PhilRatings PHILIPPINE RATING SERVICES CORPORATION *The Pioneer Domestic Credit Rating Agency*	**RATING NEWS** **3 December 2014**

BDO Leasing's P15 Billion in Short-term Commercial Papers Get PRS 2 Credit Rating

Philippine Rating Services Corporation (PhilRatings) assigned an Issue Credit Rating of **PRS 2** to BDO Leasing and Finance, Inc.'s (BDO Leasing) P15 Billion in short-term commercial papers (STCPs). The additional P10 billion in STCPs that the company applied for in the third quarter of 2014 were similarly rated PRS 2. BDO Leasing is a publicly-listed domestic corporation licensed to engage in both leasing and financing activities.

A short-term issue rating of **PRS 2** is defined as: "Above average (strong) capability for payment of the issue on both interest and principal. This is normally evidenced by many characteristics of a PRS 1 rating but to a lesser degree. Earning trends and coverage ratios, while sound, will be more subject to variations. Capitalization characteristics, while still appropriate, may be more affected by external conditions. Ample alternate liquidity is maintained."

In arriving at the rating, PhilRatings considered the following: a) BDO Leasing's favorable market position in a competitive environment; b) Synergies between BDO Leasing and parent company, Banco De Oro Unibank (BDO) which supports growth; c) BDO Leasing's solid business performance and ability to meet targets; and d) its improving asset quality measures and well diversified asset portfolio. The rating also considers the likelihood that the Philippine economy will remain vibrant, thus providing opportunities for the leasing and financing industry.

PhilRatings' ratings are based on available information and projections at the time that the rating review was performed. PhilRatings shall continuously monitor developments relating to BDO Leasing and may change the ratings at any time, should circumstances warrant a change.

BDO Leasing has established itself as a key player in the Philippine financing industry. Relative to its peers, BDO Leasing had the largest asset-base and loan portfolio as of end 2013. It continues to benefit from synergies with BDO in terms of continued support, management direction and control, business processing units, policies, as well as marketing complementation, among others.

BDO Leasing recorded a substantial growth (+22%) in net income for the first nine months of 2014. Consolidated net income amounted to P377.8 million, up from P309.8 million a year ago.

Though accounting for a smaller share (i.e. 26%) of total revenues, rent income proved to be the major driver of revenue growth. Total revenues booked for the first nine months were at P1.7 billion (+20.8%).

As of September 30, 2014, BDO Leasing booked total assets of P28.3 billion, an 11.9% increase from end-2013. The growth in loans and receivables contributed mainly to the expansion in total assets. Gross lease and financing receivables were at P23.6 billion (+11.5%), while loans and receivables-net grew at a slightly slower pace of 11.1% given the hike in allowance for impairment losses (+17.9%).

Asset quality further improved as of June 30, 2014. Gross NPA ratio stood at 3.2%, while net NPA ratio favorably moved to 0.9%. The improvement was a result of the expansion in loan portfolio, coupled with decreases in repossessed assets (-22.9%) and past due accounts (-2.4%). In addition, allowance for impairment losses grew by 3.1% to P505.9 million from the end-2013 provisioning of P490.6 million. The improvement in asset quality can be attributed to the company's continuous risk management governance, the focus on adoption/adherence to loan policies, continuous monitoring of accounts, as well as adequate provision for loan and impairment losses.

BDO Leasing's loan portfolio remained reasonably diversified and largely secured as of June 30, 2014. The company maintains a general policy of avoiding excessive exposure to any particular sector of the Philippine economy.

The growth of the financing industry is dependent on general economic conditions and the prevailing business climate in the country. In the first half of 2014, the Philippine economy grew by 6%. On a year-on-year basis, Gross Domestic Product (GDP) increased by 6.4% in the second quarter, faster than market expectations of a 6.2% growth. This was mainly a result of the strong performance of the industry and services sectors even in the midst of a slowdown in public spending.

Moving forward, the company sees opportunities in financing equipment requirements from development projects capitalizing on the sustained growth in key sectors such as medical/health industries and business process outsourcing.