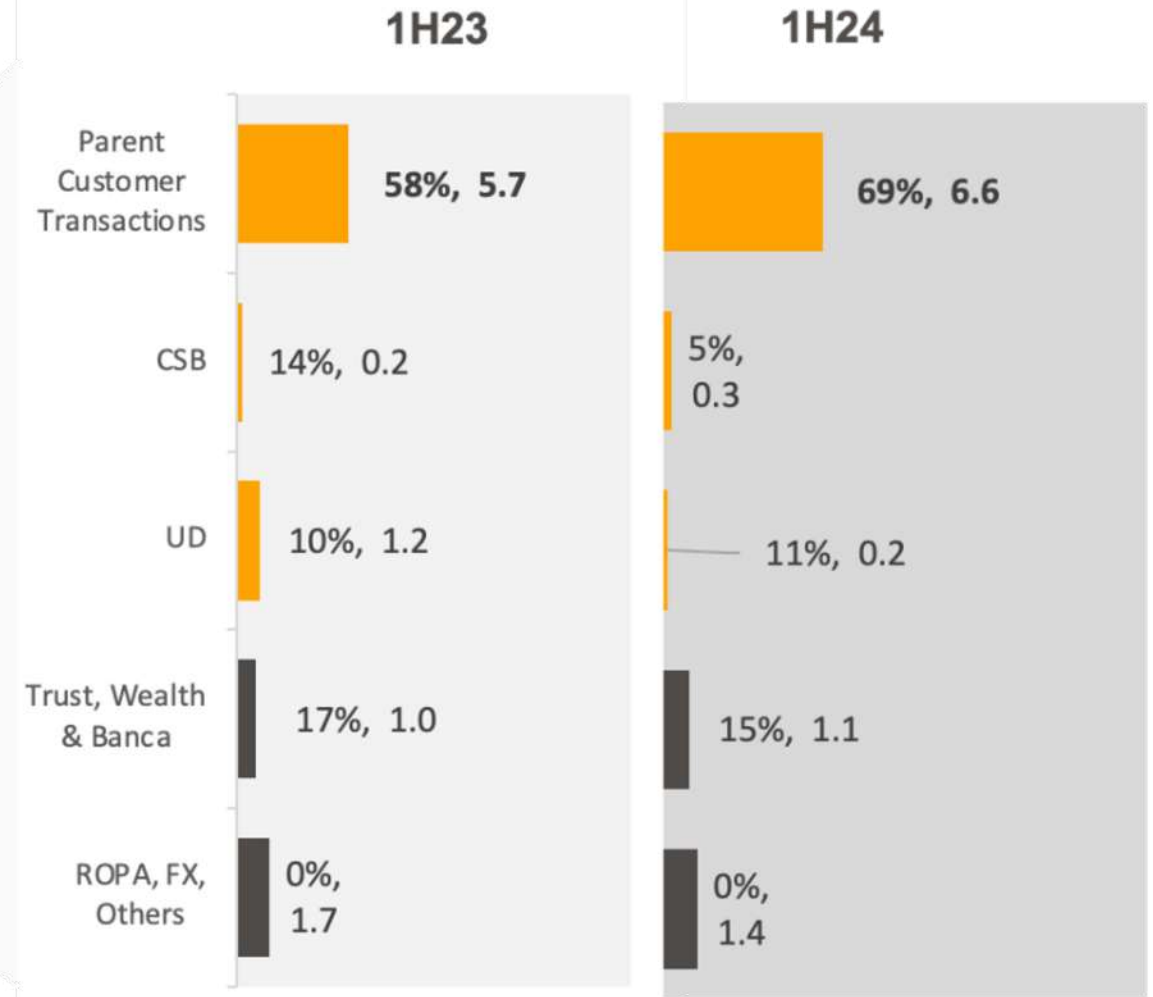
Parent bank customer transactions driving fee income

Non-Interest Income (in PHP Bn)

