

COVER SHEET

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B D O L E A S I N G A N D F I N A N C E

I N C .

(Company's Full Name)

1 2 A D B A V E N U E , O R T I G A S

C E N T E R M A N D A L U Y O N G C I T Y

1 5 5 0

(Business Address : No. Street/City/Province)

ELMER B. SERRANO

Contact Person

687 1195

Company Telephone Number

1 2

Month

3 1

Day

Fiscal Year

SEC Form 17-A

FORM TYPE

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles  
Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier


STAMPS

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**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-A**

**ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF THE CORPORATION CODE OF THE PHILIPPINES**

1. For the fiscal year ended: **December 31, 2017**
  
2. SEC Identification Number: **97869**
3. BIR Tax Identification No.: **000-486-050-000**
  
4. Exact name of issuer as specified in its charter: **BDO LEASING AND FINANCE, INC.**
  
5. **Manila**  
Province, Country or other jurisdiction of  
incorporation or organization
6.  (SEC Use Only)  
Industry Classification Code:
  
7. **No. 12 ADB Avenue, Ortigas Avenue**  
**Ortigas Center, Mandaluyong City, Philippines**  
Address of principal office
  
8. **(632) 688-1288**  
Issuer's telephone number, including area code
  
9. **N/A**  
Former name, former address, and former fiscal year, if changed since last report.
  
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	<b><u>Subscribed and Outstanding</u></b>	
	<b>No. of Shares</b>	<b>Amount in Pesos</b>
<b>Common</b>	<b>2,162,475,312</b>	<b>Php 2,162,475,312.00</b>
<b>Total</b>	<b>2,162,475,312</b>	<b>Php 2,162,475,312.00</b>
<b>Short Term Commercial Paper</b>	<b>Authorized</b>	<b>Outstanding</b>
	<b>Php 15,000,000,000.00</b>	<b>13,380,600,000.00</b>
<b>Total</b>	<b><u>Php 15,000,000,000.00</u></b>	<b>13,380,600,000.00</b>

11. Are any or all of these securities listed on a Stock Exchange.

Yes [X]    No [ ]

If yes, state the name of such stock exchange and the classes of securities listed therein:

**The Philippine Stock Exchange, Inc.**

**Common Shares only**

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes ☒ [X]

No ☐ [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes ☒ [X]

No ☐ [ ]

13. Aggregate market value of the voting stock held by non-affiliates: Php 767,592,829

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### **FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES**



## **PART I - BUSINESS & GENERAL INFORMATION**

### **ITEM 1. BUSINESS**

**BDO LEASING AND FINANCE, INC.** (the "**Company**" or the "**Parent Company**") is a domestic corporation incorporated with the Philippine Securities and Exchange Commission ("**SEC**") in 1981 under Republic Act No. 8556 (the "**Financing Company Act**"), and listed with The Philippine Stock Exchange, Inc. ("**PSE**") on January 6, 1997. The Company is eighty-eight percent (88%)-owned by BDO Unibank, Inc. ("**BDO Unibank**"), a company incorporated and domiciled in the Philippines. The Company is the principal business unit of BDO Unibank engaged in leasing and financing.

The Company became a subsidiary of BDO Unibank when BDO Unibank and Equitable PCI Bank, Inc. entered into a merger effective May 31, 2007, with BDO Unibank as the surviving entity. BDO Unibank is presently engaged in the banking business as a universal bank.

BDO Rental, Inc. ("**BDO Rental**"), formerly Equitable Pentad Rental, Inc., a wholly-owned subsidiary of the Company, is licensed by the SEC to engage in renting and leasing of equipment and real properties. It started commercial operations on June 30, 2005.

The Company and BDO Rental continue their respective operations up to present. The Company and BDO Rental are not under any bankruptcy, receivership or similar proceedings, and have not undertaken any material reclassification, consolidation or purchase or a sale of a significant amount of assets not in the ordinary course of their respective businesses.

#### ***Principal Products/Services***

The Company's principal business is providing leasing and financing products to individual and corporate clients.

The Company's leasing products include direct leases, sale-leaseback arrangements, and operating leases. The Company's financing products include commercial and retail loans, installment paper purchases, factoring of receivables and floor stock financing. Loan availments of clients are used to finance the purchase of automobiles, trucks, office equipment, industrial, agricultural and office machinery, real property, and operating assets such as receivables and inventories.

The following is a general description of the Company's leasing and financing products:

#### **Leasing Products:**

*Finance Lease* -- A source of medium-term financing for the acquisition of capital equipment and is ideal if the client plans to keep the asset up to the end of the term. With just capital outlay, the client can use the asset immediately.

*Operating Lease* -- This refers to a short-term lease that does not permit the recovery of the investment by the lessor during the initial period of lease. It is an off-balance sheet transaction where rentals are recorded in the lessee's book as expense. The operating lease product is being offered by BDO Rental.

*Direct Lease* - The Company purchases an asset selected by a client from a supplier and leases it to the client. Through this lease arrangement, the client overcomes budgetary constraints, enhances efficiency in cash flow management through rental payments, and minimizes the required equity contribution for asset acquisition.

*Sale-Leaseback* - The Company purchases an asset from a client based on appraised value. The Company then "leases back" the asset to the client. This type of lease arrangement

simultaneously provides liquidity to the client and continued use of the asset.

#### Financing Products:

*Amortized Commercial Loan* - The Company provides financing to commercial clients through the mortgage of the latter's equipment or real property. The client is able to avail of longer amortization terms as compared to unsecured loans. An amortized commercial loan addresses the client's capital expenditure or permanent working capital need.

*Installment Paper Purchase* - The Company purchases on a "with recourse basis" the installment sales contracts of a client usually engaged in motor vehicle, appliance, or equipment dealership at a stipulated discount, thereby providing liquidity to the same client.

*Factoring of Receivable* - As a variation of the receivables discounting product, the Company's purchase of a client's short-term receivables is on a "with or without recourse basis", with the Company directly collecting payment from the client's debtors. The client gains immediate liquidity and transfers responsibility of the collection process to the Company.

*Floor Stock Financing* - Ideal for transport vehicle and equipment dealers, Floor Stock Financing is a revolving short-term credit facility that finances the purchase of inventory assets – motor vehicles, trucks, and heavy equipment – from manufacturers. Floor Stock Financing will ensure that the client's inventory is in place when sales opportunities arise, without having to self-finance purchase.

Variations of each leasing or financing products are offered, depending on the nature of the client's business, preferences and financial position.

As of December 31, 2017, the Company's leasing and financing products contributed 56.26% and 31.02% to its gross revenues, respectively, vis-a-vis 2017 projected ratios of 8.39% and 33.42% respectively.

#### **New Product or Services**

There were no publicly announced new products or services.

#### **Sales Contracts**

The Company's business is not dependent upon a single customer or a few customers, the loss of any one or more of which would have a material adverse effect on the Company and its subsidiaries taken as a whole.

None of the Company's customers account for, or based upon existing orders will account for, thirty percent (30%) or more of the Company's sales, and the Company has no existing major sales contracts.

#### **Government Approval**

Under the Financing Company Act, only corporations for which a license to engage in the business of a financing company has been granted by the SEC may engage in both leasing and financing activities. Apart from the foregoing requirement, no other government approval is needed for the Company's and its subsidiary's principal products and services.

#### **Market Position**

The Company occupies a dominant position in the leasing and financing industry.

### ***Marketing of Products/Services***

The Company markets its products through its head office located at the 39/F BDO Corporate Center Ortigas, No.12 ADB Avenue, Ortigas Center, Mandaluyong City and its branch network nationwide. The Company has an extensive branch network in the leasing and financing industry, with five branches located in Cagayan de Oro City (Misamis Oriental), Cebu City (Cebu), Davao City (Davao), Iloilo City (Iloilo) and Angeles City (Pampanga).

The Company has a wholly-owned subsidiary, BDO Rental, licensed by the SEC to engage in renting and leasing of equipment and real properties. BDO Rental started its commercial operations on June 30, 2005.

As part of the BDO Unibank Group (referring to BDO and its subsidiaries), the Company is able to gain name recognition and marketing referrals provided by BDO Unibank, via the latter's nationwide branches and institutional banking group. BDO Unibank's well-established presence throughout the country helps the Company in understanding the local business environment and finding potential clients.

### ***Competition***

The SEC's licensing requirements allow financing companies to engage in both leasing and financing activities. As a matter of practice, financing companies are classified based on their product specializations and target markets.

Some financing companies may focus on consumer leasing and financing, while others, like the Company, concentrate on commercial leasing and financing clients. Among financing companies targeting commercial clients, there are differences in the market segment being served, with certain financing companies focusing on established prime companies, and others focusing on smaller clients.

The Company competes with other financing companies affiliated with other banks, independent financing companies, and other financing companies affiliated with diversified financial services firms. However, its key competitors are those firms engaged in servicing the leasing or financing requirements of commercial clients in the broader "Top 5,000" Philippine companies, which include small-and medium-enterprises (SMEs).

The principal competitors of the Company are Orix Metro Leasing & Finance Corporation, BPI Leasing Corporation, LBP Leasing Corporation, Japan PNB Leasing & Finance Corporation, UCPB Leasing and Finance Corporation, First Malayan Leasing and Finance, Allied Leasing and Toyota Financial. The market strengths of the Company's competitors are their competitive pricing of interest rates and fast turn around time. However, the Company believes it can effectively compete with other companies by its wide branch network, wherein each branch offers the same leasing and financing product lines as the head office.

### ***Sources and Availability of Raw Materials***

The Company is not dependent upon one or limited number of suppliers/dealers for essential raw materials, equipment, energy or other items.

### ***Related Party Transactions***

Related party transactions are transfers of resources, services or obligations between the Company and its subsidiary, BDO Rental, Inc. (the Company and BDO Rental collectively referred to as the "Group") and the Group's related parties, regardless of whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include:

(a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of any such individual; and (d) the Group's retirement plan.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

In the ordinary course of business, the Group enters into transactions with BDO Unibank and other affiliates. Under the Group's policy, these transactions are made substantially on the same terms as with other individuals and businesses of comparable risks.

Policies and procedures have been put in place to manage potential conflicts of interests arising from related party transactions. Even as the Company's Executive Committee approves these transactions, the Related Party Transactions Committee, composed of independent and non-executive directors, reviews the terms and conditions of the approved transactions to ensure that these are done on an arms-length basis, that no preferential treatment is accorded, and they are negotiated as a regular business transaction in accordance with regulations. These transactions are then elevated to the Board for confirmation and approval. Directors and officers who have interest in the transactions abstain from participating in the discussion. The details of the deliberations are included in the minutes of the Board and Board Committee meetings. Approved related party transactions are properly tagged for monitoring and reporting of exposures.

### ***Intellectual Property***

As of December 31, 2017, the Company has no existing or expiring patents, copyrights, licenses, franchises, concessions, and royalty agreements. As of even date, the Company is the licensee from BDO Unibank of the following registered trademark with the Philippine Intellectual Property Office:

Trademarks	Validity of Registration
<b>BDO</b> Leasing	May 4, 2014 to May 4, 2024

### ***Governmental Regulation***

The Company does not foresee new changes or amendments to the Financing Company Act that would significantly affect the Company's business.

### ***Research and Development***

The Company, being in the financing business, does not have research and development activities. In this regard, it does not incur research and development costs and is not affected by any environmental law.

### ***Employees***

As of December 31, 2017, the Company had 205 employees – 21 senior officers, 86 junior officers and 98 rank & file employees. Of the total personnel, Executive Office is composed of two (2) employees; one hundred thirty two (132) under the Marketing group; fifty five (55) under the Operations group (Comptrollership and Operations, HR & Admin); nine (9) under Risk and Compliance; three (3) under Treasury; and four (4) under the Company's subsidiary, BDO Rental. In 2018, the Company anticipates two (2) additional employees.

The Company believes that it has maintained good relationship with its employees. Rank & file employees receive benefits similar to those granted to the rank & file employees of BDO Unibank, under the

terms of a Collective Bargaining Agreement ("CBA") between BDO Unibank and NUBE-BDO, a legitimate labor organization duly registered with the Department of Labor and Employment. The CBA expires on October 31, 2020. Coverage of the CBA includes wage increases, allowances, bonuses, loans and other benefits.

## ***Risk Factors***

### **Portfolio Concentration Risks**

As of December 31, 2017, 69% of the Company's leasing and financing portfolio consisted of exposure in firms in the following sectors: other community services, transportation, construction, financial services and entertainment. The Company maintains a general policy of avoiding excessive exposure in any particular sector of the Philippine economy. The Company actively seeks to increase its exposure in industry sectors, which it believes possess attractive growth opportunities. Conversely, it actively seeks to reduce its exposure in industry sectors where growth potential is minimal. Although the Company's leasing and financing portfolio is composed of transactions with a wide variety of businesses, the results of operations and financial condition of the Company may be adversely affected by any downturn in these sectors as well as in the Philippine economy in general.

The Company is exposed to a variety of financial risk, which results from both its operating and investing activities. The Company's risk management is coordinated in close cooperation with the Board of Directors (the "Board") and focuses on actively securing the Company's short-to-medium-term cash flows by minimizing the exposure to financial markets.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Company is exposed to are described below.

### **Risk Management**

Risk management of the Company's credit, market, liquidity, and operational risks is an essential part of the Company's organizational structure and philosophy. The risk management process is essentially a top-down process that emanates from the Board. The Board approves the overall institutional tolerance risk, including risk policies and risk philosophy of the Company.

### **Foreign Currency Sensitivity**

Most of the Company's transactions are carried out in Philippine peso, its functional currency. Exposures to currency exchange rate on financial assets arise from an insignificant portion of the Company's leasing and financing portfolio, cash and cash equivalents and lease deposits which are denominated in US dollars.

### **Interest Rate Risk**

The Company follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. The current composition of the Company's assets and liabilities results in significant negative gap positions for repricing periods under one year. Consequently, the Company may be vulnerable to increases in market interest rates. However, in consideration of the substantial net interest margins between the Company's marginal funding cost and its interest-earning assets, and favorable lease and financing terms which allow the Company to reprice annually, and to reprice at any time in response to extraordinary fluctuations in interest rates, the Company believes that the adverse impact of any interest rate increase would be limited. In addition, during periods of declining interest rates, the existence of a negative gap position favorably impacts the Company.

### **Credit Risk**

The Company manages credit risk by setting limits for individual borrowers, and groups of borrowers and industry segments. The Company maintains a general policy of avoiding excessive exposure in any particular sector of the Philippine economy.

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographic location

### **Liquidity Risk**

The primary business of financing companies entails the borrowing and re-lending of funds. Consequently, financing companies are subjected to substantial leverage, and may therefore be exposed to the potential financial risks that accompany borrowing.

The Company expects that its continued asset expansion will result in the higher funding requirements in the future. Like most financing companies in the Philippines, the Company does not have a license to engage in quasi-banking function, and as such, is precluded from engaging in deposit-taking activities. In addition, it is precluded under the General Banking Act from incurring borrowings from more than 19 lenders at any one time, which to some extent, restricts its access to the public debt markets.

The Company believes that it currently has adequate debt funding from banks, other financial institutions, and through the issuance of Commercial Papers ("CPs"). The Company has a license from the SEC to issue a total of P15 billion CPs.

The Company manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflow due in a day-to-day business.

### **Taxation**

#### **Relevant Tax Regulations**

The Company is governed by the National Internal Revenue Code (NIRC) and abides with all the relevant provisions of the NIRC. The following are the significant Revenue Regulations that were issued in 2017 that apply to the Company.

- a) On January 18, 2017, RR No. 1-2017 was issued which prescribes the regulations governing applications for Value-Added Tax (VAT) credit/refund filed under Section 112 of the Tax Code, as amended, prior to the effectivity of RMC No. 54-2014;
- b) Revenue Memorandum Circular ("RMC") No. 28-2017, issued March 30, 2017, reiterates and updates the guidelines in the filing, receiving and processing of 2016 Income Tax Returns, including its attachments;
- c) On April 26, 2017, RMC No. 33-2017 was issued which allows the over-the-counter acceptance of certain tax returns/payments of internal revenue taxes due to unavailability of electronic Filing and Payment System;
- d) On April 27, 2017, RMC No. 34-2017 was issued to clarify Paragraph 6 of RMC No. 28-2017 re: guidelines in the filing, receiving and processing of 2016 Income Tax Returns, including its attachments;

- e) RMC No. 35-2017 was issued in April 27, 2017 to clarify the imposition of Capital Gains Tax on the sale, exchange or other disposition of real properties;
- f) On August 15, 2017, RMC No. 68-2017, clarifies the processing of applications for Permit to Use Loose-Leaf Books of Accounts/Invoices/Receipts and other accounting records;
- g) In December 29, 2017, RMC No. 104-2017 circularizes the copy of RA No. 10963 (Tax Reform for Acceleration and Inclusion [TRAIN] Act) and President Duterte's VETO message on the TRAIN Act.

#### **Gross Receipts Tax (GRT) / Value-Added Tax (VAT)**

Beginning January 1, 2003, the imposition of VAT on banks and financial institutions became effective pursuant to the provisions of Republic Act 9010. The Company became subject to VAT based on its gross receipts, in lieu of the GRT under Sections 121 and 122 of NIRC, which was imposed on banks, non-banks financial intermediaries and finance companies in prior years.

On January 29, 2004, Republic Act No. 9238 was enacted reverting the imposition of GRT on banks and financial institutions. This law is retroactive to January 1, 2004. The Company complied with the transitional guidelines provided by the BIR on the final disposition of the uncollected Output VAT as of December 31, 2004.

