MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades the ratings of Philippine National Bank and Rizal Commercial Bank

Global Credit Research - 23 Nov 2017

Singapore, November 23, 2017 -- Moody's Investors Service has upgraded the foreign currency deposit ratings of Philippine National Bank (PNB) and Rizal Commercial Banking Corporation (RCBC) to Baa2/P-2 from Baa3/P-3. Moody's has also upgraded PNB's local currency deposit rating to Baa2/P-2 from Baa3/P-3.

In the case of RCBC, Moody's has upgraded the bank's senior unsecured debt and senior unsecured MTN program rating to Baa2 and (P)Baa2 from Baa3 and (P)Baa3, as well as the bank's other short term rating to (P)P-2 from (P)P-3.

Furthermore, for these two banks, Moody's has upgraded their baseline credit assessments (BCAs) and adjusted BCAs to baa3 from ba1.

And, Moody's has affirmed the Counterparty Risk Assessment (CR Assessment) of PNB and RCBC at Baa2(cr)/P-2(cr).

The ratings outlook for these two banks is maintained at stable.

RATINGS RATIONALE

UPGRADE OF THE BCA AND LONG-TERM RATINGS

The upgrade of PNB and RCBC's deposit ratings to Baa2 takes into account the one-notch upgrade of their BCAs to baa3, and a one-notch uplift to reflect Moody's assumption that the banks will receive support from the Government of the Philippines (Baa2 stable) in times of need.

The upgrade of PNB and RCBC's BCAs also takes into account the stable operating environment for banks in the Philippines, supported by a strong economy, and the private sector's benign leverage and stable debt servicing metrics. Philippine banks exhibit strong funding profiles that are dominated by deposits, and demonstrate little reliance on short-term wholesale funding. These factors are incorporated in Moody's assessment of the macro profile of the Philippines of Moderate(+).

PNB:

The upgrade of PNB's BCA to baa3 from ba1 reflects the bank's improved financial profile since its merger with Allied Banking Corporation (ABC) in 2013. In particular, the bank's asset quality and capital buffers have become comparable with those of its peers in the Philippines. The bank's high levels of capitalization and loan-loss coverage provide sufficient loss-absorption capacity at its current rating level to withstand moderate asset quality deterioration over the next 12-18 months.

PNB's BCA of baa3 is also supported by its relatively stable funding profile with limited depositor concentration as compared to other peers in the country. PNB was the fifth-largest bank in the system, with 689 branches and 1,176 ATMs as of the end of September 2017. The bank's franchise was enhanced after the merger with ABC in 2013, particularly in the significant markets of Metro Manila and Luzon. Furthermore, the bank's liquid assets -- which represented 36% of the total tangible assets as of the end of December 2016 -- provide support against downside risks.

Nevertheless, these strengths are balanced by the bank's low profitability metrics, when compared with other peers in the country, given its low cost efficiency. Although, Moody's expects PNB's interest income to improve as the bank expands loans to the higher-yielding small and medium enterprises and the retail segments, nevertheless, the bank's high cost to income ratio of 67% over the last three years will limit improvements to its profitability profile.

RCBC:

The upgrade of RCBC's BCA to baa3 from ba1 reflects Moody's assessment that the bank's standalone profile has become comparable with its peers in the Philippines, as reflected by its solvency and funding metrics. In addition, Moody's expects the bank to maintain its capital buffers in line with the other similarly rated peers in the Philippines, by periodically accessing the equity markets, as it has done in the past.

RCBC's BCA of baa3 incorporates the modest deterioration in its asset quality metrics as reflected by its net non-performing loan ratio of 1.41% as of September 2017 as compared to 0.97% in the year before . Over the next 12-18 months, its new NPL formation rate is likely to rise gradually as loans begin to season, but will remain manageable, given the robust operating environment in the Philippines.

RCBC's BCA also reflects the bank's smaller branch network which limits its ability to garner low-cost deposits compared with that of its larger peers in the country. Nevertheless, liquid assets — which represented 32% of the bank's tangible assets at end-2016 — provide support against downside risks.

OUTLOOK STABLE

The outlook on PNB's and RCBC's ratings is stable, in line with the stable outlook on the Government of the Philippines' long-term rating.

WHAT COULD MOVE THE RATING UP

PNB:

PNB's deposit rating of Baa2 is at the same level as the Philippines' sovereign rating. It is unlikely that PNB will be rated above the sovereign, because of the high correlation of risk between the bank and the sovereign. Moreover, the stable outlook on the sovereign's rating suggests that the upside and downside risks are balanced.

The following factors could result in an upward revision of PNB's BCA: (1) a proven ability to maintain its asset quality metrics and its loss absorption buffers (capital and loan loss reserves), and (2) evidence that the bank can improve cost efficiency and its risk-adjusted profitability on a sustained basis.

RCBC:

RCBC's deposit and debt ratings of Baa2 are at the same level as the Philippines' sovereign rating. It is unlikely that RCBC will be rated above the sovereign, because of the high correlation of risk between the bank and the sovereign. And, the stable outlook on the sovereign's rating suggests that the upside and downside risks are balanced.

The following factors could result in an upward revision of the bank's BCA: (1) a proven ability to maintain its asset quality metrics; (2) its ability to maintain its capitalization level and loan loss reserves in line with that of its domestic peers; and (3) evidence that the bank can continue to reduce its credit costs and improve its risk-adjusted profitability to support capital generation.

WHAT COULD MOVE THE RATING DOWN

PNB

The bank's BCA and consequently its ratings could be lowered if: (1) aggressive expansion or acquisitions result in a significant increase in its risk profile; (2) its underwriting practices become lax, resulting in a significant increase in nonperforming assets; (3) its capital buffers fall materially; (4) the operating environment for banks in the Philippines deteriorates as reflected by a slowdown in the country's economic growth or a rapid increase in leverage and/or a deterioration in the funding and liquidity conditions for the banking system.

A downgrade of the Philippine's sovereign rating will also result in a downgrade of the bank's ratings.

RCBC

RCBC's BCA and consequently its ratings could be lowered if: (1) aggressive expansion or acquisitions lead to a significant increase in the bank's risk profile; (2) its operating environment weakens significantly or underwriting practices become lax, resulting in a significant increase in nonperforming assets; (3) its capital buffers fall materially; (4) the operating environment for banks in the Philippines deteriorates as reflected by a slowdown in the country's economic growth or a rapid increase in leverage and/or a deterioration in the funding and liquidity conditions for the banking system.

A downgrade of the Philippine's sovereign rating will also result in a downgrade of the bank's ratings.

The principal methodology used in these ratings was Banks published in September 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Philippine National Bank, headquartered in Manila, reported total assets of PHP799 billion at 30 September 2017.

Rizal Commercial Banking Corporation, headquartered in Manila, reported total assets of PHP504 billion at 30 September 2017.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Alka Anbarasu
Vice President - Senior Analyst
Financial Institutions Group
Moody's Investors Service Singapore Pte. Ltd.
50 Raffles Place #23-06
Singapore Land Tower
Singapore 48623
Singapore
JOURNALISTS: 852 3758 1350
Client Service: 852 3551 3077

Gene Fang
Associate Managing Director
Financial Institutions Group
JOURNALISTS: 852 3758 1350
Client Service: 852 3551 3077

Releasing Office:
Moody's Investors Service Singapore Pte. Ltd.
50 Raffles Place #23-06
Singapore Land Tower
Singapore 48623

Singapore
JOURNALISTS: 852 3758 1350
Client Service: 852 3551 3077

arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.