■ Fees ■ Trading Income

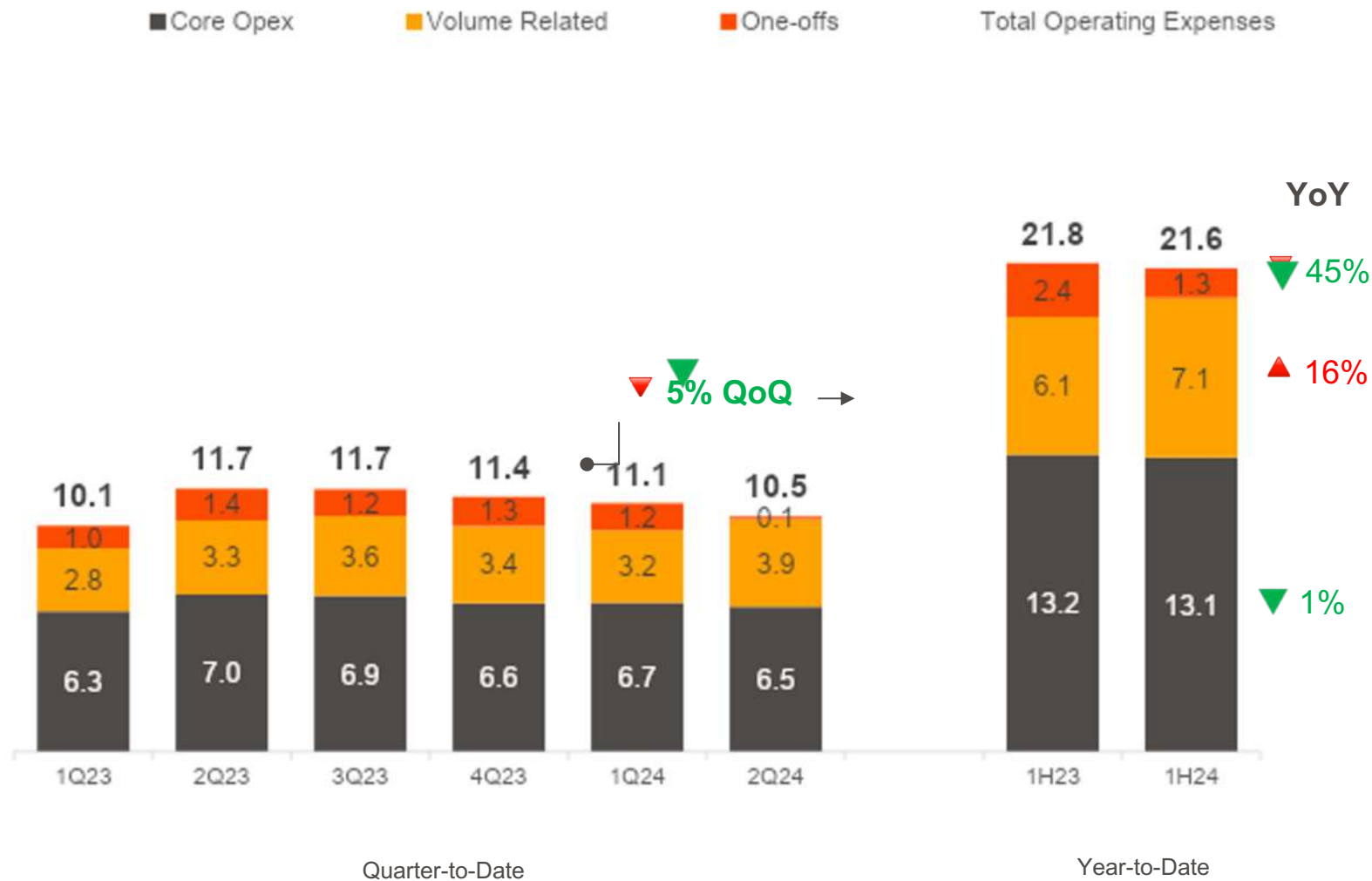


YTD Fees (in PHP Bn)

