PRESS RELEASE

PhilRatings PHILIPPINE RATING SERVICES CORPORATION *The Pioneer Domestic Credit Rating Agency*	**RATING NEWS** **18 December 2018**

Philippine Business Bank Receives High Credit Rating

Philippine Business Bank (PBB), the bank which is owned and controlled by Alfredo Yao of Zest-O Corporation, received an issuer rating of **PRS Aa minus (corp.)** from Philippine Rating Services Corporation (PhilRatings).

An issuer rating is an opinion on the general and overall creditworthiness of the issuer, evaluating its ability to meet all its financial obligations within a time horizon of one year. The focus is on financial strength and stability under normal and stressed conditions to be able to meet existing and prospective financial obligations.

A company rated **PRS Aa (corp.)** differs from the highest-rated corporates only to a small degree, and has a **strong** capacity to meet its financial commitments relative to that of other Philippine corporates. The “**minus**” is included to further quality the rating.

The issuer rating for PBB takes into account the expansion of the bank’s core lending business, which is supportive of revenue growth; above satisfactory asset quality; and funding profile which is biased towards high-cost deposits. Also taken into consideration is PBB’s target market, which presents opportunities but also faces significant non-finance challenges.

The issuer credit rating assigned by PhilRatings is based on available information and projections at the time that the rating review was performed. PhilRatings shall continuously monitor developments relating to PBB and may change the rating at any time, should circumstances warrant a change.

Net interest income has consistently posted growth in the last five years (2013-2017), accounting for 65.1% to 89.6% of total revenues. Interest income on loans and receivables significantly went up by 33.4% to P3.7 billion in 2017, attributable to higher loan volumes and loan yields. This trend is expected to continue, going forward. Revenues are forecast to grow much faster than historical performance, as combined increases in loan volume and rates lead to interest earnings growth.

Asset quality has remained more than satisfactory, with non-performing loans (NPL) ratio maintained below 3.0% for the last five years. Credit expansion has allowed the bank’s NPL ratio to be kept at low single-digit levels. Investment properties have been on a declining trend since 2015, on account of disposals. Given PBB’s low non-performing assets (NPA), the level of the bank’s loss reserves is considered above satisfactory as of report writing date. Overall, forecast asset quality indicators are seen to remain more than acceptable.

Credit to individual borrowers was unconcentrated, with the top ten credits equivalent to 20.1% of total loans, as of 30 June 2018. PBB's largest loan exposure was equivalent to 2.9% of the portfolio. Also, all top ten outstanding loans were current. While bulk of the portfolio (43.8%) was unsecured as of 30 June 2018, attendant risks from such are counterbalanced by the bank's historically low delinquency.

Deposits has consistently expanded for 2013-2017, and stood at P73.5 billion as of end-2017. Time deposits, however, accounted for the largest share of deposit liabilities. Share of low-cost and more stable current and savings deposits (CASA) ranged from 36.2% to 41.1%. Albeit forecast CASA to deposits ratio will increase going forward, time deposits will continue to comprise bulk of deposit liabilities.

PBB identifies the small and medium enterprises (SMEs) as its target market, taking into account the potential size and largely unserved needs of this market. The 2016 List of Establishments of the Philippine Statistics Authority (PSA) recorded that of the total business establishments operating in the Philippines, micro, small and medium enterprises (MSMEs) accounted for 99.57%: 89.63% were micro-enterprises; 9.5% and 0.44% were small and medium enterprises, respectively. Philippine SMEs, however, face a host of growth challenges, most notable of which is the sector's lack of access to finance. Personal funds were the dominant source of funding for SMEs, with only 39.0% of the respondents surveyed for an independent report on the sector indicating they have accessed bank loans, and with most banks requiring collateral before extending credit. Also, collateral requirements were high. Absence of available credit information, as well as lack of bank and government guidance on compliance documents, contributed to the slow release of funds. Cited non-finance hindrances to SME development, on the other hand, include increasing business costs, difficulty in sourcing staff, keen competition as the ASEAN Economic Community proceeds, unstable demand, and burdensome regulations.