On May 24, 2005, the amendments on Republic Act No. 9337 was approved amending, among others, the GRT on royalties, rentals of property, real or personal, profits from exchange and on net trading gains within the taxable year of foreign currency, debt securities, derivatives and other similar financial instruments from 5% to 7% effective November 1, 2005.

#### **Supplementary Information Required Under Revenue Regulations 15-2010 and 19-2011**

The BIR issued RR Nos. 15-2010 and 19-2011 which required certain supplementary information to be disclosed as part of the notes to financial statements. The supplementary information is, however, not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. It is neither a required disclosure under the SEC rules and regulations covering the form and content of financial statements under SRC Rule 68.

## **ITEM 2. PROPERTIES**

The Company leases its head office premises from BDO Unibank for a period of five years until September 30, 2021. Head office address is at 39/F BDO Corporate Center Ortigas, 12 ADB Avenue, Ortigas Center, Mandaluyong City. In 2017 and 2016, the consolidated rent expense amounted to P13.6 million and P19.6 million, respectively. Cagayan de Oro, Davao, Iloilo, Pampanga, and Cebu branches lease their premises from the Parent Company.

#### **These are the details of the branches' office premises:**

##### **Cagayan:**

- Operates at the 5<sup>th</sup> Floor BDO Regional Office Lot 6 Blk, Limketkai Commercial Complex, Limketkai Avenue, Brgy. 31, Poblacion, Cagayan de Oro City for a period of five (5) years and will expire on March 31, 2020. Monthly rental amounts to P34,926.50 with no escalation clause.

##### **Iloilo:**

- Operates at the 2<sup>nd</sup> Floor, BDO Corporate Center, BDO Valeria Branch, Valeria St., Iloilo City for a period of five (5) years and will expire on November 17, 2018. Monthly rental amounts to P11,500.00

with no escalation clause.

**Davao:**

- Operates at the 4<sup>th</sup> Flr., BDO Davao-Claveria No. 30 C.M. Recto Avenue, Poblacion, Davao City for a period of five (5) years and will expire on May 31, 2018. Gross monthly rental amounts to P14,313.00 with no escalation clause.

**Cebu**

- Operates the Mezzanine Floor, BDO Bldg., Gorordo Ave. Lahug, Cebu City for a period of five (5) years and will expire on May 31, 2019. Monthly rental amounts to P46,122.00 with no escalation clause.

**Pampanga:**

- Operates at the 3<sup>rd</sup> Flr., BDO Angeles-Balibago Branch Building, Ramon Tang Avenue, Diamond Subdivision, Balibago, Angeles City for a period of five (5) years. On Dec 1, 2017, the lease was amended to increase the leased area from 76.0 sq.m to 206.24 sq.m and monthly rental from P22,800.00 to P61,872.00 with no escalation clause. Maturity of the amended lease remains on December 14, 2018.

The Company's facilities, office furniture, fixtures and equipment are in good condition. Distribution of office furniture, fixture and equipment are as follows: Head office – P36.4 million; Cebu – P0.7 million; Davao – P0.7 million; Cagayan – P1.3 million; Iloilo – P0.6 million; Pampanga – P1.5 million.

**ITEM 3. LEGAL PROCEEDINGS**

The Company is party to various legal proceedings which arise in the ordinary course of its operations. No such legal proceedings, either individually or in the aggregate, are expected to have a material adverse effect on the Company or its consolidated financial condition.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

There were no matters submitted to a vote of security holders during the fourth quarter of the calendar year covered by this report.

**PART II - OPERATIONAL AND FINANCIAL INFORMATION**

**ITEM 5. MARKET FOR ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

On July 15, 2003, the Board approved a program to buy-back shares from the stock market. The Board authorized the Chairman or Vice-Chairman and the President to determine the amount and the timing of the program. The buy-back program was approved on the rationale that the market prices did not reflect the true value of the shares and therefore remaining shareholders would benefit from a buy-back into treasury. Purchase of shares are covered by guidelines which include buy-back of shares when the share prices is undervalued, the purchase prices shall be at prevailing market prices, and the cash expenditure for the buy-back will not adversely affect the liquidity requirements of the company for its business transactions.

Total treasury shares as of December 31, 2017 was 62,693,718 shares or a total value of P81,776,628.

**Dividends**

On February 22, 2017, the Board approved the declaration of cash dividends at P0.20 per share in favor of stockholders of record as of March 10, 2017 paid on March 29, 2017. Total dividends in 2017 amounted to P432.49 million.



Dividends declared by the Company on its shares of stocks are payable in cash or in additional shares of stock. The payment of dividends will depend upon the earnings, cash flow and financial condition of the Corporations and other factors.

There are no restrictions that will limit the ability to pay dividends on common equity.

### Market Information

The principal market for the Company's common equity is the Philippine Stock Exchange.

The market prices of the Company's share are as follows:

2018	High	Low	2017	High	Low
1st quarter	3.20	3.10	1st quarter	3.96	3.95
			2nd quarter	4.05	3.90
			3rd quarter	4.08	4.05
			4th quarter	3.89	3.78
2016	High	Low	2015	High	Low
1st quarter	2.85	2.84	1st quarter	2.34	2.28
2nd quarter	4.15	4.00	2nd quarter	2.54	2.51
3rd quarter	3.85	3.77	3rd quarter	2.47	2.47
4th quarter	3.79	3.79	4th quarter	2.51	2.45

As at March 31, 2018 and December 31, 2017, the closing price of the Company's share were at P3.10 and P3.82, respectively.

Total number of stockholders as of March 31, 2018 was one thousand one hundred sixteen (1,116) and as of December 31, 2017 was one thousand one hundred twenty two (1,122). Common shares outstanding as of March 31, 2018 and December 31, 2017 totaled 2,162,475,312.

### Holders

The Company's common stockholders, with their respective shareholdings as of March 31, 2018 are as follows:

<u>Name</u>	<u>No. of Shares Held</u>	<u>% to Total</u>
BDO Unibank, Inc.*	1,914,711,807	88.542597%
Various Stockholders	<u>247,763,505</u>	<u>11.457403%</u>
	<u>2,162,475,312</u>	<u>100.00000%</u>

\* Record and beneficial (affiliate and majority stockholder)

The top twenty (20) stockholders of the Company as of March 31, 2018 are as follows:

<i>Name of Stockholders</i>	<i>Securities</i>	<i>Shares Held</i>	<i>Total Outstanding</i>
BDO Unibank, Inc.*	Common	1,914,711,807	88.542597%
PCD Nominee Corporation (Filipino)	Common	245,731,542	11.360000%
Samuel Uy Chua	Common	21,000,000	0.971109%
Equitable Computer Services, Inc. A/C	Common	12,320,000	0.569717%
Marylen Castro Mateo	Common	3,795,000	0.175493%
Jesselen Castro Verzosa	Common	3,795,000	0.175493%
Samuel Uy Chua	Common	3,011,150	0.139246%
Constantino Chua	Common	2,497,200	0.115479%
Equitable Computer Services, Inc.	Common	2,070,200	0.095733%
Victor Barranda	Common	1,157,475	0.053525%
Mercury Group of Companies, Inc.	Common	1,089,165	0.050367%
Constantino Chua &/or Willington Chua &/or George W. Chua	Common	1,020,000	0.047168%
Nardo R. Leviste	Common	759,000	0.035099%
Oscar M. Lopez	Common	683,100	0.031589%
Willington/Constantino Chua/George W. Chua Chua	Common	584,430	0.027026%
Willington Chua	Common	508,530	0.023516%
Pablo Son Keng Go	Common	455,400	0.023516%
Wilson Go	Common	438,625	0.020283%
PCD Nominee Corporation (Foreign)	Common	430,714	0.019917%
Lim Chin Ben	Common	425,040	0.019655%

The top twenty (20) stockholders of the Company as of December 31, 2017 are as follows:

<i>Name of Stockholders</i>	<i>Securities</i>	<i>Shares Held</i>	<i>Total Outstanding</i>
BDO Unibank, Inc. *	Common	1,914,711,807	88.542597%
PCD Nominee Corporation (Filipino)	Common	245,716,137	11.36%
Samuel Uy Chua	Common	21,000,000	0.971109%
Equitable Computer Services, Inc A/C Cequit11	Common	12,320,000	0.569717%
Marylen Castro Mateo	Common	3,795,000	0.175493%
Jesselen Castro Versoza	Common	3,795,000	0.175493%
Samuel Uy Chua	Common	3,011,150	0.139246%
Constantino Chua	Common	2,497,200	0.115479%
Equitable Computer Services Inc.	Common	2,070,200	0.095733%
Victor Barranda	Common	1,157,475	0.053525%
Mercury Group of Companies	Common	1,089,165	0.050367%

\* Record and beneficial (affiliate and majority stockholder)

Constantino Chua &/or Willington Chua &/or George W. Chua	Common	1,020,000	0.047168%
Nardo R. Leviste	Common	759,000	0.035099%
Oscar M. Lopez	Common	683,100	0.031589%
Willington / Constantino Chua / George W. Chua	Common	584,430	0.027026%
Willington Chua	Common	508,530	0.023516%
Pablo Son Keng Po	Common	455,400	0.021059%
Wilson Go	Common	438,625	0.020283%
Lim Chin Ben	Common	425,040	0.019655%
Sysmart Corporation	Common	358,835	0.016594%

#### **Recent Sales of Unregistered or Exempt Securities, Including Recent Issuance of Securities Constituting an Exempt Transaction**

There were no recent sales of unregistered or exempt securities including recent issuance of securities constituting an exempt transaction.

#### **ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION**

##### **2017 Compared to 2016**

Gross income for the year ended December 31, 2017 was P3.16 billion, an increase of P302.2 million, or 10.59% from P2.85 billion in 2016. Interest and discounts for the year ended December 31, 2017 were P1.92 billion, an increase of P157.6 million or 9% from P1.76 billion in 2016. Rent Income for the year ended December 31, 2017 were P922.2 million, an increase of P32.0 million or 3.59% from P890.2 million in 2016. The increase was due to higher operating lease income from our subsidiary, BDO Rental, Inc. The Company's leasing and financing portfolio as of December 31, 2017 was at P34.54 billion, a P2.73 billion increase, or 8.58% from P31.81 billion as of December 31, 2017 with leasing portfolio improving by 7.01% or an increase of P1.2 billion.

Interest and financing charges for 2017 amounted to P850.3 million, consisting mainly of finance charges from borrowings of P844.4 million and interest expense on lease deposits of P3.9 million. The increase of P176.8 million in financing charges is attributed to the increase in Bills Payable from P27.27 billion last year to P30.48 billion this year. Interest expense on leased deposits in 2017 amounted to P3.9 million or an increase of P0.7M from 2016's P3.2 million.

As of December 31, 2017, total provision for impairment losses stood at P50.0 million. There were accounts written off in 2017 amounting to P0.3 million.

Taxes and licenses amounted to P268.9 million for the year ended December 31, 2017, an increase of P23.4 million, or 9.53% from P245.5 million for the year ended December 31, 2016. The increase was mainly the result of higher Documentary Stamp Tax in 2017 vis a vis 2016, by P17.0 million.

Salaries and employee benefits expense amounted to P227.0 in 2017 as compared to P220.7 million in 2016. Occupancy and equipment related expenses for the year ended December 31, 2017 amounted to P865.4 million, an increase of P90.2 million, or 11.64% from December 2016's P775.2 million. This was brought about by the operating lease business of BDO Rental.

Litigation/assets acquired expenses increase by P11.6 or from P30.0 million in 2016 to P41.6 million in 2017.

Other expenses increased to P120.5 million in 2017 as compared to P108.7 million as of 2016.

The Company registered a net income of P570.5 million for the year ended December 31, 2017.

Total assets amounted to P42.8 billion in December 31, 2017, an increase of P3.9 billion from the P38.9 billion balance of December 2016. Available-for-sale securities increased from P3.52 billion last year to P4.64 billion this year brought about by new investments in a corporate issuance. Leasing and Financing portfolio increased by 9.38%, representing an increase of P2.94 billion from last year. Property and Equipment-net amounted to P2.26 billion as of 2017, a slight decrease from last year's P2.38 billion. Investment properties-net decreased to P354.4 million from 2016's P426.5 million. Other assets decreased slightly from P819.3 million in 2016 to P806.2 million in 2017.

Income tax payable, accounts payable, and other liabilities increased to P932.1 million from P702.0 million last year.

Lease deposits, amounting to P5.99 billion in 2017, increased by P407.9 million or 7% from last year's P5.58 billion. This was also due to the increase in volume of lease transactions of the Company.

Stockholders' equity increased by P92.9 million or 1.74%, due to Net Income for the year, after deducting cash dividends paid out to shareholders.

The Company's five (5) key performance indicators are as follows:

	<u>December 2017</u>	<u>December 2016</u>
Current Ratio	0.38:1	0.41:1
Quick asset ratio	0.37:1	0.41:1
Debt to Equity Ratio	6.87:1	6.27:1
Net Profit Margin	18.08%	19.97%
Return on Equity	10.57%	10.78%

The Current Ratio (computed as current assets divided by current liabilities) and Quick Asset Ratio (quick asset divided by current liabilities) decrease from last year's 0.41:1. Debt to equity ratio, computed as total liabilities divided by total equity, increased from 6.27:1 in 2016 to 6.87:1 in 2017 because of more corporate and bank funding availed of to finance the increase in lease/loan portfolio during the year. Net Profit Margin which is computed as net income over gross revenue, declined slightly due to higher operating expenses. Return on Equity, which is net income over average equity, declined to 10.57% in 2017.

#### **2016 Compared to 2015**

Gross income for the year ended December 31, 2016 was P2.85 billion, an increase of P248.1 million, or 9.52% from P2.61 billion in 2015. Interest and discounts for the year ended December 31, 2016 were P1.76 billion, an increase of P189.1 million or 12% from P1.57 billion in 2015. Rent Income for the year ended December 31, 2016 were P890.2 million, an increase of P83.1 million or 10.30% from P807.1 million in 2015. The increase was due to higher operating lease income from our subsidiary, BDO Rental, Inc. The Company's leasing and financing portfolio as of December 31, 2016 was at P31.81 billion, a P3.95 billion increase, or 14.17% from P27.86 billion as of December 31, 2015 with leasing portfolio improving by 8.85% or an increase of P1.4 billion.

Interest and financing charges for 2016 amounted to P673.5 million, consisting mainly of finance charges from borrowings of P668.4 million and interest expense on lease deposits of P3.2 million. The increase of P102.7 million in financing charges is attributed to the increase in Bills Payable from P23.89 billion last year to P27.27 billion this year. Interest expense on leased deposits in 2016 amounted to P3.2 million or a decrease of P3.2M from 2015's P6.4 million.

As of December 31, 2016, total provision for impairment losses amounted to P50.0 million, a

decrease of P33.4 million from last year's P83.4 million. There were accounts written off in 2016 amounting P1.0 million.

Taxes and licenses amounted to P245.5 million for the year ended December 31, 2016, an increase of P46.9 million, or 23.62% from P198.6 million for the year ended December 31, 2015. The increase was mainly the result of higher Documentary Stamp Tax in 2016 vis a vis 2015, by P24.0 million.

Salaries and employee benefits expense amounted to P220.7 in 2016 as compared to P187.9 million in 2015. Occupancy and equipment related expenses for the year ended December 31, 2016 amounted to P775.2 million, an increase of P72.8 million, or 10.36% from December 2015's P702.5 million. This was brought about by the improved operating lease business of BDO Rental.

Litigation/assets acquired expenses decrease by P0.2 or from P30.2 million in 2015 to P30.0 million in 2016.

Other expenses increased to P108.7 million in 2016 as compared to P107.4 million as of 2015.

The Company registered a net income of P570.0 million for the year ended December 31, 2016.

Total assets amounted to P38.9 billion in December 31, 2016, an increase of P4.3 billion from the P34.6 billion balance of December 2015. Available-for-sale financial assets of P3.52 billion is comprised of investments in various corporate fixed rate bonds and preferred shares listed in the PSE. Leasing and Financing portfolio increased by 14.17%, representing an increase of P3.95 billion from last year. Property and Equipment-net amounted to P2,381.2 million as of 2016, or an increase of P159.5 million over last year's P2,221.7 million. This is due to the increase in booked leases of BDO Rental. Investment properties-net increased to P426.5 million from 2015's P438.1 million. Other assets increase from P522.0 million in 2015 to P819.3 million in 2016 mainly due to the Joint Venture Agreement with Mitsubishi entered into by BDOLF. The joint venture is named MMPC Auto Financial Services Corp.

Income tax payable, accounts payable, and other liabilities increased to P702.0 million from P422.7 million last year.

Lease deposits, amounting to P5.58 billion in 2016, increased by P598.2 million or 12% from last year's P4.98 billion. This was also due to the increase volume of lease transactions of the Company.

Stockholders' equity increased by P126.6 million or 2.42%, due to the Net Income for the year

The Company's five (5) key performance indicators are as follows:

	<u>December 2016</u>	<u>December 2015</u>
Current Ratio	0.41:1	0.46:1
Quick asset ratio	0.41:1	0.45:1
Debt to Equity Ratio	6.27:1	5.61:1
Net Profit Margin	19.97%	21.32%
Return on Equity	10.78%	10.89%

The Current Ratio (computed as current assets divided by current liabilities) and Quick Asset Ratio (quick asset divided by current liabilities) decrease from last year's 0.46:1. Debt to equity ratio, computed as total liabilities divided by total equity, increased from 5.61:1 in 2015 to 6.27:1 in 2016 because of more corporate and bank funding availed of to finance the increase in lease/loan portfolio during the year. Net Profit Margin which is computed as net income over gross revenue, declined slightly due to higher operating expenses. Return on Equity, which is net income over average equity, declined to 10.78% in 2016.