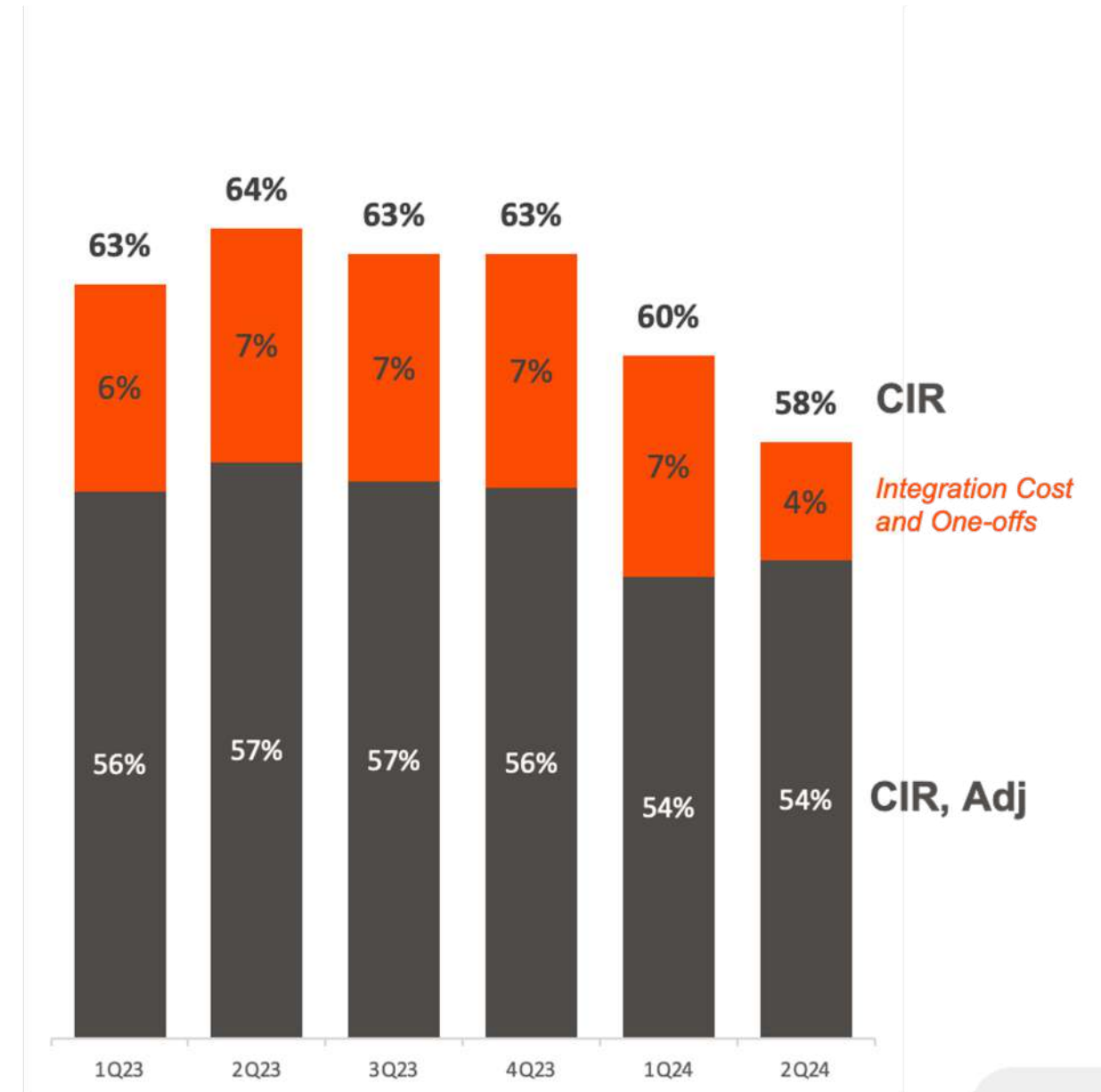


OPEX growth mainly due to business growth

Operating Expenses (in PHPb)

