



Rating Action: Moody's affirms Rizal Commercial Banking Corporation's Baa3 ratings, changes outlook to positive from stable

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Singapore, August 07, 2023 -- Moody's Investors Service has affirmed Rizal Commercial Banking Corporation's (RCBC) long-term foreign currency bank deposit and senior unsecured ratings at Baa3. At the same time, Moody's has changed the outlook on the ratings to positive from stable.

Moody's has also affirmed RCBC's foreign currency senior unsecured medium-term note program rating at (P)Baa3, foreign currency preferred stock non-cumulative rating at B1(hyb), long-term local and foreign counterparty risk ratings at Baa3 and long-term counterparty risk assessment at Baa3(cr), and baseline credit assessment (BCA) and adjusted BCA at ba1, as well as RCBC's foreign currency short-term bank deposit and local and foreign currency short-term counterparty risk ratings at P-3, short-term counterparty risk assessment at P-3(cr) and foreign currency other short term ratings at (P)P-3.

RATINGS RATIONALE

The change in outlook to positive reflects RCBC's improved capital position after the PHP27 billion capital infusion from Sumitomo Mitsui Banking Corporation (SMBC, A1 stable). In addition, Moody's expects that RCBC will maintain its capitalization, as denoted by tangible common equity / adjusted risk-weighted assets, at around 14% over the next 12 to 18 months, a level that is adequate and generally on par with its domestic rated peers'. The positive outlook also takes into account improvements in RCBC's asset quality.

Moody's expects RCBC's nonperforming loan (NPL) ratio to remain below 4% in 2023 and 2024, after NPL declined to 3.9% at the end of 2022 from 5.9% a year earlier, supported by recovery efforts by the bank and the country's post-pandemic economic rebound. However, the bank's plan to increase the share of retail and small and medium enterprise (SME) loans, which are riskier than corporate loans, will pose risks to its asset quality should the bank undertake aggressive growth and credit underwriting.

Profitability, as denoted by return on tangible assets, will improve to close to 1% as the bank resumes loan growth of 10%-15% in the higher-yielding retail and SME segments, which would help absorb the increased cost of funds due to rapid rate hikes in the Philippines over the past 12 months.

Funding profile remains moderate, reflecting the bank's modest deposit franchise that is mitigated by relatively granular deposits and adequate asset-liability management. The bank maintains a high level of liquidity as indicated by its high liquid banking assets to tangible banking assets ratio of 47% as of the end of 2022.

RCBC's Baa3 long-term ratings benefit from one notch of government support uplift from its BCA of ba1, reflecting moderate probability of support from the Government of the Philippines (Baa2 stable) in times of need, given RCBC's moderate share of 4.3% and 4.8% of system loans and deposits respectively as of the end of 2022.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Moody's could upgrade the bank's ratings and BCA if its tangible common equity to adjusted risk-weighted assets remains above 14% and the NPL ratio declines to below 3% over the next 12-18 months.

Given the positive outlook, a downgrade of the bank's BCA and ratings is unlikely.

RATING METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at <https://ratings.moodys.com/rmc-documents/71997>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

Rizal Commercial Banking Corporation (RCBC) is a Philippine-based universal bank. As of 30 June 2023, the bank reported total assets of PHP1.2 trillion.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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