### ***Policy on Revenue Recognition – Other Income***

Income related to the administration and servicing of loans are recognized as revenue once the services are rendered. These are included under Other Income such as Service Fees, Gain on disposal of property, share in net income (loss) on equity investment, etc. These are recognized as they are earned.

### ***Key Variable and Other Qualitative and Quantitative Factors***

There are no known trends, events or uncertainties that will have any material impact on the Company's liquidity.

There are no events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

There are no material off-balance sheet transactions, arrangements, obligations and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

There were no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. There were also no significant elements of income or loss that did not arise from the Company's continuing operations.

There are no seasonal aspects that had a material effect on the financial condition or results of operations.

### ***Internal and External Sources of Liquidity***

The Company's internal liquidity comes from the daily collections from various clients. External sources range from credit facilities extended by various banks, corporate and individual investors. The Company is confident to meet its current and long-term obligations as they mature.

### ***Material Commitments for Capital Expenditures***

There were no material commitments for capital expenditures.

### ***Projections***

Total Assets is projected to grow to P45.8 billion in 2018 with Net Loans and Other Receivables increasing by almost 10% from P34.3 billion in 2017 to P37.6 billion in 2018. Total Revenue is estimated at P3.23 billion by year-end 2018. Interest and Financing Charges are expected to reach P1.1B in 2018 while Operating Lease-related Depreciation will be about P887 million.

Funding will be mainly sourced from the Commercial Papers, bank lines and collections. The Company has been authorized to issue P15 Billion worth of Short Term Commercial Papers for 2018.

## **ITEM 7. FINANCIAL STATEMENTS**

The financial statements of the Company included in the 2017 Annual Report to Stockholders are incorporated herein by reference. The schedules listed in the accompanying Index to Supplementary Schedules are filed as part of this Form 17-A.

### ***Information on Independent Accountant and Other Related Matters***

## Information on Independent Accountant and Other Related Matters

### (1) External Audit Fees and Services

#### (a) Audit and Audit-Related Fees

The aggregate fees billed for each of the last two (2) fiscal years for professional services rendered by the external auditor was P1.068 million for the year 2017 and P0.839 million for the year 2016. These fees cover services rendered by the external auditor for audit of the financial statements and other services in connection with statutory and regulatory filings for fiscal year 2017 and 2016.

#### (b) Tax fees and other fees

No other fees were paid to the auditing firm of Punongbayan & Araullo, CPAs ("P&A") for the last two (2) fiscal years.

- (c) The Board Audit Committee has the oversight responsibility over the audit function and activities of Internal and External auditors. It provides assurance that (a) financial disclosures made by the management as presented in the Internal Auditor's report reasonably reflect the financial condition; the results of operation; and the plans and long-term commitments; and (b) internal controls are operating as intended and whether modifications are necessary.

The Board Audit Committee has the responsibility to select and recommend to the Board the External Auditors. It reviews the audit coverage of the External Auditors and deliberates on their audit report prior to endorsement to the Board for approval. It reports to the Board audit-related matters requiring the Board's action.

## ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

In 2017 and 2016, the auditing firm of P&A has been appointed as the Company's Independent Public Accountant. There was no event in the past where P&A and the Company had any disagreement with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope and procedures.

## **PART III - CONTROL AND COMPENSATION INFORMATION**

### ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

**董事**

#### **Directors and Corporate Officers**

The Board of Directors of the Company (the "Board") is empowered to direct, manage and supervise, under its collective responsibility, the affairs of the Company. The members of the Board are elected annually by the stockholders to hold office for a term of one (1) year and shall serve until their respective successors have been elected and qualified.

The Board meets monthly to discuss the Company's operations and approve matters requiring its approval. Materials containing matters to be taken up during the Board meeting are distributed to the directors at least five (5) days prior to the scheduled Board meeting.

Below is the list of the incumbent members of the Board and all persons nominated to be part of the Board, and the corporate officers and their business experience during the past five (5) years:

**TERESITA T. SY**

Chairperson

67 years old, Filipino

Ms. Sy was elected to the Board of Directors of BDO Leasing and Finance, Inc. (PLC) on September 20, 2005 and currently serves as Chairperson of the Board. She is also the Chairperson of the Board of Directors of BDO Unibank, Inc. (PLC), where she has been a member since 1977. Concurrently, she serves as the Chairperson and/or Director of various subsidiaries and affiliates of BDO Unibank such as BDO Private Bank, Inc., BDO Capital & Investment Corporation, BDO Foundation, Inc., and BDO Life Assurance Company, Inc. (formerly Generali Pilipinas Life Assurance Company, Inc.). Ms. Sy also serves as Adviser to the Board of One Network Bank, Inc. (A Rural Bank of BDO).

Ms. Sy is the Vice Chairperson of SM Investments Corporation (PLC) and Adviser to the Board of SM Prime Holdings, Inc. (PLC). She also sits as Chairperson and/or Director of the following companies: Multi Realty Development Corporation, Belleshare Holdings, Inc. (formerly SM Commercial Properties, Inc.), SM Mart, Inc., SM Retail, Inc., and First Asia Realty Development Corp. A graduate of Assumption College with a Bachelor of Arts and Science degree in Commerce major in Management, she brings to the board her diverse expertise in banking and finance, retail merchandising, mall and real estate development.

**ROBERTO E. LAPID**

Vice Chairman and President

61 years old, Filipino

Mr. Lapid was appointed Vice Chairman of BDO Leasing and Finance, Inc. (PLC) on December 1, 2010, and appointed as its President on April 23, 2014. He is concurrently President and Vice Chairman of the Board of Directors of BDO Rental, Inc., a wholly owned subsidiary of BDO Leasing, and a member of the Board of Trustees of the Foundation for Carmelite Scholastics. He was formerly the President of Equitable Exchange, Inc. and the Vice Chairman/Director of EBC Investments, Inc. Mr. Lapid holds a Bachelor's degree in Business Administration from the University of the Philippines.

**JESSE H.T. ANDRES**

Independent Director

53 years old, Filipino

Atty. Andres was elected to the Board of Directors of BDO Leasing and Finance, Inc. (PLC) on September 20, 2005, and is presently the Chairman of the Corporate Governance Committee, Nomination Committee, and the Related Party Transactions Committee, and a member of the Company's Board Audit Committee and Risk Management Committee. Moreover, he also serves as Independent Director of MMPC Auto Financial Services, Inc. In September 2004, he was appointed member of the Board of Trustees of the Government Service Insurance System (GSIS) where he also served as the Chairman of the Corporate Governance Committee for six (6) years. He was also Chairman of the Board of GSIS Family Bank from June 2007 to October 2010. Since July 1, 2011, he is the Managing Partner of the Andres Padernal & Paras Law Offices. From 1996 to 2003, he was a Partner at PECABAR Law Offices, where he became Co-Head of the Litigation Department in 2001. He was also Chief of Staff (Undersecretary) of the Office of the Vice-President (2004-2010). Previously, he was Senior Manager of the Philippine Exporters' Foundation, and Board Secretary of the Department of Trade and Industry's Garments and Textile Export Board. Atty. Andres holds a Bachelor of Arts degree in Economics from the School of Economics, University of the Philippines (U.P.) and a Bachelor of Laws degree from the U.P. College of Law.



**ANTONIO N. COTOCO**

Director

69 years old, Filipino

Mr. Cotoco was elected to the Board of BDO Leasing and Finance, Inc. (PLC) on January 25, 2001. He is a Senior Executive Vice President of BDO Unibank, Inc. (PLC) and a member of its Board Credit Committee. Mr. Cotoco is Chairman of BDO Rental, Inc., and he also sits on the boards of directors of BDO Insurance Brokers, Inc., BDO Remit Limited, Express Padala (Hong Kong) Limited, BDO Remit (Macau) Ltd., and BDO Remit (USA), Inc. Currently, he also serves as a Director of OAC Realty & Development Corporation. For more than 40 years, Mr. Cotoco has been involved in investment banking, corporate finance, treasury, consumer banking, credit, business development & account management. Mr. Cotoco holds a Master's degree in Business Administration from the University of the Philippines.

**MA. LEONORA V. DE JESUS**

Independent Director

67 years old, Filipino

Ms. De Jesus was elected to the Board of Directors of BDO Leasing and Finance, Inc. (PLC) on May 12, 2008. She is presently the Chairperson of the Company's Board Audit Committee, and a member of the Corporate Governance Committee, Nomination Committee, and Related Party Transactions Committee. She is also an Independent Director of BDO Capital & Investment Corporation and SM Development Corporation. Ms. De Jesus also serves as Director of Risks, Opportunities Assessment and Management (ROAM), Inc. and as University President of the Pamantasan ng Lungsod ng Maynila. In addition, she is an accredited SEC trainor on corporate governance. She is also a member of the Board of Governors of the Philippine National Red Cross. In the past, Ms. De Jesus was an Independent Director of Equitable Savings Bank, PCI Capital Corporation, and BDO Elite Savings Bank, Inc. (formerly GE Money Bank, Inc.). She was a professorial lecturer at the University of the Philippines, Diliman, and at the De La Salle Graduate School of Business and Governance. Ms. De Jesus was a trustee of the Government Service Insurance System (GSIS) from 1998 until 2004, and was a member of the cabinets of President Corazon C. Aquino, President Fidel V. Ramos and President Joseph E. Estrada. She holds bachelor's, master's and doctorate degrees in Psychology from the University of the Philippines.

**JECI A. LAPUS**

Non-Executive Director

64 years old, Filipino

Hon. Lapus was elected as to the Board of Directors of BDO Leasing and Finance, Inc. (PLC) on April 23, 2014 and is presently a member of the Company's Related Party Transactions Committee. Mr. Lapus also serves as a Trustee of the Local Water Utilities Administration. From 2005 to 2006, he was an Independent Director of PCI Leasing and Finance, Inc. (now BDO Leasing and Finance, Inc.). He was formerly a Director of PNOC-Exploration Corp.; President of TODO Foundation, Inc.; and Vice President & OIC – Finance Administration of the National Agri-Business Corporation. Mr. Lapus was a member of House of Representatives, representing the third district of Tarlac from 2007 – 2013, and he also served as a Reserved Officer with rank of Lieutenant Colonel in the Philippine Air Force. Mr. Lapus holds a Bachelor of Science degree in Civil Engineering from the Mapua Institute of Technology and passed the CE Board in 1975.

**VICENTE S. PÉREZ, JR.**

Independent Director

59 years old, Filipino

Mr. Pérez was elected to the Board of Directors of BDO Leasing and Finance, Inc. (PLC) on April 7, 2017, and is the Chairman of the Company's Risk Management Committee. He is an Independent Director of BDO Capital & Investment Corporation and DoubleDragon Properties Corp. (PLC), and serves as an independent advisor to the Board of BDO Unibank, Inc. (PLC). He is also a Non-Executive Director of Singapore Technologies Telemedia Pte Ltd. and STT Communications Ltd. Mr. Pérez is currently the Chairman of the Alternergy and SolarPacific, Philippine renewable power companies in wind, hydro and solar. He was Philippine Energy Secretary from 2001 to 2005. Mr. Pérez briefly served in early 2001 as Undersecretary at the Department of Trade and Industry and as Managing Head of the Board of Investments. He was Vice Chairman of the National Renewable Energy Board. He is a member of the advisory boards of Bhutan Foundation, the Yale Center for Business & Environment, Geneva-based Pictet Clean Energy Fund, Coca Cola FEMSA Philippines and bio-energy company Roxas Holdings, Inc. Mr. Pérez is Chairman of the National Advisory Council of WWF-Philippines, a Trustee of WWF-China and a Board member of WWF-US. Mr. Pérez obtained his Masters in Business Administration from the Wharton Business School of the University of Pennsylvania in 1983 and a Bachelor's Degree in Business Economics from the University of the Philippines in 1979. He was a 2005 World Fellow at Yale University where he lectured an MBA class on renewable power at the Yale School of Management.

**LUIS S. REYES, JR.**

Director &amp; Treasurer

60 years old, Filipino

Mr. Reyes was elected to the Board of Directors of BDO Leasing and Finance, Inc. (PLC) on April 18, 2012 and was appointed as Treasurer on April 23, 2014. He is concurrently the Senior Vice President for Investor Relations and Corporate Planning of BDO Unibank, Inc. (PLC). He is also the Director and Treasurer of BDO Rental, Inc., Director of BDO Strategic Holdings, Inc. and BDO Nomura Securities, Inc., and Chairman of Nashville Holdings, Inc. Before joining BDO, Mr. Reyes was a First Vice President of Far East Bank & Trust Company, Trust Banking Group. He holds a Bachelor of Science degree in Business Economics from the University of the Philippines.

**NESTOR V. TAN**

Director

59 years old, Filipino

Mr. Tan was elected to the Board of Directors of BDO Leasing and Finance, Inc. (PLC) on January 23, 2007. Mr. Tan, the President and Chief Executive Officer of BDO Unibank, Inc. (PLC), also concurrently holds vice chairmanships and/or directorships in the following subsidiaries of BDO Unibank, Inc.: BDO Capital & Investment Corporation, BDO Insurance Brokers, Inc., BDO Life Assurance Company, Inc. (formerly Generali Pilipinas Life Assurance Company, Inc.), BDO Private Bank, Inc., BDO Remit (USA), Inc., and SM Keppel Land, Inc. He also concurrently holds the Chairmanship of BDO Strategic Holdings Inc., One Network Bank, Inc. (A Rural Bank of BDO), BancNet, Philippine Dealings System Holding Corp. and RBB Micro Finance Foundation. He is a Board of Trustee of BDO Foundation, Inc. and De La Salle University. He is a Director of the Advisory Board of Mastercard Worldwide (Asia Pacific Board). At present, he is also a Director of the Asian School of Business & Technology, and serves as President and Director of the Bankers Association of the Philippines.

Prior to joining BDO Unibank, Mr. Tan was Chief Operating Officer of the Financial Institutions Services Group of BZW, the investment banking subsidiary of the Barclays Group. His banking career spans nearly four decades and includes posts at global financial institutions, among them Mellon Bank (now BNY – Mellon) in Pittsburgh PA; Bankers Trust Company (now Deutsche Bank) in New York, and the Barclays Group in New York and London. He holds a Bachelor's degree in Commerce from De La Salle

University and MBA from the Wharton School, University of Pennsylvania.

**EXEQUIEL P. VILLACORTA, JR.**

Non-Executive Director

72 years old, Filipino

Mr. Villacorta was elected to the Board of Directors of BDO Leasing and Finance, Inc. (PLC) on May 24, 2006. He is currently a Director of Premium Leisure Corp. (PLC). Mr. Villacorta was formerly director of Equitable PCI Bank, Inc. from 2005 to 2006, EBC Insurance Brokerage, Inc., Maxicare Healthcare Corporation, and Philab Holdings, Inc. He was also the Chairman of EBC Strategic Holdings Corporation, EBC Investments, Inc., Jardine Equitable Finance Corporation, Strategic Property Holdings, Inc., PCIB Properties, Inc., Equitable Data Center, Inc. and PCI Automation Center, Inc. He was previously President and CEO of Banco De Oro Universal Bank and TA Bank of the Philippines, and was Vice President of Private Development Corporation of the Philippines. He was Senior Adviser and BSP Controller of Equitable PCI Bank, Inc. and PBCor; and Adviser to the Board of PCI Capital Corporation. Mr. Villacorta holds a Bachelor of Science degree in Business Administration from De La Salle University and a Master's degree in Business Management from Asian Institute of Management.

**WALTER C. WASSMER**

Director

60 years old, Filipino

Mr. Wassmer was elected to the Board of Directors of BDO Leasing and Finance, Inc. (PLC) on November 17, 1999. He is the Senior Executive Vice President and Head of the Institutional Banking Group of BDO Unibank, Inc. (PLC). Previously, Mr. Wassmer was the Chairman and Officer-In-Charge of BDO Elite Savings Bank, Inc., formerly GE Money Bank, Inc. (A Savings Bank), Inc., and held directorships in MDB Land, Inc., Mabuhay Vinyl Corporation, and Banco De Oro Savings Bank, Inc. (formerly Citibank Savings, Inc.). He holds a Bachelor of Science degree in Commerce from De La Salle University.

**JOSEPH JASON M. NATIVIDAD**

Corporate Secretary

45 years old, Filipino

Atty. Natividad was appointed Corporate Secretary of BDO Leasing and Finance, Inc. (PLC) on May 31, 2010. He is also the Assistant Corporate Secretary of BDO Capital & Investment Corporation, BDO Securities Corporation and BDO Insurance Brokers, Inc. He served as Assistant Corporate Secretary of Equitable PCI Bank from September 2006 to June 2007, prior to its merger with Banco de Oro. He serves as the Corporate Secretary of the BDO Rental, Inc. and Agility Group of Companies in the Philippines. Atty. Natividad is currently a member of the Factoran & Associates Law Offices. He has been in law practice for 20 years, largely in the fields of corporation law and environmental law. He holds a Bachelor's Degree in Management, major in Legal Management, from the Ateneo de Manila University, and obtained his Juris Doctor Degree from the Ateneo de Manila University School of Law.