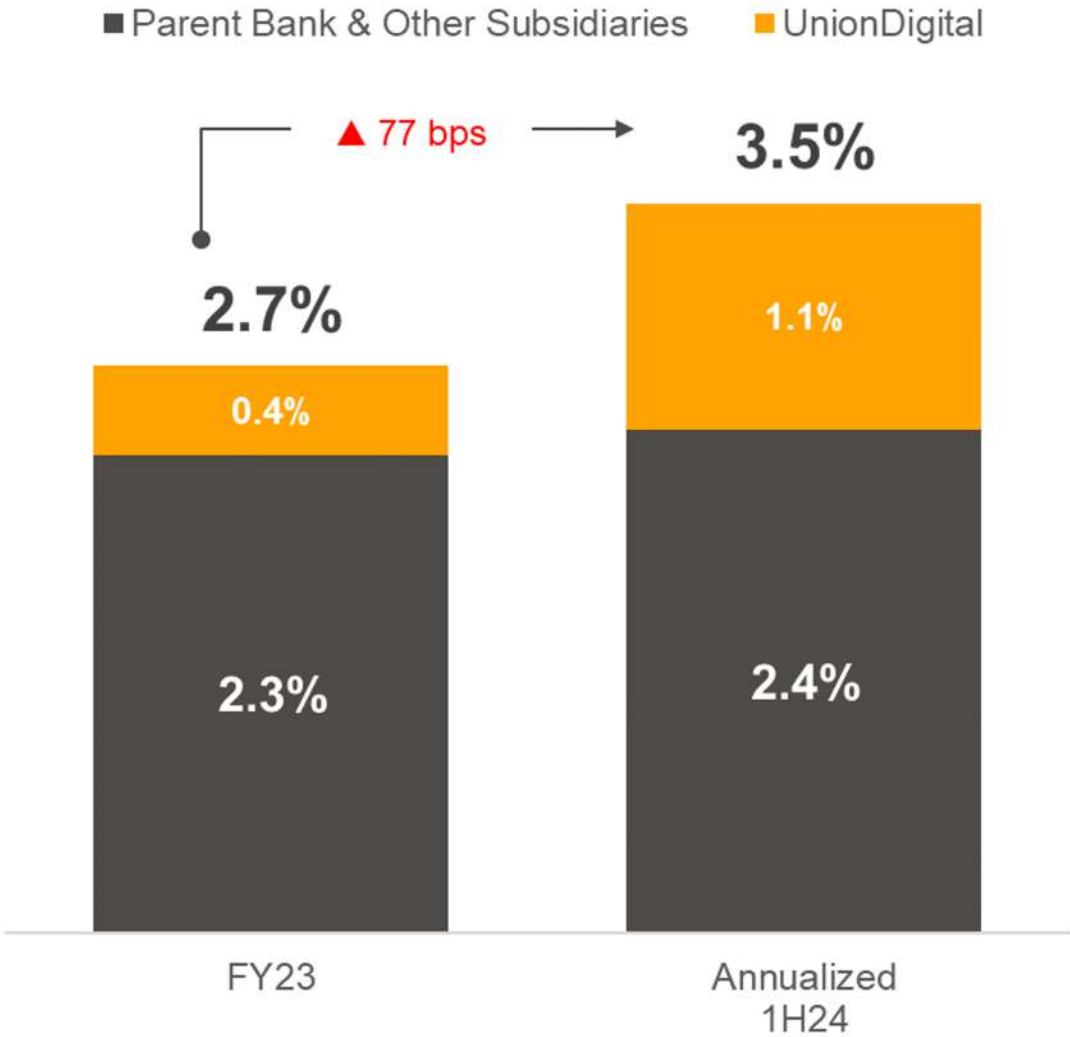


Cost-to-Income Ratio

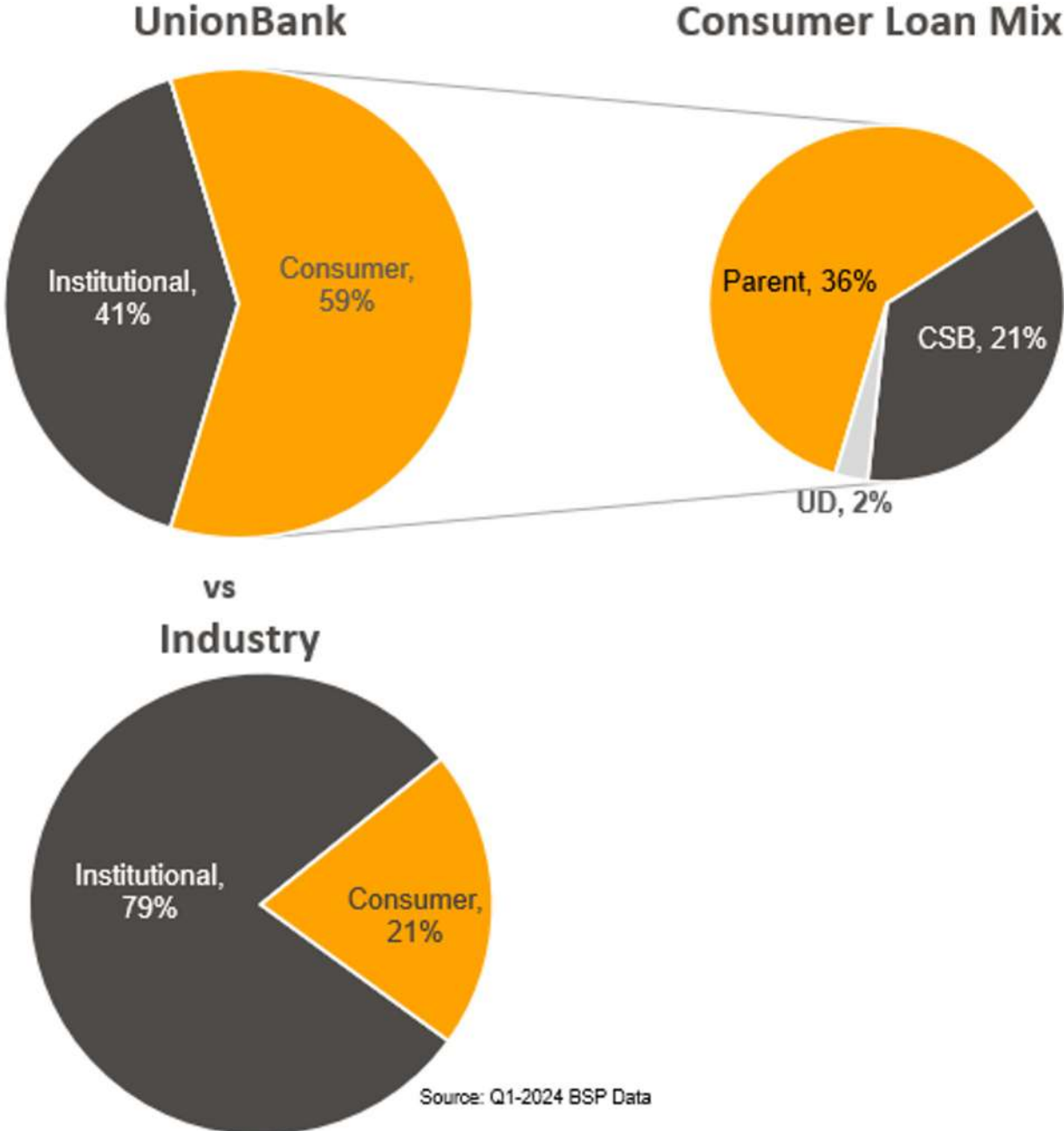


