PhilRatings PHILIPPINE RATING SERVICES CORPORATION	NEW ISSUER RATING PHILIPPINE SAVINGS BANK

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Rating History:

Issue Rating

Debt Features	P3 Billion Unsecured Subordinated Notes Tenor: Ten years (2022), with call option on fifth year (2017) Interest Rate: Fixed interest rate of 5.75% Outstanding Rating: PRS Aaa
Debt Features	Up to P3 Billion Unsecured Subordinated Notes Tenor: At least ten years, with a call option after a minimum of five years from issue date Interest Rate of First Tranche: To be determined based on the following formula: 10-year PDST-F benchmark on pricing date + spread. Assigned Rating: PRS Aaa
Issuer Rating	Assigned Rating: PRS Aaa (corp.)

Analysts' Note:

On February 21, 2014, Philratings assigned an issue credit rating of PRS Aaa, for both the outstanding and planned unsecured subordinated notes of Philippine Savings Bank (PSBank). Between then and as of report writing date, there has been no development which is viewed by PhilRatings to have a significant impact on PSBank's credit profile. The major rating factors taken into account during the rating exercise on February 21, 2014 continue to hold as of report writing date.

Rating Factors Considered for PSBank's Issue Credit Rating on February 21, 2014

- Very good quality management;
- Aggressive, highly-visible competitive strategy;
- Very satisfactory asset quality;
- Sound capitalization; and
- Continuing favorable outlook for the domestic consumer market.

Rationale

PSBank, a subsidiary of the Metropolitan Bank and Trust Company (Metrobank), is the second largest thrift bank (TB) in terms of assets, loans, deposits, and capital in the Philippines as of December 31, 2013. Based on its published balance sheet, which was also submitted to the Bangko Sentral ng Pilipinas (BSP), PSBank's market share of the thrift banking sector stood at 16.7% of assets, 16.8% of deposits, and 19.6% of loans as of December 31, 2013. Originally incorporated to engage in savings and mortgage banking, its business lines have evolved to include a wide range of products and services such as deposit products, loans, treasury and trust functions that mainly serve the retail and consumer markets.

PhilRatings considers PSBank to be professionally-run, with a well-experienced management team led by Vicente R. Cuna, Jr. Prior to his appointment as President, Mr. Cuna served as PSBank's Vice Chairman and Director, as well as Head of Metrobank's institutional and corporate banking. He also held various executive positions in Citibank (Manila and New York) and JP Morgan New York. Given this, PhilRatings expects that the strong and positive performance of PSBank will continue under the stewardship of Mr. Cuna.

Although its employees are unionized, PSBank has been strike-free for its entire history. The bank's present Collective Bargaining Agreement (CBA) with its employees' union will expire on December 31, 2015.

PSBank has taken an innovative and customer-focused approach to doing business, thus creating a strong market franchise against competition. Building its customer base, expanding its distribution channels, and introducing new products and new business initiatives have been priorities of PSBank throughout the years. With the addition of four branches and the installation of 19 additional automated teller machines (ATMs) in 2013, PSBank ended the year with 224 and 551 branches and ATMs, respectively. Since its credit rating on February 21, 2014, PSBank has installed seven more ATMs. For 2014, PSBank is planning to open 20 branches. Expansion of the bank's distribution network is seen to positively contribute to solidifying PSBank's market presence and brand equity.

In March 2014, PSBank launched the PSBank Money Market Fund as its first unit investment trust fund (UITF). The PSBank Money Market Fund, which aims to provide customers with an affordable, prudent and liquid investment option, has a minimum initial amount of P10 thousand and a minimum 30-day holding period. The pooled funds will be managed by PSBank's investment team, who will decide which low-risk financial instruments will provide the best returns for the fund participants.

PSBank's loan portfolio posted a double-digit growth of 17.8% as of end-2013 given the country's sustained economic activity. Amid growth in lending, gross non-performing loan (NPL) ratio has been kept at low, single-digit levels as of end-2013. In PhilRatings' view, PSBank's low NPL ratio reflects the bank's timely and appropriate credit risk management policies and collection strategies. Non-performing assets (NPA) ratio as of end-2013 also improved, as the bank sold more foreclosed properties.

As of end-2013, financial assets and liabilities maturing within one year stood at P43.7 billion and P94.8 billion, respectively. A substantial portion (about 96%) of financial liabilities was represented by deposits.

Liquidity risk is managed by less dependence on large fund providers (LFPs). PSBank has set a cap on the concentration on LFPs as a percentage of total deposits, thus ensuring that the bank will not be vulnerable to a substantial drop in funding as a result of an outflow attributable to large depositors. To mitigate potential liquidity problems caused by unexpected withdrawals of significant deposits, the bank takes steps to cultivate good business relationships with clients and financial institutions, maintains a high level of liquid assets, monitors deposit funding concentrations and regularly updates its Contingency Funding Plan (CFP). The CFP projects PSBank's funding position during both temporary and long-term liquidity changes to evaluate the bank's funding needs and strategies under changing market conditions.

PSBank was more than adequately capitalized based on its capital adequacy ratio (CAR) of 16.9% as of December 31, 2013, well above the regulatory minimum of 10.0%. Going forward, capitalization is expected to remain sound. PhilRatings expects future capitalization efforts to mainly support its portfolio expansion.

A continuously growing domestic economy, as reflected by the 7.2% hike in Gross Domestic Product (GDP) for full year 2013, and renewed investor appetite for emerging economies favored the Philippine banking industry in 2013. In general, the banking system continued to be stable, profitable, and adequately capitalized.

TBs continued to carve their niche in consumer financing, with growth in lending across all types of consumer loans (CLs). CLs accounted for 48.9% of the TB sector's total loan portfolio, at P247.1 billion, for full year 2013. This represented a 19.0% growth, from P207.6 billion in 2012. CLs were largely composed of residential real estate loans (RREL, with a share of 50.5%) and auto loans (AL, with a 37.9% share). Given sector growth, TBs' share in the banking industry's total CLs increased to 34.2% as at end-December 2013, from 33.0% as of December 31, 2012.

Given the general consensus that the Philippine economy will likely keep its growth, new and bigger opportunities for financing activities and investments are expected to become more available. With overseas Filipinos (OF) remittances and domestic consumption as two of the major drivers for economic growth, TBs are seen to be in a good position to benefit from this growth given their core activities of retail and consumer banking. Furthermore, Philippine banks in general are expected to remain strong and resilient given the robust consumption-led domestic economy.