**MA. CECILIA SALAZAR-SANTOS**

Assistant Corporate Secretary

Filipino, 52 years old

Atty. Santos was appointed as Assistant Corporate Secretary of BDO Leasing and Finance, Inc. (PLC) effective October 1, 2015. She is concurrently the First Vice President of BDO Unibank (PLC). She is also the Assistant Corporate Secretary of BDO Private Bank, Inc., BDO Rental, Inc., and One Network Bank, Inc. (a Rural Bank of BDO). Further, she is the Corporate Secretary of BDO Nomura Securities, Inc. (formerly PCIB Securities, Inc.), BDO Strategic Holdings, Inc., Equimark-NFC Development Corporation, and Ivory Homes, Inc. She was formerly Director and Corporate Secretary of PCI Insurance Brokers, Inc., PCI Travel Corporation, and The Executive Banclounge, Inc. Atty. Santos has been with

BDO Unibank for more than 17 years, starting as Manager with BDO's Legal Department. She is currently assigned at the Legal Services Group as Team Head providing legal assistance to BDO's Support Groups and Subsidiaries and in managing BDO's Intellectual Property (BDO and BDO-related marks). She holds a Bachelor of Arts degree major in Economics from the University of Sto. Tomas and finished law at San Beda College of Law.

#### ***Independent Directors***

The Company has three (3) independent directors namely: Atty. Jesse H.T. Andres, Dr. Ma. Leonora V. De Jesus, and Mr. Vicente Pérez, Jr.

#### ***Senior Executive Officers:***

The members of senior management, subject to control and supervision of the Board, collectively have direct charge of all business activities of the Company. They are responsible for the implementation of the policies set by the Board. The following is a list of the Company's key officers, and their business experiences during the past five years:

##### **ANGELITA C. TAD-Y**

First Vice President/Chief Risk & Compliance Officer  
Filipino, 53 years old

Ms. Tad-y was appointed as Chief Risk and Compliance Officer of BDO Leasing and Finance Inc. (PLC) on December 16, 2017. She is concurrently the Data Privacy and Information Security Officer of the Company. She joined the Asset Management Group of BDO Unibank Inc. in 2008 and transferred to Risk Management Group from 2010 to December 15, 2017. Prior to BDO Unibank Inc., Ms. Tad-y worked for Philamlife Insurance Company as Associate Controller, Asset Management & Compliance Officer for 5 years, and for JP Morgan Chase Bank as Credit Officer for 12 years. Ms. Tad-y earned her Bachelor of Science degree major in Accounting from De La Salle University.

##### **AGERICO MELECIO S. VERZOLA**

First Vice President & Marketing Head  
Filipino, 60 years old

Mr. Verzola was appointed as First Vice President & Marketing Head of BDO Leasing and Finance, Inc. (PLC) on October 1, 2014. He is a Director of BDO Rental, Inc. Mr. Verzola has been involved in Credit, Corporate Banking, Commercial Banking, Branch Banking and Branch Lending, and Investment Banking over the past 37 years. He graduated with a degree of AB Economics from the University of the Philippines School of Economics, Diliman, and finished a 6-month Advanced Senior Management Course at AIM.

##### **ROSARIO C. CRISOSTOMO**

First Vice President  
Filipino, 49 years old

Ms. Crisostomo joined BDO Leasing and Finance, Inc. (PLC) as Account Officer in October 1993. She later became a Team Head for Metro Manila Marketing and was appointed Head for Metro Manila Marketing Unit 1 in 2017 where she manages three (3) marketing teams. She holds a degree in Bachelor in Accountancy from the Polytechnic University of the Philippines and is a Certified Public Accountant.

##### **MA. THERESA M. SORIANO**

First Vice President  
Filipino, 48 years old

Ms. Soriano is the current Head of Metro Manila Marketing Unit 2 of BDO Leasing. She is with the

Company for the last 24 years (since its predecessor PCI Leasing and Finance Inc.) where she rose from the ranks from being an account officer to a unit head. She obtained from De La Salle University baccalaureate degrees in Economics and Management of Financial Institutions as well as masteral degree in business administration.

**COSME S. TRINIDAD JR.**

First Vice President  
Filipino, 53 years old

Mr. Trinidad was designated Unit Head for Luzon on October 1, 2016. He joined BDO Risk Management Group in 2008 and was seconded to BDO Leasing and Finance, Inc. (PLC) in September 2011. His banking career spans more than 25 years covering marketing, account management, credit, risk management and asset management. Mr. Trinidad holds a Bachelor's Degree in Fisheries, major in Business Management, magna cum laude, and a Master in Business Administration from De La Salle University Graduate School.

***Board and Senior Management Performance***

The Board, through the Corporate Governance Committee, undertakes the evaluation of its performance as a collective body, its committees and senior management to determine whether they are functioning effectively, pinpoints areas for improvement and ensures that the President is providing effective leadership to the Company.

The assessment criteria used cover, among others, the areas of leadership, stewardship, review and approval of strategic and operational plans, annual budgets, focus on strategic on long-term issues, monitoring of financial performance, management succession planning, integrity of financial reporting, review of the Company's ethical conduct, defining of roles and monitoring activities of committees.

It also conducts the Director peer evaluation survey to encourage improved performance and effectiveness of directors by identifying areas that need improvement. Each director is requested to rate their colleagues on the Board using the prescribed rating scale and questions. The assessment criteria used include, among others, the director's understanding of the Company's strategy and vision, organizational structure and culture, business and regulatory environments, responsibilities as directors, accountability for his/her boardroom actions, contribution to board discussions, independent thinking, strategic insights and direction, active participation in committee meetings, financial literacy, time and commitment to board and committee duties, and finally, his/her overall contribution to the functioning of the Board.

Survey questionnaires were sent to all members of the Board including Advisers. Upon submission of accomplished forms, the Corporate Governance Officer tabulates the responses and prepares the final report to the Corporate Governance Committee. In turn, the Committee reviews and approves the report and submits to the Board for appropriate action. The Board then issues a resolution noting the results of the evaluation and recommendations stated in the final report.

***Significant Employee***

There is no person, other than the senior executive officers above, who is expected by the Company to make significant contribution to the business.

***Family Relationships***

There are no family relationships up to the fourth civil degree either by consanguinity or affinity among directors, executive officers, or persons nominated or chosen by the Company to become directors or executive officers.

### ***Involvement of Directors and Executive Officers in Certain Legal Proceedings***

To the Company's knowledge, none of the directors or executive officers is named or is involved during the last five (5) years up to March 31, 2018 in any legal proceedings which will have any material effect on the Company, its operations, reputation, or financial condition.

To the Company's knowledge, none of its directors and senior executives have been subject of the following legal proceedings during the last five (5) years:

- i. bankruptcy petition by or against any business of which such director or senior executive was a general partner or executive officer either at the time of bankruptcy or within two years prior to that time;
- ii. a conviction by final judgment, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign;
- iii. to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities;
- iv. being found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading, market or self-regulatory organization, to have violated the securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

### **ITEM 10. EXECUTIVE COMPENSATION**

#### ***Disclosure and Transparency***

The Company recognizes the need to report material information in a complete, accurate and timely manner thru easily accessible medium of communications. Significant items that are disclosed include the following:

#### ***A. Executive Compensation Policy***

It is the objective of the Company to attract, motivate and retain high-performing executives necessary to maintain its leadership position in the industry. To be competitive in the marketplace, the Company offers a remuneration package composed of fixed salary, benefits and long-term incentives. Below are the compensation details of the directors and key executive officers of the Company:

#### **(1) President and four (4) most highly compensated executive officers**

in million pesos	Year	Salary	Bonuses	Other Annual Compensation
President and four (4) most highly compensated executive officers	2018 (estimate)	16.63	8.47	n.a.
	2017	15.84	8.07	n.a.
	2016	18.41	9.89	n.a.
Year	Name			Position/Title
2017	Roberto E. Lapid			President
	Agerico Melecio S. Verzola			First Vice President
	Ma. Theresa M. Soriano			First Vice President

in million pesos	Year	Salary	Bonuses	Other Annual Compensation
2016	Rosario C. Crisostomo			First Vice President
	Cosme S. Trinidad, Jr.			First Vice President
	Roberto E. Lapid			President
	Gerard M. Aguirre			First Vice President
	Agerico Melecio S. Verzola			First Vice President
	Ma. Theresa M. Soriano			First Vice President
	Rosario C. Crisostomo			First Vice President

The above compensation includes the usual bonus paid to the Company's officers. Except for salaries, allowances, retirement benefits provided under the retirement plan of the Group, there is no stock option, stock warrant or other security compensation arrangement between the Company and its individual officers.

**(2) Compensation of directors and officers as a group**

in million pesos	Year	Salary	Bonuses	Other Annual Compensation
All other officers and directors	2018 (estimate)	109.94	38.57	n.a.
	2017	104.70	36.73	n.a.
	2016	96.03	29.22	n.a.

**B. Compensation of Directors**

Each director is entitled to receive *per diem* allowance for attending board and committee meetings. The Board approves all compensation and remuneration schemes for the senior officers of the Company. As provided by law, the total compensation of directors shall not exceed ten percent (10%) of the net income before income tax of the Company during the preceding year.

There is no distinction on the fee for a committee chairman and member. The above table contains the details of the compensation of directors and officers of the Company. In view of possible security risks, the Company opted to disclose these on an aggregate basis as a group. Other than these fees, the non-executive directors do not receive any share options, profit sharing, bonus or other forms of emoluments.

The Company may grant to the directors any compensation other than *per diem* by the approval of the shareholders representing at least a majority of the outstanding capital stock.

**C. Outstanding warrants or options held by the Company's CEO, executive officers, and all officers and directors as a group.**

There are no outstanding warrants or options held by the Company's chief executive officer, executive officers, and all officers and directors as a group.

**D. Any repricing of warrants or options held by such officers or directors in the last completed fiscal year, as well as the basis for each such repricing.**

There are no outstanding warrants or options held by the Company's chief executive officer, executive officers, and all officers and directors as a group.

# **ITEM 11. SECURITY OWNERSHIP OF CERTAIN RECORD AND BENEFICIAL OWNERS AND MANAGEMENT**

## **Security Ownership of Certain Record/Beneficial Owners**

As of March 31, 2018, the following are known to the Company to be directly or indirectly the record and/or beneficial owners of more than 5% of the Company's voting securities:

Title of class	Name and Address of Record Owner & Relationship with Issuer	Name of Beneficial Owner & Relationship with Record Owner	Citizenship	Number of Shares Held	Percentage
Common	BDO Unibank, Inc. <i>(formerly Banco De Oro Unibank, Inc.)</i> BDO Corporate Center 7899 Makati Avenue, Makati City  <i>BDO Unibank, Inc. is the parent company of the Registrant</i>	Record and beneficial (affiliate and majority stockholder)	Filipino	1,914,711,807	88.54%
Common	PCD Nominee Corp. ("PCD") G/F Makati Stock Exchange Building, 6767 Ayala Avenue, Makati City  <i>PCD has no relationship with the Registrant except as stockholder.</i>  <i>PCD, being a nominee corporation, only holds legal title, not beneficial ownership of the lodged shares.</i>	Various shareholders  No stockholder owns more than 5% of the Company's voting securities through PCD	Filipino  Foreigner	245,731,542  430,714	11.36%  0.01%

The persons authorized to vote the shares of BDO Unibank, Inc. ("BDO Unibank") are Ms. Teresita T. Sy and Mr. Nestor V. Tan.

## **Security Ownership of Management**

As of March 31, 2018, the total number of shares owned by the directors and management of the Company as a group is 107,375 Common Shares, which is equivalent to 0.0049651% of the total outstanding Common Shares of the Company. The Company's directors and officers own the following Common Shares:

Title of Class	Name of Beneficial Owner	Position	Citizenship	No. of Shares	Percentage
Common	Teresita T. Sy Chairperson	Chairperson	Filipino	100 (R)	0.0000046%
Common	Roberto E. Lapid Vice Chairman & President	Vice-Chairman & President	Filipino	100 (R)	0.0000046%
Common	Jesse H.T. Andres	Independent Director	Filipino	100 (R)	0.0000046%
Common	Antonio N. Cotoco	Director	Filipino	115 (R)	0.0000053%
Common	Ma. Leonora V. De Jesus	Independent Director	Filipino	100 (R)	0.0000046%
Common	Jeci A. Lapus	Director	Filipino	100 (R)	0.0000046%
Common	Vicente S. Perez, Jr.	Independent	Filipino	100 (R)	0.0000046%



		Director			
Common	Luis S. Reyes Jr.	Director	Filipino	100 (R)	0.0000046%
Common	Nestor V. Tan	Director	Filipino	100 (R)	0.0000046%
Common	Exequiel P. Villacorta, Jr.	Director	Filipino	100 (R)	0.0000046%
Common	Walter C. Wassmer	Director	Filipino	100 (R)	0.0000046%
Common	Rosario C. Crisostomo	Vice President	Filipino	106,260 (R)	0.0049138%
	<b>Total</b>			<b>107,375</b>	<b>0.0049651%</b>

Directors and officers of the Company are required to report to the Company any acquisition or disposition of the Company's shares within three business days from the date of the transaction. As prescribed by the Disclosure Rules of the PSE, the Company shall disclose to the PSE any acquisition or disposition of its shares by its directors and officers within five trading days from the transaction.

#### ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

- 1) The Group's and Parent Company's related parties include BDO Unibank, related party under common ownership, key management personnel and the retirement benefit fund as described below.

The summary of the Group's and Parent Company's transactions with its related parties in 2017, 2016 and 2015 and the related outstanding balances as of December 31, 2017 and 2016 are as follows:

Related Party Category	Notes	Amount of Transaction		
		2017	2016	2015
<b>Ultimate parent company (BDO Unibank)</b>				
Interest income on savings and demand deposits	(a)	P 0.8	P 0.7	P 0.6
Interest expense on bills payable	(b)	141.5	38.0	99.7
Rent expense	(d)	12.3	10.5	9.8
Management fees	(e)	13.8	2.4	2.4
Employee stock option plan		6.3	16.9	-
<b>Subsidiary (BDO Rental)</b>				
Dividend income	(i)	120.0	60.0	-
Management fees	(e)	0.4	0.4	0.4
Rent income	(d)	0.1	0.4	0.4
Service fees	(c)	-	-	6.9
<b>Under common ownership</b>				
Service and charges fees	(f), (k)	5.0	5.5	4.0
Interest expense on bills payable	(l)	94.1	-	-
<b>Key management personnel</b>				
Short-term benefits	(g)	47.5	50.4	65.6
Loans to officers	(g)	3.8	5.0	3.5
<b>Outstanding Balance</b>				
Related Party Category	Notes	2017	2016	
<b>Ultimate parent company (BDO Unibank)</b>				
Savings and demand deposits	(a)	P 453.0	P	365.2

Bills payable	(b)	4,782.9	2,575.8
Employee stock option plan		-	16.9
<b>Subsidiary (BDO Rental)</b>			
Dividend receivable	(i)	-	60.0
Accounts receivable	(j)	-	109.4
<b>Under common ownership</b>			
Accounts receivable	(k)	0.8	0.7
Bills payable	(l)	3,901.0	-
Unearned rental income	(m)	4.6	-
<b>Key management personnel</b>			
Loans to officers	(g)	7.5	10.0
<b>Retirement benefit fund</b>			
Shares of stock	(h)	2.0	1.0

- a) The Group maintains savings and demand deposit accounts with BDO Unibank. As of December 31, 2017 and 2016, savings and demand deposit accounts maintained with BDO Unibank are included under Cash and Cash Equivalents account in the statements of financial position. Interest income earned on these deposits in 2017, 2016 and 2015 is included as part of Interest and Discounts account under Revenues in the statements of income.
- b) The Group obtains short-term bills payable from BDO Unibank. The amount outstanding from borrowings as of December 31, 2017 and 2016 is presented under Bills Payable account in the statements of financial position. Interest expense incurred on these bills payable in 2017, 2016 and 2015 is included as part of Interest and Financing Charges account under Operating Costs and Expenses in the statements of income.
- c) On January 4, 2010, the Parent Company and BDO Rental entered into a Service Agreement whereby BDO Rental will handle the collection of certain factored receivables of the Parent Company, for a fee as agreed by the Parent Company and the sellers of the factored receivables. Under the Service Agreement, BDO Rental shall perform the monitoring of the payment due dates of the factored receivables, remit to the Parent Company all collections made and send monthly statement of accounts to customers. The related expense charged to the Parent Company based on the Service Agreement is included in Other Expenses account under Operating Costs and Expenses in the Parent Company's statements of income. The Service Agreement was discontinued in 2016, hence, there are no outstanding intercompany payable and receivable from this transaction as of December 31, 2017 and 2016.
- d) The Parent Company leases its head office premises and certain branch offices from BDO Unibank for terms ranging from three to five years, renewable for such period and under such terms and conditions as may be agreed upon with the Parent Company and BDO Unibank. Related rent expense incurred in 2017, 2016 and 2015 is presented as part of Occupancy and Equipment-related Expenses account under Operating Costs and Expenses account in the statements of income. On the other hand, the Parent Company charges BDO Rental for the spaces that the latter occupies in the head office premises. Rent charged to BDO Rental in 2017, 2016 and 2015 is presented as part of Other Income-net account in the statements of income. There are no outstanding receivable and payable on these transactions as of the end of 2017 and 2016.
- e) In 2013, the Parent Company entered into a service level agreement with BDO Unibank wherein BDO Unibank will charge the Parent Company for certain management services that the former provides to the latter. Management fees paid by the Parent Company to BDO Unibank are shown as part of Other Expenses account under Operating Costs and Expenses in the statements of income. Also, the Parent Company charges BDO Rental for the management services it renders to

BDO Rental. This is presented as part of Other Income-net account in the Parent Company's statements of income. There are no outstanding receivable and payable on these transactions as of the end of 2017 and 2016.