Credit cost increase is due to additional reserves in UD

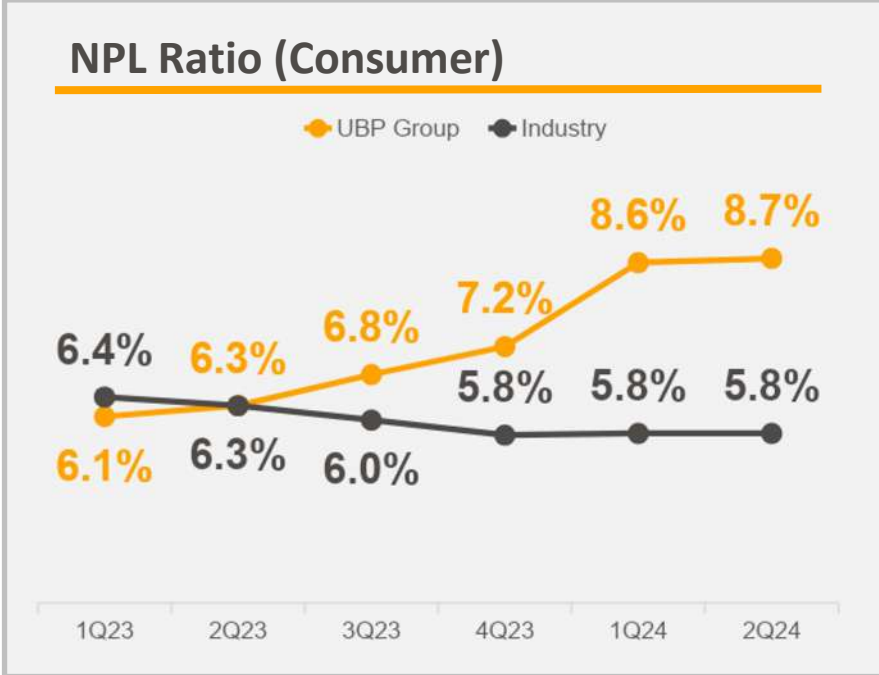
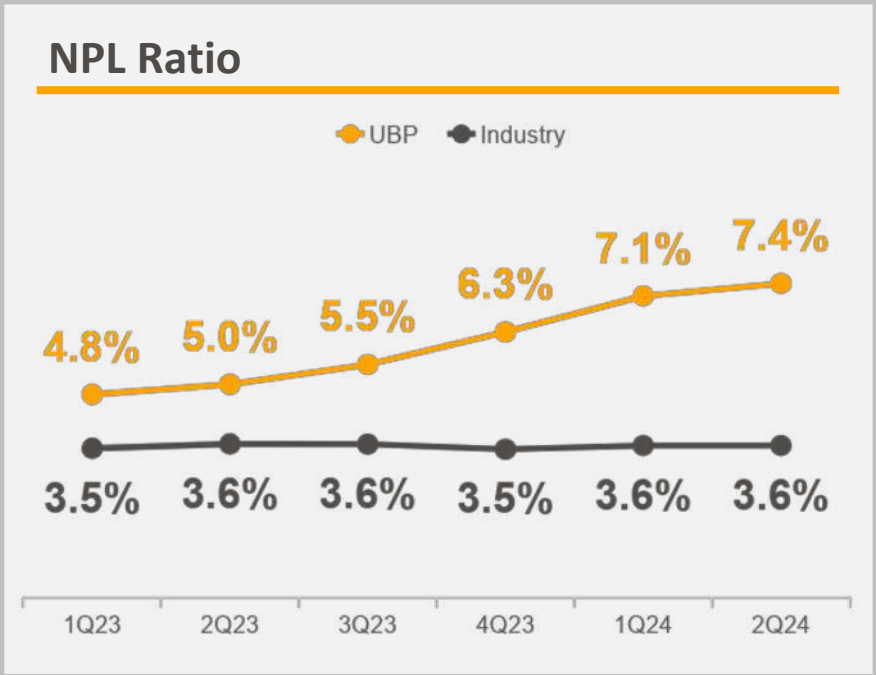