- f) The Parent Company engaged the services of BDO Capital and Investment Corporation (BDO Capital), a wholly owned subsidiary of BDO Unibank for underwriting services related to the Parent Company's issuance of short term commercial papers. Service and charges fees paid by the Parent Company to BDO Capital amounting to P3.2 for 2017 and P4.0 both for 2016 and 2015 are included as part of Other Expenses account under Operating Costs and Expenses in the statements of income. There are no outstanding payable on this transaction as of the end of 2017 and 2016.
  - g) Compensation of key management personnel (covering officer positions starting from Assistant Vice President and up) is included as part of Employee Benefits under Operating Costs and Expenses in the statements of income of the Group and Parent Company. Short-term employee benefits include salaries, paid annual leave and paid sick leave, profit sharing and bonuses, and non-monetary benefits. The Group also granted loans to officers which are secured by mortgage on the property, bear interest at 9.0% per annum and have terms ranging from 3 to 4 years. Outstanding loans to officers are presented as part of Accounts receivable under Loans and Other Receivables account. The Group assessed that these loans are not impaired as of December 31, 2017 and 2016.
  - h) The retirement fund holds, as an investment, 519,915 shares of stock of the Parent Company as of December 31, 2017 and 2016, which has a market value of P3.82 and P1.90 per share as of December 31, 2017 and 2016, respectively. The retirement fund does not hold any shares of stock of BDO Unibank.
  - i) In 2017 and 2016 (nil in 2015), BDO Rental declared cash dividends amounting to P120.0 (received in 2017) and P60.0 (outstanding in 2016, received in 2017), respectively.
  - j) In 2015, BDO Rental received cash from the Parent Company as subscription payments for the increase in authorized capital stock, representing 25% of the total subscribed capital stock. BDO Rental cancelled its application for the increase in authorized capital stock with the SEC on December 20, 2016. This resulted in outstanding receivable by the Parent Company from BDO Rental in 2016. In 2017, the receivables relating to this transaction were collected in full.
  - k) In 2016, the Parent Company earned from BDO Insurance Brokers, Inc. (BDO Insurance) service charges and fees for accounts referred and are included as part of Miscellaneous-net under Other Income-net account in the statements of income. This resulted to the outstanding receivable of the Parent Company from BDO Insurance in 2017 and 2016 which is recorded as part of Accounts receivables under Loans and Other Receivables account in the statements of financial position. The Group assessed that such receivable is not impaired.
  - l) In 2017, the Parent Company obtains short-term bills payable from BDO Strategic Holdings Inc. and SM Prime Holdings, Inc. The amount outstanding from borrowings is presented under Bills Payable account in the statement of financial position. Interest expense incurred on these bills payable is included as part of Interest and Financing Charges account under Operating Costs and Expenses in the 2017 statement of income.
  - m) In 2017, BDO Rental, entered into Operating Lease Agreement with BDO Nomura Securities, Inc. (BDO Nomura) which will commence in 2018. Prepaid rental made by BDO Nomura is included as part of Other Liabilities under Accounts Payable and Other Liabilities account in the 2017 statement of financial position.
- 2) The Company, to finance its lending requirements, borrows funds from BDO Unibank at prevailing market rates. As of end of December 31, 2017, the Company has a total dollar borrowings amounting

to USD 9,604,132.23. The Company's credit line with BDO Unibank stood at P20 billion for the year ended December 31, 2017 and P7 billion for the years 2016 and 2015.

- 3) The Company and its two (2) branches maintain current and savings accounts with the Parent Company. Current accounts are non-interest earning while savings accounts earned interest of 0.25% per annum.
- 4) The Company, in need of IT services to operate its systems, entered into a Service Level Agreement ("SLA") with BDO Unibank, who has the IT facilities and technical competence to develop, maintain, and modify IT application software and to direct, supervise, and run the operating system software. IT is also included in the Company's approved SLA which it pays a monthly fee inclusive of all services extended by BDO Unibank.

BDO Unibank shall provide the Company with the following IT services:

Business Continuity Center and telecommunications infrastructure maintenance which includes email and network connectivity of BDO Leasing - Head Office and its branches/marketing desks with BDO, internet connectivity, transmission line security and authentication (firewall encryption/ decryption facilities, etc.), training of BDO Leasing IT personnel; IT voice and data network design, planning, project management and project implementation assistance; server administration and maintenance; system/application development and maintenance; IT product evaluation and vendor selection; equipment procurement and maintenance.

- 5) Loans to officers NIL as of December 31, 2017.

#### **PART IV - EXHIBITS AND SCHEDULES**

##### **ITEM 13. EXHIBITS AND SCHEDULES ON SEC FORM 17-C**

##### **Reports on SEC Form 17-C**

Below is a summary of the various disclosures reported by the Company under SEC Form 17-C for the year 2017.

<b>Date Reported</b>	<b>Items Reported</b>
<b><u>February 23, 2017</u></b>	<p><b><u>Declaration of Cash Dividend</u></b></p> <p>The Board of Directors of BDO Leasing and Finance, Inc. (the "Corporation"), at its regular board meeting held on February 22, 2017, resolved to declare cash dividends in the amount of Php0.20 per share to be paid to all stockholders of record as of March 10, 2017, and payable on March 29, 2017.</p>
<b><u>February 28, 2017</u></b>	<p><b><u>Press Release</u></b></p> <p>BDO Leasing earns P570 million in 2016</p> <p>BDO Leasing and Finance, Inc. (BDO Leasing) posted a net income of P570 million in 2016, slightly higher than the P556 million from last year, on the sustained growth in business volumes.</p> <p>Gross revenue increased by 10 per cent to P2.9 billion as the company expanded its net lease and loan portfolio by 14 per cent to P31 billion.</p>

Date Reported	Items Reported
	<p>The company will continue to leverage on its Parent Company's wide market reach and boost marketing efforts in emerging growth areas and key provinces to sustain its growth momentum and keep its position as one of the leading providers of leasing and financing services.</p>
<p><b><u>April 7, 2017</u></b></p>	<p><b><u>Press Release</u></b></p> <p>BDO Leasing Posts P570 million Profit in 2016</p> <p>At its Annual Stockholders' Meeting today, Vice Chairman and President Roberto E. Lapid reported that BDO Leasing and Finance Inc. (BDO Leasing) delivered a net income of P570 million in 2016 from P556 million in 2015. Gross revenues increased by 10 per cent to P2.9 billion as the company expanded its net lease and loan portfolio by 14 per cent to P31.0 billion.</p> <p>The company will continue to leverage on its Parent Company's extensive market reach, strengthen its provincial presence to penetrate untapped markets and support the growth sectors in the economy.</p> <p>The company paid cash dividends of P0.20 per share, or a total amount of P432.5 million, to stockholders last March 29, 2017.</p>
<p><b><u>April 7, 2017</u></b></p>	<p><b><u>Results of the 2017 Annual Stockholders' Meeting</u></b></p> <p>Ladies and Gentleman:</p> <p>The following are the results of the Annual Stockholders' Meeting of BDO Leasing and Finance, Inc. held today, April 7, 2017, at the Francisco Santiago Hall, Mezzanine Floor, BDO Corporate Center, 7899 Makati Avenue, Makati City:</p> <p>1. Board of Directors</p> <p>Elected directors of BDO Leasing for 2017-2018 are the following:</p> <p>Mr. Antonio N. Cotoco  Mr. Roberto E. Lapid  Mr. Jeci A. Lapus  Mr. Luis S. Reyes, Jr.  Ms. Teresita T. Sy  Mr. Nestor V. Tan  Mr. Exequiel P. Villacorta, Jr.  Mr. Walter C. Wassmer</p> <p>Independent Directors:</p>

Date Reported	Items Reported																																		
	<p>Atty. Jesse H.T. Andres Ms. Ma. Leonora V. De Jesus Mr. Vicente S. Perez Jr.</p> <p>II. Appointment of External Auditor</p> <p>The Accountancy and Auditing Firm of Punongbayan &amp; Araullo, Grant Thornton was appointed external auditor of BDOLF for the year 2017-2018.</p>																																		
<p><b><u>April 7, 2017</u></b></p>	<p><b><u>Results of the 2017 Organizational Meeting of the Board of Directors.</u></b></p> <p>At the organizational meeting of the Board of Directors of BDO Leasing and Finance, Inc. (BDOLF) held immediately after the Annual Stockholders' Meeting, the following were appointed as Corporate Officers of BDOLF for the year 2017-2018:</p> <p>I. Appointment of Corporate Officers</p> <table border="0"> <tr> <td>Ms. Teresita T. Sy</td><td>Chairperson</td></tr> <tr> <td>Mr. Roberto E. Lapid</td><td>Vice Chairman &amp; President</td></tr> <tr> <td>Atty. Joseph Jason M. Natividad</td><td>Corporate Secretary</td></tr> <tr> <td>Atty. Ma. Cecilia S. Santos</td><td>Assistant Corporate Secretary</td></tr> <tr> <td>Mr. Luis S. Reyes, Jr.</td><td>Treasurer</td></tr> <tr> <td>Mr. Peter Blair S. Agustin</td><td>Chief Risk &amp; Compliance Officer</td></tr> </table> <p>II. Composition of Board Committees</p> <p>Adviser to the Board</p> <p>Edmundo L. Tan</p> <p>Executive Committee</p> <table border="0"> <tr> <td>1. Nestor V. Tan</td><td>Chairman</td></tr> <tr> <td>2. Antonio N. Cotoco</td><td>Vice Chairman</td></tr> <tr> <td>3. Teresita T. Sy</td><td>Member</td></tr> <tr> <td>4. Roberto E. Lapid</td><td>Member</td></tr> <tr> <td>5. Walter C. Wassmer</td><td>Member</td></tr> </table> <p>Board Audit Committee</p> <table border="0"> <tr> <td>1. Ma. Leonora V. De Jesus</td><td>Chairperson/Independent Director</td></tr> <tr> <td>2. Jesse H.T. Andres</td><td>Member/Independent Director</td></tr> <tr> <td>3. Vicente S. Pérez, Jr.</td><td>Member/Independent Director</td></tr> </table> <p>Corporate Governance Committee</p> <table border="0"> <tr> <td>1. Vicente S. Pérez, Jr.</td><td>Chairman/Independent Director</td></tr> <tr> <td>2. Jesse H.T. Andres</td><td>Member/Independent Director</td></tr> <tr> <td>3. Ma. Leonora V. De Jesus</td><td>Member/Independent Director</td></tr> </table> <p>Nomination Committee</p>	Ms. Teresita T. Sy	Chairperson	Mr. Roberto E. Lapid	Vice Chairman & President	Atty. Joseph Jason M. Natividad	Corporate Secretary	Atty. Ma. Cecilia S. Santos	Assistant Corporate Secretary	Mr. Luis S. Reyes, Jr.	Treasurer	Mr. Peter Blair S. Agustin	Chief Risk & Compliance Officer	1. Nestor V. Tan	Chairman	2. Antonio N. Cotoco	Vice Chairman	3. Teresita T. Sy	Member	4. Roberto E. Lapid	Member	5. Walter C. Wassmer	Member	1. Ma. Leonora V. De Jesus	Chairperson/Independent Director	2. Jesse H.T. Andres	Member/Independent Director	3. Vicente S. Pérez, Jr.	Member/Independent Director	1. Vicente S. Pérez, Jr.	Chairman/Independent Director	2. Jesse H.T. Andres	Member/Independent Director	3. Ma. Leonora V. De Jesus	Member/Independent Director
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3. Ma. Leonora V. De Jesus	Member/Independent Director																																		

Date Reported	Items Reported
	<div> <div> 1. Jesse H.T. Andres 2. Antonio N. Cotoco 3. Ma. Leonora V. De Jesus </div> <div> Chairman/Independent Director Member/Non-Executive Director Member/Independent Director </div> </div> <p>Risk Management Committee</p> <div> <div> 1. Nestor V. Tan 2. Antonio N. Cotoco 3. Jesse H.T. Andres </div> <div> Chairman/Executive Director Member/Executive Director Member/Independent Director </div> </div> <p>Related Party Transactions Committee</p> <div> <div> 1. Jesse H.T. Andres 2. Ma. Leonora V. De Jesus 3. Jeci A. Lapus 4. Vicente S. Pérez, Jr. Antonio N. Cotoco </div> <div> Chairman/Independent Director Member/Independent Director Member/Non-Executive Director Alternate Member/Independent Director Adviser </div> </div>
<p><b><u>May 3, 2017</u></b></p>	<p><b><u>Press Release</u></b></p> <p>BDO Leasing earns P144 million Profit in 1Q 2017</p> <p>BDO Leasing and Finance Inc. (BDO Leasing) posted a net income of P144 million in the first quarter of this year, matching the year-ago level. Gross revenues increased by seven (7) per cent to P754 million as the company expanded its (net) lease and loan portfolio by 15 per cent to P32 billion. However, volume growth was negated by higher interest and financing charges due to increased bills payable to finance the company's expanding portfolio.</p> <p>The company will continue to direct its marketing efforts on growth areas and key provinces, while leveraging on its Parent Company's broad market reach to maintain its position among the industry's leading players.</p>
<p><b><u>August 3, 2017</u></b></p>	<p><b><u>Press Release</u></b></p> <p>BDO Leasing earns P282 million in 1H 2017</p> <p>BDO Leasing and Finance, Inc. (BDO Leasing) posted a net income of P282 million in the first six months of 2017, a steady performance compared to year ago. Total assets grew by 16% to P42 billion, driven by the 16% growth in gross loan and lease portfolio to P33 billion. While gross revenues went up by eight (8) per cent to P1.5 billion, competitive pressures affected margins and tempered bottomline performance.</p> <p>The Company was granted authority by the Securities and Exchange Commission (SEC) to issue P25 billion STCPs (Short-Term Commercial Papers). This funding program will allow BDO Leasing to tap more businesses in provincial growth areas as well as support the financing and leasing requirements of local industries in its target markets.</p>

Date Reported	Items Reported
<p><b><u>November 8, 2017</u></b></p>	<p><b><u>Press Release</u></b></p> <p>BDO Leasing posts P406 million income in 9M 2017</p> <p>BDO Leasing and Finance, Inc. (BDO Leasing) posted a net income of P406 million in the first nine (9) months of the year, slightly lower than the P425 million in the comparable period last year. While gross revenues went up by nine (9) per cent to P2.3 billion, higher funding costs offset the impact of the 13 per cent hike in net lease and loan portfolio to P34 billion.</p> <p>Moving forward, the company will continue to strengthen its marketing efforts in emerging provincial areas while leveraging on its Parent Company's broad market reach to extend leasing and financing services to the growth sectors of the economy. Additionally, the company intends to expand and optimize its funding sources to match its asset growth and manage its funding.</p>
<p><b><u>November 9, 2017</u></b></p>	<p><b><u>Change in Stock Transfer Agent</u></b></p> <p>At its regular meeting held on November 8, 2017, the Board of Directors of BDO Leasing and Finance, Inc. (the "Corporation") approved the termination of the Corporation's Stock Transfer Service Agreement with Securities Transfer Services, Inc. (STSI) effective December 31, 2017, and the designation of BDO Trust and Investment Group as stock transfer agent of the Corporation to replace STSI, effective January 1, 2018.</p>
<p><b><u>December 6, 2017</u></b></p>	<p><b><u>Appointment of New Officer</u></b></p> <p>At its regular meeting held on December 6, 2017, the Board of Directors of BDO Leasing and Finance, Inc. (the "Corporation") appointed Ms. Angelita C. Tad-Y as Chief Risk and Compliance Officer of the Corporation, vice Mr. Peter Blair S. Agustin, effective December 16, 2017, subject to Bangko Sentral ng Pilipinas confirmation.</p> <p>Ms. Tad-Y graduated from De La Salle University with a degree of Bachelor of Science major in Accounting.</p>

*[This space intentionally left blank]*




## SIGNATURES

Pursuant to the requirements of Section 17 of the RSA and Section 141 of the Corporation Code, this is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of **Pasig City** APR 13 2018 2018.

By:

  
**ROBERTO E. LAPID**  
 PRESIDENT/ VICE CHAIRMAN

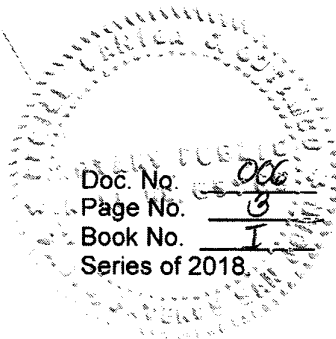
  
**LUIS S. REYES JR.**  
 TREASURER

  
**ROSALISA B. KAPUNO**  
 VICE PRESIDENT, COMPTROLLER

  
**JOSEPH JASON M. NATIVIDAD**  
 CORPORATE SECRETARY


**SUBSCRIBED AND SWORN** to before me this APR 13 2018 day of           , 2018 affiant(s) exhibiting to me their Competent Evidence of Identity, as follows:

NAMES	TIN	SSS No.
Roberto E. Lapid	108-159-915	03-5034078-2
Luis S. Reyes Jr.	115-322-321	03-4282031-7
Joseph Jason M. Natividad	908-730-009	33-6273422-8
Rosalisa B. Kapuno	177-688-317	03-5894505-3



Doc. No. 006  
 Page No. 3  
 Book No. I  
 Series of 2018.