Credit Cost



Loan Mix

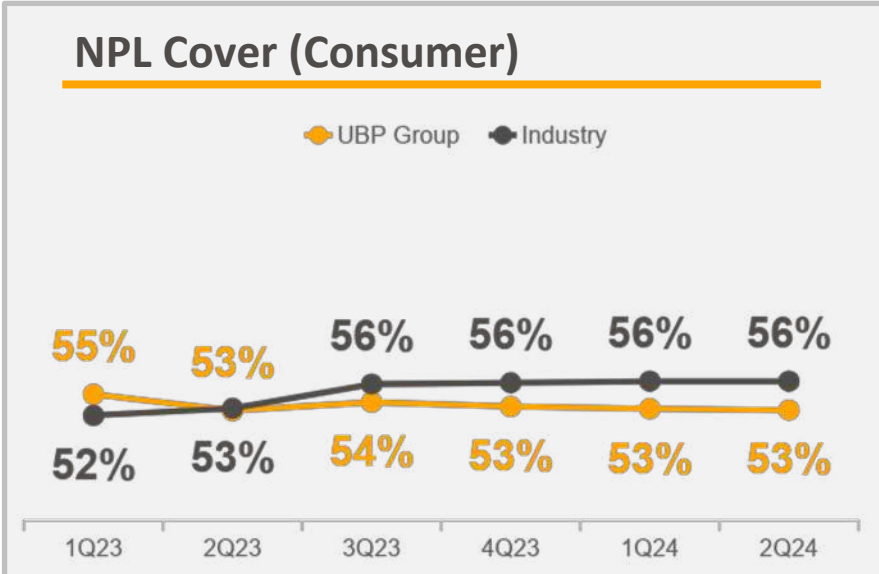
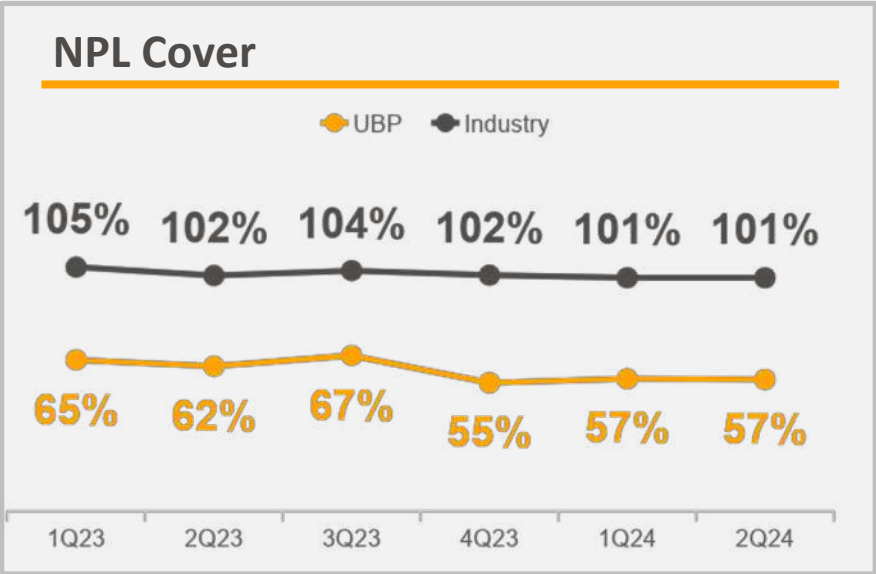