## NOTARY PUBLIC

  
**CECILE DANICA C. GOTAMCO**  
 Appointment No. 217 (2017-2018)  
 Notary Public for Pasig City  
 Until December 31, 2018  
 Attorney's Roll No. 69769  
 33rd Floor, The Orient Square  
 F. Ortigas, Jr. Road, Ortigas Center, Pasig City  
 PTR OR No. 3859422; 01.04.18; Pasig City  
 Lifetime IBP No. 002691; 05.13.17; RSM

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

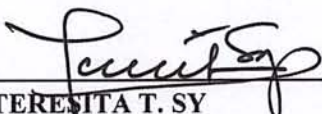
The management of **BDO Leasing and Finance, Inc. and Subsidiary** (the Group) is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2017, 2016 and 2015, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative to do so.

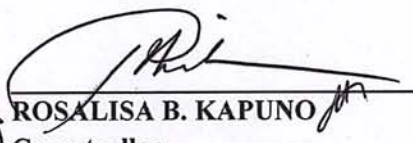
The Board of Directors is responsible for overseeing the Group's financial reporting process.

The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stockholders.

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has audited the financial statements of the Group in accordance with Philippine Standards on Auditing, and in their report to the stockholders, has expressed their opinion on the fairness of presentation upon completion of such audit.

Signature:   
TERESITA T. SY  
Chairperson

Signature:   
ROBERTO E. LAPID  
Vice Chairman and President

Signature:   
ROSALISA B. KAPUNO  
Comptroller

Signed this 19<sup>th</sup> day of February 2018.

BDO Leasing and Finance, Inc.  
39/F BDO Corporate Center Ortigas,  
12 ADB Avenue, Ortigas Center,  
Mandaluyong City, 1550  
Tel. 63(2) 688-1288  
Fax +63(2) 635-6453, 635-5811, 635-3898



Leasing

MANDALUYONG CITY

SUBSCRIBED and SWORN to me before this 26 FEB 2018 day of \_\_\_\_\_, 2018 affiant exhibiting to me his/her Social Security Number, as follows:


**NAMES**

**SSS NUMBER**

Teresita T. Sy  
Roberto E. Lapid  
Rosalisa B. Kapuno

03-2832705-4  
03-5034078-2  
03-5894505-3

JOC. NO. 50  
PAGE NO. 11  
BOOK NO. XIII  
SERIES OF 2018

  
**KIM BRIGUELA-DACARA**  
NOTARY PUBLIC FOR THE CITY OF MANDALUYONG  
APPOINTMENT NO. 020418  
UNTIL DECEMBER 31, 2019  
IBP LIFETIME ROLL NO. 1010007  
PTR NO. 3405817 / 1-3-2016 MANDALUYONG  
MCLE NO. V-0004637  
29TH FLR., BDO CORPORATE CENTER ORTIGAS  
10 ADB AVE., MANDALUYONG

BDO Leasing and Finance, Inc.  
39/F BDO Corporate Center Ortigas,  
12 ADB Avenue, Ortigas Center,  
Mandaluyong City, 1550  
Tel. 63(2) 688-1288  
Fax +63(2) 635-6453, 635-5811, 635-3898

[www.bdo.com.ph](http://www.bdo.com.ph)

We find ways®

## **Report of Independent Auditors**

**The Board of Directors and the Stockholders**  
**BDO Leasing and Finance, Inc.**  
*(A Subsidiary of BDO Unibank, Inc.)*  
39<sup>th</sup> Floor, BDO Corporate Center Ortigas  
12 ADB Avenue, Ortigas Center  
Mandaluyong City

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the accompanying financial statements of BDO Leasing and Finance, Inc. and subsidiary (the Group), and of BDO Leasing and Finance, Inc. (the Parent Company), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2017, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group and of the Parent Company as at December 31, 2017 and 2016, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRS).

#### ***Basis for Opinion***

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group and of the Parent Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### **(a) Net Valuation of Loans and Other Receivables**

##### *Description of the Matter*

The net valuation of loans and other receivables is considered to be a matter of significance as it requires the application of judgment and use of subjective assumptions by management. Under the guidelines of Philippine Accounting Standard (PAS) 39, *Financial Instruments: Recognition and Measurement*, the Group evaluates the amount of allowance for impairment based on the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate. In addition, the Group considers the general and specific loan loss provisioning on loans and other receivables in accordance with the regulatory guidelines set out by the Bangko Sentral ng Pilipinas.

The Group's gross loan portfolio is comprised of different loan products that required different approaches by the management in the assessment of specific allowance. In conducting the loan loss assessment, the management monitors the borrowers' repayment abilities individually based on their knowledge to determine the required amount of allowance for impairment.

As of December 31, 2017, the Group and the Parent Company had loans and other receivables amounting to P34,324.7 million and P34,206.6 million, respectively, which contributed to 80% and 85% of the Group and the Parent Company's total resources, respectively. The disclosures of the Group and the Parent Company on the allowance for impairment of loans and the related credit risk are included in Notes 5 and 9 to the financial statements.

##### *How the Matter was Addressed in the Audit*

Our audit procedures to address the risk of material misstatement relating to the adequacy of allowance for impairment of loans and other receivables, which was considered to be a significant risk, included:

- testing of controls over procedures which include credit approval and credit limit, loan classification based on credit ratings, recording and calculating the allowance for impairment;
- obtaining an understanding of the Group and the Parent Company's credit policy and loan loss methodology;
- checking and evaluating the methodologies, inputs and assumptions used by the Group and the Parent Company in performing individual impairment assessment in accordance with PAS 39;
- assessing the borrowers' repayment abilities by examining payment history for selected performing loan accounts; and,
- evaluating the management's forecast of recoverable cash flows, valuation of collaterals, estimates of recovery from other sources of collection on selected non-performing loans.



***(b) Distinguishing Operating and Finance Lease Contracts***

*Description of the Matter*

The appropriate accounting treatment for lease contracts is considered as a key audit matter as it requires the application of judgment by the management. Critical judgment was exercised by management to distinguish each lease arrangement as either an operating or finance lease by looking at the transfer or retention of significant risks and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities as well as the related income or expenses.

The Group classifies a lease contract as an operating lease unless it has met any of the following conditions which should be accounted for as a finance lease:

- there is transfer of ownership by the end of the lease term;
- lessee has the option to purchase the asset;
- the lease term is for the major part of the economic life of the underlying asset even if title is not transferred;
- at the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset; and,
- the underlying asset is of such a specialized nature that only the lessee can use it without major modifications.

In 2017, the total income related to lease contracts entered into by the Group and the Parent Company amounted to P1,832.8 million and P1,832.4 million, respectively, from revenues on interest and discounts for finance lease contracts and P922.2 million from revenues on rent by the Group for operating lease contracts. The revenue recognition policy of the Group and the Parent Company is disclosed in Note 2 to the financial statements and, the other disclosures relating to leases are included in Notes 3, 9 and 18 to the financial statements.

*How the Matter was Addressed in the Audit*

Our audit procedures to address the risk of material misstatement relating to revenue recognition, which was considered to be a significant risk, included testing of controls over the review and approval process of lease contracts. We also performed, on a sample basis, examination of lease contracts and the relevant terms and conditions to check the Group's and Parent Company's assessment on the classification of a particular lease contract, and recomputation of the related interest and rent income.

***(c) Net Valuation of Investment Properties and Property and Equipment***

*Description of the Matter*

Under PAS 36, *Impairment of Assets*, non-financial assets, which include investment properties, and property and equipment, are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. Impairment of these properties was a key focus of our audit as it requires significant assumptions (e.g., future cash flows to be derived from the assets, costs to sell the asset, effective yield rate) made by the management in order to determine the recoverability of the outstanding balances of the investment properties, and property and equipment. Significant changes in the assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.





As of December 31, 2017, the Group's investment properties, and property and equipment amounted to P354.4 million and P2,256.6 million, respectively, while the Parent Company's investment properties, and property and equipment amounted to P128.3 million and P7.1 million, respectively. The Group's financial statement disclosures on the significant accounting policies and the appropriate valuation of investment properties, and property and equipment are included in Notes 2, 10 and 11 to the financial statements.

*How the Matter was Addressed in the Audit*

We checked the impairment testing done by the Group and the Parent Company on the investment properties, and property and equipment to determine that the investment properties, and property and equipment are carried at their recoverable amounts. We assessed the appropriateness of the assumptions used in the estimation of fair values reflected in the appraisal reports. We also evaluated the qualifications of the appraisers and ensured that their report adequately documented their work. In addition, we also examined the relevant documents to support the cash flow assumptions and performed recomputation of net realizable values of the investment properties, and property and equipment based on the discounted cash flow model.

**Other Information**

Management is responsible for the other information. The other information comprises the information included in the Group's Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A, and Annual Report for the year ended December 31, 2017, but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS, SEC Form 17-A and Annual Report are expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **Report on Other Legal and Regulatory Requirements**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. As discussed in Note 21 to the financial statements, the Parent Company presented the supplementary information required by the Bureau of Internal Revenue under Revenue Regulations (RR) No. 15-2010 and RR No. 19-2011 in a supplementary schedule filed separately from the basic financial statements. RR No. 15-2010 and RR No. 19-2011 require the supplementary information to be presented in the notes to the financial statements. Such supplementary information is the responsibility of management. The supplementary information is not a required part of the basic financial statements prepared in accordance with PFRS; it is not also a required disclosure under Securities Regulation Code Rule 68, as amended, of the SEC.

### **PUNONGBAYAN & ARAULLO**



**By: Leonardo D. Cuaresma, Jr.**  
Partner

CPA Reg. No. 0058647  
TIN 109-227-862  
PTR No. 6616006, January 3, 2018, Makati City  
SEC Group A Accreditation  
Partner - No. 0007-AR-4 (until April 30, 2018)  
Firm - No. 0002-FR-4 (until April 30, 2018)  
BIR AN 08-002511-7-2017 (until June 19, 2020)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until December 31, 2018)

February 21, 2018

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2017 AND 2016**  
*(Amounts in Millions of Philippine Pesos)*

		<u>Group</u>		<u>Parent Company</u>	
	<u>Notes</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<b><u>ASSETS</u></b>					
CASH AND CASH EQUIVALENTS	7	P 457.7	P 370.5	P 376.8	P 293.2
AVAILABLE-FOR-SALE FINANCIAL ASSETS	8	4,642.0	3,521.6	4,642.0	3,521.6
LOANS AND OTHER RECEIVABLES - Net	9	34,324.7	31,381.3	34,206.6	31,541.6
PROPERTY AND EQUIPMENT - Net	10	2,256.6	2,381.2	7.1	6.3
INVESTMENT PROPERTIES - Net	11	354.4	426.5	128.3	200.4
OTHER ASSETS - Net	12	<u>806.2</u>	<u>819.3</u>	<u>1,004.4</u>	<u>1,082.5</u>
<b>TOTAL ASSETS</b>		<b>P <u>42,841.6</u></b>	<b>P <u>38,900.4</u></b>	<b>P <u>40,365.2</u></b>	<b>P <u>36,645.6</u></b>
<b><u>LIABILITIES AND EQUITY</u></b>					
BILLS PAYABLE	13	P 30,478.3	P 27,268.1	P 28,278.3	P 25,312.1
ACCOUNTS PAYABLE AND OTHER LIABILITIES	14	877.9	651.9	672.0	412.7
INCOME TAX PAYABLE		54.5	50.1	54.5	50.1
LEASE DEPOSITS	15	<u>5,988.6</u>	<u>5,580.8</u>	<u>5,918.1</u>	<u>5,521.2</u>
Total Liabilities		<u>37,399.3</u>	<u>33,550.9</u>	<u>34,922.9</u>	<u>31,296.1</u>
CAPITAL STOCK	16	2,225.2	2,225.2	2,225.2	2,225.2
ADDITIONAL PAID-IN CAPITAL		571.1	571.1	571.1	571.1
TREASURY SHARES		( 81.8 )	( 81.8 )	( 81.8 )	( 81.8 )
RETAINED EARNINGS	2	2,618.5	2,480.5	2,618.5	2,480.5
NET ACCUMULATED ACTUARIAL LOSSES	2	( 59.7 )	( 42.8 )	( 59.7 )	( 42.8 )
NET UNREALIZED FAIR VALUE GAINS ON AVAILABLE-FOR-SALE FINANCIAL ASSETS		<u>169.0</u>	<u>197.3</u>	<u>169.0</u>	<u>197.3</u>
Total Equity		<u>5,442.3</u>	<u>5,349.5</u>	<u>5,442.3</u>	<u>5,349.5</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>P <u>42,841.6</u></b>	<b>P <u>38,900.4</u></b>	<b>P <u>40,365.2</u></b>	<b>P <u>36,645.6</u></b>

*See Notes to Financial Statements.*

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**  
*(Amounts in Millions of Philippine Pesos, Except Per Share Data)*

	Group					Parent Company				
	Notes	2017	2016	2015		2017	2016	2015		
<b>REVENUES</b>										
Interest and discounts	7, 8, 9, 19	<b>P 1,918.3</b>	P 1,760.7	P 1,571.6		<b>P 1,917.9</b>	P 1,760.4	P 1,571.4		
Rent	18	922.2	890.2	807.1		-	-	-		
Other income - net	17	<b>316.0</b>	203.4	227.5		<b>323.9</b>	268.5	284.4		
		<u>3,156.5</u>	<u>2,854.3</u>	<u>2,606.2</u>		<u>2,241.8</u>	<u>2,028.9</u>	<u>1,855.8</u>		
<b>OPERATING COSTS AND EXPENSES</b>										
Occupancy and equipment-related expenses	10, 11, 12, 24	<b>865.4</b>	775.2	702.5		<b>50.1</b>	58.9	53.6		
Interest and financing charges	13	<b>850.3</b>	673.5	570.8		<b>784.0</b>	617.7	519.1		
Taxes and licenses	21	<b>268.9</b>	245.5	198.6		<b>246.6</b>	227.5	185.1		
Employee benefits	19	<b>227.0</b>	220.7	187.9		<b>227.0</b>	220.7	187.9		
Impairment and credit losses	9, 11, 12	<b>63.5</b>	50.0	83.4		<b>63.5</b>	50.0	83.3		
Litigation/assets acquired expenses		<b>41.6</b>	30.0	30.2		<b>41.6</b>	29.9	30.2		
Other expenses	20	<b>120.5</b>	108.7	107.4		<b>119.0</b>	108.4	106.4		
		<u>2,437.2</u>	<u>2,103.6</u>	<u>1,880.8</u>		<u>1,531.8</u>	<u>1,313.1</u>	<u>1,165.6</u>		
<b>PROFIT BEFORE TAX</b>		<b>719.3</b>	750.7	725.4		<b>710.0</b>	715.8	690.2		
<b>TAX EXPENSE</b>	21	<b>148.8</b>	180.7	169.8		<b>139.5</b>	145.8	134.6		
<b>NET PROFIT</b>		<b>P 570.5</b>	P 570.0	P 555.6		<b>P 570.5</b>	P 570.0	P 555.6		
<b>Basic and Diluted Earnings Per Share</b>	22	<b>P 0.26</b>	P 0.26	P 0.26		<b>P 0.26</b>	P 0.26	P 0.26		

*See Notes to Financial Statements.*

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**  
*(Amounts in Millions of Philippine Pesos)*

	Group				Parent Company			
	Notes	2017	2016	2015	2017	2016	2015	
NET PROFIT		P 570.5	P 570.0	P 555.6	P 570.5	P 570.0	P 555.6	
OTHER COMPREHENSIVE INCOME								
Item that will not be reclassified subsequently to profit or loss								
Remeasurements of post-employment defined benefit plan	19	( 24.2 )	( 9.5 )	( 1.6 )	( 24.2 )	( 9.5 )	( 1.6 )	
Tax income	21	7.3	2.9	.5	7.3	2.9	.5	
		( 16.9 )	( 6.6 )	( 1.1 )	( 16.9 )	( 6.6 )	( 1.1 )	
Item that will be reclassified subsequently to profit or loss								
Fair valuation of available-for-sale (AFS) financial assets	8	( 28.2 )	( 4.0 )	61.3	( 28.2 )	( 4.0 )	61.3	
Fair value gains (losses) during the year		( .2 )	( .7 )	-	( .2 )	( .7 )	-	
Fair value gains on matured and disposed AFS financial assets reclassified to profit or loss		( 28.4 )	( 4.7 )	61.3	( 28.4 )	( 4.7 )	61.3	
Tax income (expense)	21	.1	.6	.5	.1	.6	.5	
		( 28.3 )	( 4.1 )	60.8	( 28.3 )	( 4.1 )	60.8	
Other Comprehensive Income (Loss) - net of tax		( 45.2 )	( 10.7 )	59.7	( 45.2 )	( 10.7 )	59.7	
TOTAL COMPREHENSIVE INCOME		P 525.3	P 559.3	P 615.3	P 525.3	P 559.3	P 615.3	

*See Notes to Financial Statements.*

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**  
*(Amounts in Millions of Philippine Pesos)*

	Group						
	Capital Stock	Additional Paid-in Capital	Treasury Shares, At Cost	Retained Earnings	Net Accumulated Actuarial Losses	Net Unrealized Fair Value Gains on Available-for- Sale Financial Assets	Net Equity
Balance at January 1, 2017	P 2,225.2	P 571.1	(P 81.8)	P 2,480.5	(P 42.8)	P 197.3	P 5,349.5
Total comprehensive income (loss)	-	-	-	570.5	(16.9)	(28.3)	525.3
Cash dividends	-	-	-	(432.5)	-	-	(432.5)
	<u>P 2,225.2</u>	<u>P 571.1</u>	<u>(P 81.8)</u>	<u>P 2,618.5</u>	<u>(P 59.7)</u>	<u>P 169.0</u>	<u>P 5,442.3</u>
Balance at December 31, 2017							
Balance at January 1, 2016	P 2,225.2	P 571.1	(P 81.8)	P 2,343.0	(P 36.2)	P 201.4	P 5,222.7
Total comprehensive income (loss)	-	-	-	570.0	(6.6)	(4.1)	559.3
Cash dividends	-	-	-	(432.5)	-	-	(432.5)
	<u>P 2,225.2</u>	<u>P 571.1</u>	<u>(P 81.8)</u>	<u>P 2,480.5</u>	<u>(P 42.8)</u>	<u>P 197.3</u>	<u>P 5,349.5</u>
Balance at December 31, 2016							
Balance at January 1, 2015	P 2,225.2	P 571.1	(P 81.8)	P 2,165.8	(P 35.1)	P 140.6	P 4,985.8
Total comprehensive income (loss)	-	-	-	555.6	(1.1)	60.8	615.3
Cash dividends	-	-	-	(378.4)	-	-	(378.4)
	<u>P 2,225.2</u>	<u>P 571.1</u>	<u>(P 81.8)</u>	<u>P 2,343.0</u>	<u>(P 36.2)</u>	<u>P 201.4</u>	<u>P 5,222.7</u>
Balance at December 31, 2015							

*See Notes to Financial Statements.*

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**  
*(Amounts in Millions of Philippine Pesos)*

	Parent Company						
	Net Unrealized			Net			
	Fair Value			Accumulated			
	Gains on			Actuarial			
	Sale			Losses			
	Financial			Assets			
	Net Equity						
Note	Capital Stock	Additional Paid-in Capital	Treasury Shares, At Cost	Retained Earnings	Net Accumulated Actuarial Losses	Available-for-Sale Financial Assets	Net Equity
Balance at January 1, 2017	P 2,225.2	P 571.1	(P 81.8)	P 2,480.5	(P 42.8)	P 197.3	P 5,349.5
Total comprehensive income (loss)	-	-	-	570.5	( 16.9)	( 28.3)	525.3
Cash dividends	-	-	-	( 432.5)	-	-	( 432.5)
	<b>P 2,225.2</b>	<b>P 571.1</b>	<b>(P 81.8)</b>	<b>P 2,618.5</b>	<b>(P 59.7)</b>	<b>P 169.0</b>	<b>P 5,442.3</b>
Balance at December 31, 2017							
Balance at January 1, 2016	P 2,225.2	P 571.1	(P 81.8)	P 2,343.0	(P 36.2)	P 201.4	P 5,222.7
Total comprehensive income (loss)	-	-	-	570.0	( 6.6)	( 4.1)	559.3
Cash dividends	-	-	-	( 432.5)	-	-	( 432.5)
	<b>P 2,225.2</b>	<b>P 571.1</b>	<b>(P 81.8)</b>	<b>P 2,480.5</b>	<b>(P 42.8)</b>	<b>P 197.3</b>	<b>P 5,349.5</b>
Balance at December 31, 2016							
Balance at January 1, 2015	P 2,225.2	P 571.1	(P 81.8)	P 2,165.8	(P 35.1)	P 140.6	P 4,985.8
Total comprehensive income (loss)	-	-	-	555.6	( 1.1)	60.8	615.3
Cash dividends	-	-	-	( 378.4)	-	-	( 378.4)
	<b>P 2,225.2</b>	<b>P 571.1</b>	<b>(P 81.8)</b>	<b>P 2,343.0</b>	<b>(P 36.2)</b>	<b>P 201.4</b>	<b>P 5,222.7</b>
Balance at December 31, 2015							

*See Notes to Financial Statements.*

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**  
*(Amounts in Millions of Philippine Pesos)*

		<u>Group</u>			<u>Parent Company</u>		
	Notes	2017	2016	2015	2017	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Profit before tax		P 719.3	P 750.7	P 725.4	P 710.0	P 715.8	P 690.2
Adjustments for:							
Interest and discounts	9	( 1,918.3 )	( 1,760.7 )	( 1,571.6 )	( 1,917.9 )	( 1,760.4 )	( 1,571.4 )
Interest received		1,911.5	1,763.0	1,591.5	1,911.5	1,762.7	1,591.4
Interest and financing charges	13	850.3	673.5	570.8	784.0	617.7	519.1
Depreciation and amortization	10, 11, 12	836.2	738.0	669.8	21.7	22.9	22.4
Interest and financing charges paid		( 850.8 )	( 674.8 )	( 555.0 )	( 784.5 )	( 619.0 )	( 503.3 )
Dividend income	8, 17	( 215.2 )	( 150.3 )	( 154.3 )	( 215.2 )	( 150.3 )	( 154.3 )
Gain on sale of property and equipment and investment properties	17	( 65.1 )	( 20.2 )	( 16.9 )	( 59.1 )	( 9.5 )	( 6.4 )
Impairment and credit losses	9, 11, 12	63.5	50.0	83.4	63.5	50.0	83.3
Equity share in net earnings of a subsidiary and an associate	12	13.5	19.9	-	( 6.9 )	( 81.3 )	( 97.6 )
Day-one gain - net	17	( 4.8 )	( 2.5 )	( 18.4 )	( 6.1 )	( 0.1 )	( 0.6 )
Gain on sale of available-for-sale (AFS) financial assets	8	-	( 1.5 )	( 4.6 )	-	( 1.5 )	( 4.6 )
Reversal of impairment losses	11	-	-	( 3.0 )	-	-	( 3.0 )
Operating profit before changes in operating assets and liabilities		1,340.1	1,385.1	1,317.1	513.2	547.0	565.2
Increase in loans and other receivables		( 2,992.7 )	( 3,951.2 )	( 3,925.7 )	( 2,664.0 )	( 3,879.2 )	( 3,924.4 )
Decrease (increase) in other assets		7.5	( 354.8 )	( 113.0 )	( 19.7 )	( 74.6 )	( 39.1 )
Increase in accounts payable and other liabilities		222.7	280.5	28.2	256.2	136.0	14.8
Increase in lease deposits		413.2	599.9	802.2	398.6	594.6	772.9
Cash used in operations		( 1,009.2 )	( 2,040.5 )	( 1,891.2 )	( 1,515.7 )	( 2,676.2 )	( 2,610.6 )
Cash paid for income taxes		( 163.2 )	( 159.2 )	( 127.3 )	( 163.2 )	( 159.2 )	( 127.3 )
Net Cash Used in Operating Activities		( 1,172.4 )	( 2,199.7 )	( 2,018.5 )	( 1,678.9 )	( 2,835.4 )	( 2,737.9 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Acquisition of AFS financial assets	8	( 1,400.0 )	-	( 1,137.2 )	( 1,400.0 )	-	( 1,137.2 )
Acquisitions of property and equipment	10	( 782.6 )	( 937.0 )	( 922.6 )	( 6.1 )	( 2.0 )	( 14.7 )
Proceeds from redemption of matured AFS financial assets	8	251.2	15.4	48.5	251.2	15.4	48.5
Proceeds from disposal of property and equipment and investment properties	10, 11, 12	224.6	82.4	187.1	135.0	20.6	128.3
Receipt of cash dividends	8	209.7	126.6	154.6	269.7	126.6	183.0
Acquisition of other assets	12	( 16.3 )	-	-	( 16.3 )	-	-
Addition in investment properties	11	( 4.7 )	-	( 227.3 )	( 4.7 )	3.7	( 1.2 )
Acquisition of equity investments	12	-	-	-	-	( 300.0 )	( 46.9 )
Net Cash Used in Investing Activities		( 1,518.1 )	( 712.6 )	( 1,896.9 )	( 771.2 )	( 135.7 )	( 840.2 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>							
Availments of bills payable	13	166,621.1	3,383.0	4,208.4	159,093.9	3,395.2	3,897.8
Payments of bills payable	13	( 163,410.9 )	-	-	( 156,127.7 )	-	-
Payments of cash dividends	16	( 432.5 )	( 432.5 )	( 378.4 )	( 432.5 )	( 432.5 )	( 378.4 )
Net Cash From Financing Activities		2,777.7	2,950.5	3,830.0	2,533.7	2,962.7	3,519.4
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>87.2</b>	<b>38.2</b>	<b>( 85.4 )</b>	<b>83.6</b>	<b>( 8.4 )</b>	<b>( 58.7 )</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>370.5</b>	<b>332.3</b>	<b>417.7</b>	<b>293.2</b>	<b>301.6</b>	<b>360.3</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	7	<b>P 457.7</b>	<b>P 370.5</b>	<b>P 332.3</b>	<b>P 376.8</b>	<b>P 293.2</b>	<b>P 301.6</b>

**Supplemental Information on Non-cash Investing Activities:**

- The Group reclassified certain items of Property and Equipment account to Other Assets account (see Notes 10 and 12).
- The Group and the Parent Company reclassified Allowance for impairment from certain Investment Properties account to Non-currents assets held-for-sale under Other Assets account and to Accounts Receivables under Loans and Other Receivables account (see Notes 9, 11, and 12).

*See Notes to Financial Statements.*

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017, 2016 AND 2015**  
*(Amounts in Millions of Philippine Pesos, Except Per Share Data,  
Exchange Rates and as Indicated)*

**1. CORPORATE INFORMATION**

***1.1 Incorporation and Operations***

BDO Leasing and Finance, Inc. (BDO Leasing or the Parent Company) is a domestic corporation incorporated in 1981. Its shares were listed in the Philippine Stock Exchange (PSE) on January 6, 1997. The Parent Company operates as a leasing and financing entity which provides direct leases, sale and leaseback arrangements and real estate leases. Financing products include amortized commercial and consumer loans, installment paper purchases, floor stock financing, receivables discounting, and factoring.

The Parent Company is a subsidiary of BDO Unibank, Inc. (BDO Unibank or Ultimate Parent Company), a universal bank incorporated and doing business in the Philippines. BDO Unibank offers a wide range of banking services such as traditional loan and deposit products, as well as treasury, remittance, trade services, credit card services, trust and others.

BDO Rental, Inc. (BDO Rental or Subsidiary), a wholly owned subsidiary of BDO Leasing, is registered with the Philippine Securities and Exchange Commission (SEC) to engage in renting and leasing of equipment and real properties. It started its commercial operations on June 30, 2005.

The Parent Company's principal office is located at 39<sup>th</sup> Floor, BDO Corporate Center Ortigas, 12 ADB Avenue, Ortigas Center, Mandaluyong City. As of December 31, 2017, BDO Leasing has five branches located in the cities of Cebu, Davao, Cagayan de Oro and Iloilo and in the province of Pampanga. The registered address of BDO Unibank is located at BDO Corporate Center, 7899 Makati Avenue, Makati City.

***1.2 Approval of Financial Statements***

The accompanying financial statements of BDO Leasing and Subsidiary (the Group) and of the Parent Company as of and for the year ended December 31, 2017 (including the comparative financial statements as of December 31, 2016 and for the years ended December 31, 2016 and 2015) were authorized for issue by the Parent Company's Board of Directors (BOD) on February 21, 2018.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

### ***2.1 Basis of Preparation of Financial Statements***

#### *(a) Statement of Compliance with Philippine Financial Reporting Standards*

The consolidated financial statements of the Group and the separate financial statements of the Parent Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippine Board of Accountancy.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

#### *(b) Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Group presents the statement of comprehensive income separate from the statement of income.

The Group presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

#### *(c) Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Group's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Group are measured using the Group's functional currency. Functional currency is the currency of the primary economic environment in which the Group operates.

## 2.2 Adoption of New and Amended PFRS

### (a) Effective in 2017 that are Relevant to the Group

The Group adopted for the first time the following amendments, which are mandatorily effective for annual periods beginning on or after January 1, 2017:

PAS 7 (Amendments)	:	Statement of Cash Flows – Disclosure Initiative
PAS 12 (Amendments)	:	Income taxes – Recognition of Deferred Tax Assets for Unrealized Losses

Discussed below are the relevant information about these amendments.

- (i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative*. The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). The amendments require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, the amendments suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: (a) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and, (b) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

Management has applied these amendments in the current year and has not disclosed comparative figures as allowed by the transitional provisions. A reconciliation between the opening and closing balances of liabilities arising from financing activities are presented in Note 13.

- (ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses*. The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference. The application of this amendment had no impact on the Group's financial statements.

(b) *Effective in 2017 that are not Relevant to the Group*

The following annual improvements to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2017 but are not relevant to the Group's financial statements:

Annual Improvements to PFRS (2014-2016 Cycle)	
PFRS 12	: Disclosure of Interest in Other Entities – Scope Clarification on Disclosure of Summarized Financial Information for Interests classified as held for sale

(c) *Effective Subsequent to 2017 but not Adopted Early*

There are new PFRS and amendments to existing standards effective for annual periods subsequent to 2017, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions:

- (i) PAS 40 (Amendment), *Investment Property – Reclassification to and from investment property* (effective from January 1, 2018). The amendment states that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendment provided a non-exhaustive list of examples constituting change in use. Management has assessed that this amendment has no significant impact on the Group's financial statements.
- (ii) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will replace PAS 39, *Financial Instruments: Classification and Measurement*, and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:
  - three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;
  - an expected credit loss (ECL) model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,
  - a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income (FVTOCI) if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

Based on an assessment and comprehensive study of the Group's financial assets and liabilities as at December 31, 2017, which has been limited to the facts and circumstances existing at that date, management determined the impact of PFRS 9 (2014) on the financial statements as follows:

- Equity securities classified as available-for-sale (AFS) financial assets are composed of listed equity securities, perpetual notes and golf club shares (see Note 8). In applying PFRS 9 (2014), the Group shall make an irrevocable designation whether these equity securities shall be classified as financial assets at FVTPL or at FVTOCI. The Group initially assessed that these equity securities shall be designated, on date of initial application, as financial assets at FVTOCI. Thus, these instruments will continue to be measured at fair value, with mark-to-market fluctuations and realized gain (loss) on sale directly recognized in other comprehensive income (OCI).
- Corporate bonds classified as AFS financial assets are composed of private firm bonds bearing fixed interest rates and defined maturity dates (see Note 8) are assessed that these bonds qualify under the SPPI test and the held-to-collect and sell business model. Thus, these bonds will continue to be measured at fair value, with mark-to-market fluctuations recognized in OCI subject to recycling upon disposal of the securities.

- Loans and other receivables are composed of receivables from customers, due from related parties, finance lease receivables, and other receivables which are held to collect contractual cash flows representing SPPI (see Note 9). These financial assets will continue to be measured at amortized cost upon application of PFRS 9 (2014).
  - Most of the financial liabilities of the Group are measured at amortized cost. Upon application of PFRS 9 (2014), management has assessed that the amortized cost classification for most of the financial liabilities will be retained.
  - In applying the ECL methodology of PFRS 9 (2014), the Group assessed to use the general approach for loans and other receivables, wherein ECL is recognized in two measurement basis (12-month ECL or lifetime ECL), and the simplified approach for other receivables from customers under Loans and Other Receivables account as allowed by the standard. On the other hand, ECL on corporate bonds classified as AFS financial assets shall be measured using 12-month ECL as these financial assets are assessed to have low credit risk, considering their respective credit ratings. Management has assessed that the application of the ECL model will cause an increase in impairment losses as compared with PAS 39.
- (iii) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction. Management has assessed that these amendments has no material impact on the Group's financial statements.

- (iv) PFRS 15, *Revenue from Contract with Customers* (effective from January 1, 2018). This standard will replace PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers* and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Management has assessed that this standard has no significant impact on the Group's financial statements.
- (v) IFRIC 22, *Foreign Currency Transactions and Advance Consideration - Interpretation on Foreign Currency Transactions and Advance Consideration* (effective from January 1, 2018). The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. Management has initially assessed that this amendment has no material impact on the Group's financial statements.
- (vi) Annual Improvements to PFRS 2014-2016 Cycle. Among the improvements, PAS 28 (Amendment), *Investment in Associates – Clarification on Fair Value through Profit or Loss Classification* (effective from January 1, 2018), is relevant to the Group. The amendment clarifies that the option for venture capital organization, mutual funds and other similar entities to elect the FVTPL classification in measuring investments in associates and joint ventures shall be made at initial recognition, separately for each associate or joint venture. Management has initially assessed that this amendment has no material impact on the Group's financial statements.
- (vii) PAS 28 (Amendment), *Investment in Associates – Long-term Interest in Associates and Joint Venture* (effective from January 1, 2019). The amendment clarifies that the scope exclusion in PFRS 9 (2014) applies only to ownership interests accounted for using the equity method. Thus, the amendment further clarifies that long term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9 (2014), which shall also include long term interests that, in substance, form part of the entity's net investment in an associate or joint venture. Management is currently assessing the impact of this new standard in its financial statements.

- (viii) PFRS 9 (Amendment), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendment clarifies that prepayment features with negative compensation attached to financial instruments may still qualify under the SPPI test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVTOCI. Management is currently assessing the impact of this new standard in its financial statements.
- (ix) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*.

For lessees, it requires to account for leases “on-balance sheet” by recognizing a “right of use” asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the “right-of-use” asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee’s benefit).

For lessors, lease accounting is similar to PAS 17’s. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17’s. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

Management is currently assessing the impact of this new standard in its financial statements.

- (x) IFRIC 23, *Uncertain Over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Group to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Group has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. Management is currently assessing the impact of this new standard in its financial statements.
- (xi) Annual Improvements to PFRS 2015-2017 Cycle. Among the improvements, the following amendments are relevant to the Group but had no material impact on the Group's financial statements as these amendments merely clarify existing requirements:
- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.
  - PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.
  - PFRS 3 (Amendments), *Business Combinations* and PFRS 11 (Amendments), *Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation*. The amendments clarify that previously held interest in a joint operation shall be remeasured when the Group obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Group obtains joint control of the business.