NPL ratio reflect growing consumer portfolio



5.9%
Parent Consumer
NPL Ratio

▲ 14 bps
Vs Q1-24
Industry



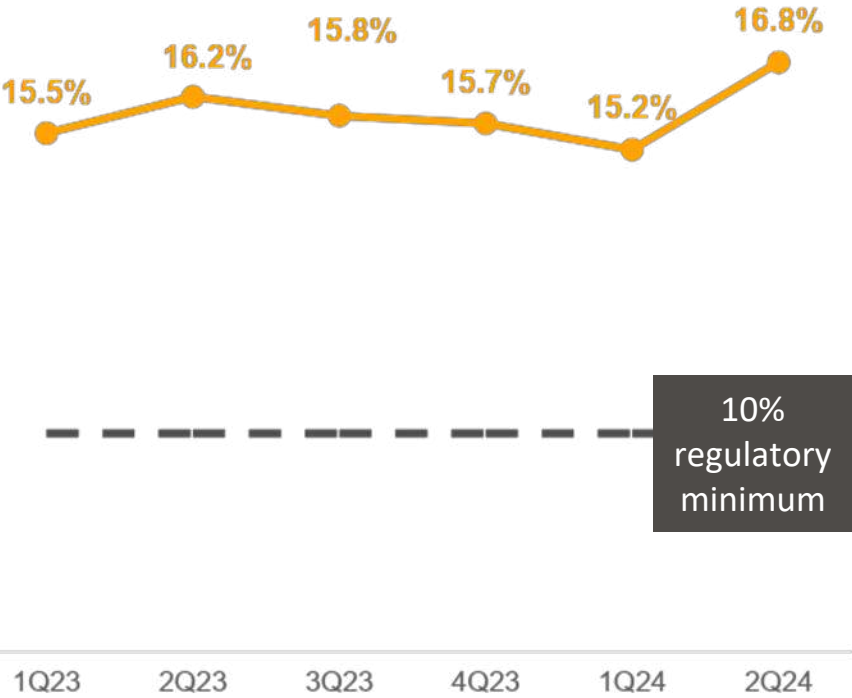
66%
Parent Consumer
Coverage Ratio

▲ 10%
Vs Q1-24
Industry

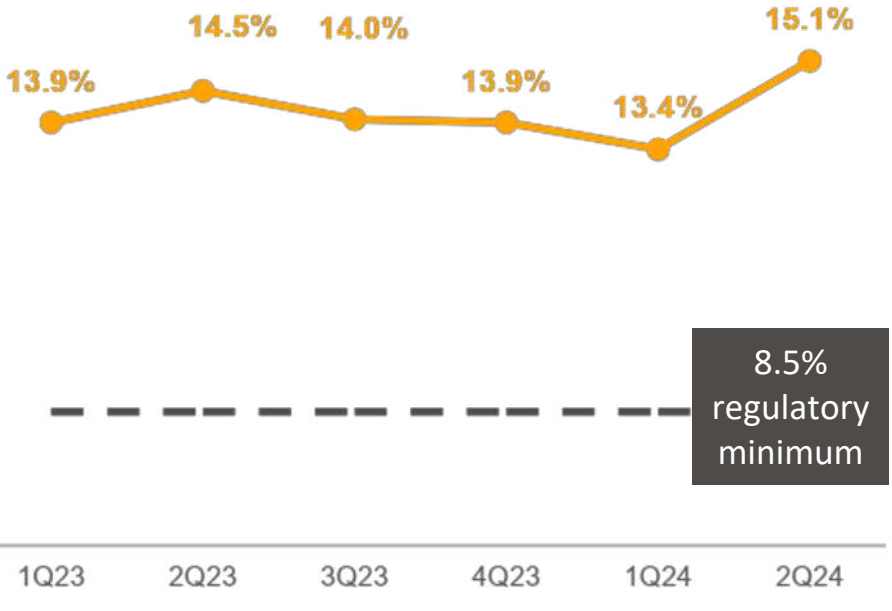
Note: Industry NPL Ratios are based on Q1-24 data and calculated based on Philippine Banking System's Total Loan Portfolio exclusive of IBL and RRP with BSP and Other Banks.

Capital ratios are above regulatory limits

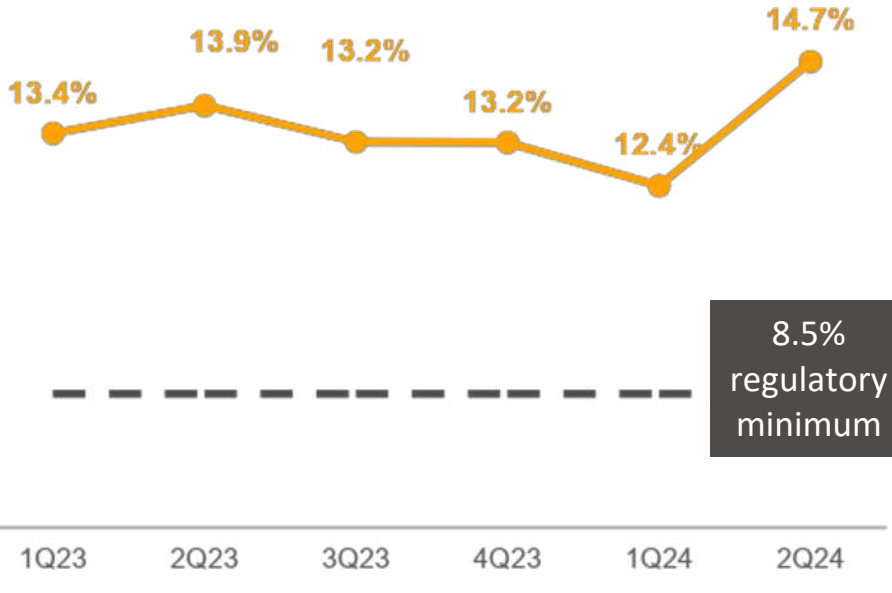
Capital Adequacy Ratio Group (CAR)



Common Equity Tier 1 Capital Ratio Group (CET1)



Common Equity Tier 1 Capital Ratio Parent (CET1)



Based on preliminary estimates as of June-24

Summary

Key Takeaways

Strong topline revenue driven by recurring income – NIMs up by 55bps, parent bank customer transactions up by 16%, customers up by 2M

OPEX have stabilized. Core OPEX is flat and integration opex is down. The growth is mainly coming from volume/business related activities – net revenues up by P3Bn vs flat OPEX

The parent bank is performing strong vs last year and exceeding expectations; group net income would have been higher if not for the deliberate slowdown in UD. We have recognized appropriate credit reserves in UD and have addressed 2023 credit issues.

We have successfully concluded the SRO resulting to improved capital ratios – CET1 at 14.5%

Outlook

We expect to sustain new-to-bank customer acquisition rate, which will be an incremental source of recurring income

Cost-to-income ratio is expected to improve further now that we have exited the TSA

UD is expected to narrow the gap in terms of profitability in the second half of the year, which will result to better overall performance of the banking group.

UnionBank has sufficient capital to pursue future growth ambitions



Thank You!