### ***2.3 Basis of Consolidation and Investments in a Subsidiary and an Associate***

The Group's consolidated financial statements comprise the accounts of the Parent Company and its subsidiary, after the elimination of all intercompany transactions. All intercompany assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities under the Group are eliminated in full on consolidation. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

The financial statements of the subsidiary and the associate are prepared for the same reporting period as the Parent Company, using consistent accounting principles.



(a) *Investment in a Subsidiary*

A subsidiary is an entity over which the Parent Company has the power to control the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Parent Company controls another entity. The Parent Company obtains and exercises control when (i) it has power over the entity, (ii) it is exposed, or has rights to, variable returns from its involvement with the entity, and, (iii) it has the ability to affect those returns through its power over the entity, usually through voting rights. A subsidiary is consolidated from the date the Parent Company obtains control.

The Parent Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above. Accordingly, entities are deconsolidated from the date that control ceases.

The acquisition method is applied to account for acquired subsidiaries. Acquisition method requires recognizing and measuring the identifiable resources acquired, the liabilities assumed and any non-controlling interest in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of the Group's share of the identifiable net assets acquired, is recognized as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly as a gain in profit or loss.

Investment in a subsidiary is initially recognized at cost and subsequently accounted for using the equity method in the Parent Company's financial statements.

(b) *Investment in an Associate*

An associate is an entity over which the Parent Company has significant influence but which is neither a subsidiary nor an interest in a joint venture. Investment in an associate is initially recognized at cost and subsequently accounted for using the equity method.

Acquired investment in associate is subject to the purchase method. The purchase method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. Goodwill represents the excess of acquisition cost over the fair value of the Parent Company's share of the identifiable net assets of the acquiree at the date of acquisition. Any goodwill or fair value adjustment attributable to the Parent Company's share in the associate is included in the amount recognized as investment in an associate.

All subsequent changes to the ownership interest in the equity of the associates are recognized in the Parent Company's carrying amount of the investment. Changes resulting from the profit or loss generated by the associates are credited or charged against the Other Income account in the statement of income.

Impairment loss is provided when there is objective evidence that the investment in an associate will not be recovered (see Note 2.18).

Changes resulting from other comprehensive income of the associate or items recognized directly in the associate's equity are recognized in other comprehensive income or equity of the Parent Company, as applicable. However, when the Parent Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Parent Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

Distributions received from the associates are accounted for as a reduction of the carrying value of the investment.

In the Parent Company's financial statements, the investments in a subsidiary and an associate (presented as Equity investments under Other Assets account in the statement of financial position) are initially carried at cost and adjusted thereafter for the post-acquisition change in the Parent Company's share of net assets of the investee, which includes the share of the profit or loss and other comprehensive income, if any, reduced by any distribution received from the investment (see Note 12).

## ***2.4 Segment Reporting***

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's Strategic Steering Committee, its chief operating decision-maker. The strategic steering committee is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Group's products and service lines as disclosed in Note 4, which represent the main products and services provided by the Group.

Each of these operating segments is managed separately as each of these service lines requires different technologies and other resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies the Group uses for segment reporting under PFRS 8, *Operating Segments*, are the same as those used in its financial statements.

In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

## **2.5 Financial Assets**

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

### *(a) Classification and Measurement of Financial Assets*

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVTPL, loans and other receivables, held-to-maturity investments and AFS financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and the related transaction costs are recognized in profit or loss.

A more detailed description of the categories of financial assets that are relevant to the Group is as follows:

#### *(i) Loans and Other Receivables*

Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to the debtor with no intention of trading the receivables.

The Group's financial assets categorized as loans and other receivables are presented as Cash and Cash Equivalents, and Loans and Other Receivables in the statement of financial position. Cash and cash equivalents include cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash.

Loans and other receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any.

(ii) *AFS Financial Assets*

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Group's AFS financial assets include listed equity securities, corporate bonds and golf club shares.

All financial assets within this category are subsequently measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Net Unrealized Fair Value Gains on Available-for-sale Financial Assets account in equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss.

When the financial asset is disposed of or is determined to be impaired, that is, when there is a significant or prolonged decline in the fair value of the security below its cost, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income even though the financial asset has not been derecognized.

(b) *Impairment of Financial Assets*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about certain loss events, including, among others: significant financial difficulty of the issuer or debtor; a breach of contract, such as a default or delinquency in interest or principal payments; it is probable that the borrower will enter bankruptcy or other financial reorganization; the disappearance of an active market for that financial asset because of financial difficulties; or observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

(i) *Carried at amortized cost*

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Group includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and other receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss.

If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When practicable, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with credit risk characteristics similar to those in the group.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be consistent with changes in related observable data from period to period. The methodologies and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures, including approval from the management and the BOD, has been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the impairment loss in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment is recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed. The amount of the reversal is recognized in profit or loss.

In addition, under Section 9(f) of the Rules and Regulations to implement the provisions of Republic Act (RA) No. 8556, *The Financing Company Act of 1998*, a 100% allowance should be set up for the following:

- (i) Clean loans and advances past due for a period of more than six months;
- (ii) Past due loans secured by collateral such as inventories, receivables, equipment and other chattels that have declined in value by more than 50%, without the borrower offering additional collateral for the loans;
- (iii) Past due loans secured by real estate mortgage the title to which is subject to an adverse claim rendering settlement through foreclosure doubtful;
- (iv) When the borrower, and his co-maker or guarantor, is insolvent or where their whereabouts is unknown, or their earning power is permanently impaired;
- (v) Accrued interest receivable that remains uncollected after six months from the maturity date of the loan to which it accrues; and,
- (vi) Accounts receivable past due for 361 days or more.

These requirements and conditions were accordingly considered by the Group in the determination of impairment loss provision on assets carried at amortized cost particularly loans and other receivables.

*(ii) Carried at fair value with changes charged to other comprehensive income*

In the case of investments classified as AFS financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for AFS financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in other comprehensive income as part of equity – is reclassified to profit or loss as a reclassification adjustment. Impairment losses recognized in other comprehensive income on equity instruments are not reversed through other comprehensive income.

If, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the statement of income.

*(iii) Carried at cost*

The Group assesses at the end of each reporting period whether there is objective evidence that any of the unquoted equity securities (investments in perpetual notes) which are carried at cost and for which objective evidence of impairment exists. The amount of impairment loss is the difference between the carrying amount of the equity security and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset. Impairment losses on assets carried at cost cannot be reversed.

*(c) Items of Income and Expense Related to Financial Assets*

All income and expenses relating to financial assets that are recognized in profit or loss are presented as part of Interest and Discounts under Revenues or Interest and Financing Charges under Operating Costs and Expenses in the statement of income. Impairment losses recognized on financial assets are included as part of Impairment and Credit Losses under Operating Costs and Expenses in the statement of income.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

(d) *Derecognition of Financial Assets*

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

**2.6 *Property and Equipment***

Property and equipment are carried at acquisition cost less accumulated depreciation and amortization and any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets as follows:

Transportation and other equipment	3-5 years
Furniture, fixtures and others	3-5 years

Leasehold improvements are amortized over the terms of the leases or the estimated useful lives of the improvements, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.18).

The residual values and estimated useful lives and method of depreciation and amortization of property and equipment are reviewed and adjusted if appropriate, at the end of each reporting period.

An item of property and equipment, including the related accumulated depreciation and amortization and impairment losses, if any, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect of those assets.



## **2.7 *Non-current Assets Classified as Held-for-Sale***

Assets held-for-sale (presented under Other Assets) include chattel or personal properties acquired through repossession or foreclosure that the Group intends to sell and will be disposed of within one year from the date of classification as held-for-sale. For real and other properties acquired through foreclosure or repossession, the Group included in its criteria that there should be an existence of a buyer before a foreclosed or repossessed property can be classified as Non-current Asset Held-for-Sale (NCAHS) [see Notes 3.1(d)].

The Group classifies a non-current asset (or disposal group) as held-for-sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. In the event that the sale of the asset is extended beyond one year, the extension of the period required to complete the sale does not preclude an asset from being classified as held-for-sale if the delay is caused by events or circumstances beyond the Group's control and as long as there is a ready buyer.

Assets classified as held-for-sale are measured at the lower of their carrying amounts, immediately prior to their classification as held-for-sale, and their fair values less costs to sell. The Group shall recognize an impairment loss for any initial or subsequent write-down of the asset at fair value less cost to sell. Gain for any subsequent increase in fair value less cost to sell of an asset is recognized to the extent of the cumulative impairment loss previously recognized. Assets classified as held-for-sale are not subject to depreciation.

If the Group has classified an asset as held-for-sale, but the criteria for it to be recognized as held-for-sale are no longer satisfied, the Group shall cease to classify the asset as held-for-sale.

The gain or loss arising from the sale or remeasurement of held-for-sale assets is recognized in profit or loss and included as part of Other Income (Expenses) in the statement of income.

## **2.8 *Investment Properties***

Investment properties are stated at cost. The cost of an investment property comprises its purchase price and directly attributable cost incurred. This also includes properties acquired by the Group from defaulting borrowers not held-for-sale in the next 12 months from the end of the reporting period. For these properties, the cost is recognized initially at the fair market value. Investment properties, except land, are depreciated on a straight-line basis over a period of ten years.

Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment in value. Depreciation and impairment loss are recognized in the same manner as in property and equipment.

The fair values of investment properties, as disclosed in Note 11, are based on valuations provided by independent and/or in-house appraisers, which are market value for land and building and related improvements and reproduction cost for certain building and improvements.

Investment properties are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of investment properties is recognized in profit or loss in the year of retirement or disposal.

Direct operating expenses related to investment properties, such as repairs and maintenance, and real estate taxes are normally charged against current operations in the period in which these costs are incurred.

## ***2.9 Other Assets***

Other assets pertain to other resources controlled by the Group as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the Group and the asset has a cost or value that can be measured reliably.

Presented as part of other assets are intangible assets pertaining to acquired computer software licenses, which are capitalized on the basis of the costs incurred to acquire and install the specific software. Capitalized costs are amortized on a straight-line basis over the estimated useful life of five years as the lives of these intangible assets are considered finite. In addition, intangible assets are subject to impairment testing as described in Note 2.18. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred.

## ***2.10 Financial Liabilities***

Financial liabilities, which include bills payable, accounts payable and other liabilities (except tax-related payables) and lease deposits, are recognized when the Group becomes a party to the contractual terms of the instrument. All interest-related charges are included as part of Interest and Financing Charges under Operating Costs and Expenses in the statement of income.

Bills payable are raised for support of long-term and short-term funding of operations. They are recognized at proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Accounts payable and other liabilities are initially recognized at their fair values and subsequently measured at amortized cost less settlement payments.

Lease deposits are initially recognized at fair value. The excess of the principal amount of the deposits over its present value at initial recognition is immediately recognized and is included as part of Day-one gains under Other Income account in the statement of income. Meanwhile, interest expense on the amortization of lease deposits using the effective interest method is included as part of Interest and Financing Charges under Operating Costs and Expenses in the statement of income.

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Group.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

### ***2.11 Offsetting Financial Instruments***

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when the Group currently has legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on a future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

### ***2.12 Provisions and Contingencies***

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

### ***2.13 Residual Value of Leased Assets***

The residual value of leased assets, which approximates the amount of lease deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the disposal of the leased asset at the end of the lease term. At the end of the lease term, the residual value of the leased asset is generally applied against the lease deposit of the lessee. The residual value of leased assets is presented as part of Loans and Other Receivables account in the statement of financial position.

### ***2.14 Equity***

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital includes any premiums received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Treasury shares are stated at the cost of reacquiring such shares.

Retained earnings represent all current and prior period results as reported in the statement of income, reduced by the amounts of dividends declared.

Net accumulated actuarial losses arise from the remeasurement of post-employment defined benefit plan.

Net unrealized fair value gains on AFS financial assets pertain to cumulative mark-to-market valuation of AFS financial assets.

### ***2.15 Revenue and Expense Recognition***

Revenue comprises interest income on loans and receivable financed and rent income from operating lease contracts, measured by reference to the fair value of consideration received or receivable by the Group for services rendered, excluding value-added tax (VAT), as applicable.

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria of income and expenses must also be met before revenue is recognized:

- (a) *Interest* – Interest income and expenses are recognized in profit or loss for all instruments measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

The interest income on finance lease receivables is allocated over the lease term on a systematic and rational basis. The recognition of interest income on finance lease is based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

- (b) *Rent* – Revenue from operating lease contracts is recognized in profit or loss on a straight-line basis over the lease term, or on another systematic basis which is more representative of the time pattern in which the use or benefit derived from the leased asset is diminished (see Note 2.16).
- (c) *Service Fees* – Fees related to the administration and servicing a loan are recognized as revenue as the services are rendered. This account is included under Other Income account in the statement of income.
- (d) *Dividends* – Revenue is recognized when the Group's right to receive payment is established. Dividend income is included under Other Income account in the statement of income.

Operating costs and expenses are recognized in profit or loss upon utilization of the assets or services or at the date they are incurred. All finance costs are reported in profit or loss on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.20).

## 2.16 Leases

The Group accounts for its leases as follows:

### (a) *Group as a Lessor*

Finance leases, where the Group transfers substantially all the risk and benefits incidental to ownership of the leased item to the lessee, are included in the statement of financial position under Loans and Other Receivables account. A lease receivable is recognized at an amount equal to the net investment in the lease. The difference between the gross lease receivable and the net investment in the lease is recognized as unearned finance income. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Group's net investment outstanding in respect of the finance lease.

All income resulting from the receivable is included as part of Interest and Discounts in the statement of income.

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized as income in profit or loss on a straight-line basis over the lease term, or on a systematic basis which is more representative of the time pattern in which the use or benefit derived from the leased asset is diminished.

Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the year in which they are earned.

### (b) *Group as a Lessee*

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

The Group determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

### ***2.17 Foreign Currency Transactions and Translation***

The accounting records of the Group are maintained in Philippine pesos. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income.

Changes in the fair value of monetary financial assets denominated in foreign currency classified as AFS securities are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income.

### ***2.18 Impairment of Non-financial Assets***

The Group's property and equipment, investment properties and other non-financial assets and the Parent Company's investments in a subsidiary and an associate are subject to impairment testing. Intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

## **2.19 Employee Benefits**

The Group provides post-employment benefits to employees through a defined benefit plan, defined contribution plan and other employee benefits which are recognized as follows:

### *(a) Post-employment Defined Benefit Plan*

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Group's post-employment defined benefit pension plan covers all regular full-time employees. The post-employment plan is tax-qualified, non-contributory and administered by a trustee.

The liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using a discount rate derived from the interest rates of a zero-coupon government bond as published by Philippine Dealing & Exchange Corp. (PDEX) that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurement, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset and is included as part of Interest and Discounts or Interest and Financing Charges.

Past service costs are recognized immediately in profit or loss in the period of a plan amendment or curtailment.

### *(b) Post-employment Defined Benefit Contribution Plan*

A defined contribution plan is a post-employment plan under which the Group pays fixed contributions into an independent entity, such as the Social Security System. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due.



(c) *Termination Benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting period are discounted to their present value.

(d) *Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of reporting period. They are included in the Account Payable and Other Liabilities account in the statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement. Compensated absences convertible to monetary consideration accruing to employees qualified under the retirement plan are now funded by the Group through its post-employment retirement fund. Accordingly, the related Accounts Payable and Other Liabilities account previously set-up for the compensated absences is reversed upon contribution to the retirement fund.

(e) *Employee Stock Option Plan*

BDO Unibank Group grants stock option plan to its senior officers (from vice president up), including the officers of the Group, for their contribution to the Group's performance and attainment of team goals. The stock option plan gives qualified employees the right to purchase BDO Unibank's shares at an agreed strike price. The amount of stock option allocated to the qualified officers is based on the performance of the individual officers as determined by the management and is determined based on the Group's performance in the preceding year and amortized over five years (vesting period) starting from date of approval of the BOD. The number of officers qualified at the grant date is regularly evaluated (at least annually) during the vesting period and the amount of stock option is decreased in case there are changes in the number of qualified employees arising from resignation or disqualification.

Liability recognized on the stock option plan for the amount charged by the BDO Unibank Group attributable to the qualified officers of the Group is included in Accrued taxes and other expenses under Accounts Payable and Other Liabilities account in the statement of financial position and the related expense is presented in Employee Benefits account under Operating Costs and Expenses in the statement of income (see Notes 14 and 19).

## ***2.20 Borrowing Costs***

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

## ***2.21 Income Taxes***

Tax expense recognized in profit or loss comprises current tax and deferred tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method, on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

## ***2.22 Earnings Per Share***

Basic earnings per common share is determined by dividing net income attributable to equity holders of the Parent Company by the weighted average number of common shares subscribed and issued during the year, adjusted retroactively for any stock dividend, stock split or reverse stock split declared during the current period. The Group does not have dilutive common shares.

## ***2.23 Related Party Relationships and Transactions***

Related party transactions are transfer of resources, services or obligations between the Group and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of any such individual; and, (d) the Group's retirement plan.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

## ***2.24 Events After the End of the Reporting Period***

Any post-year-end event that provides additional information about the Group's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

### 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

#### ***3.1 Critical Management Judgments in Applying Accounting Policies***

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

##### *(a) Distinguishing Operating and Finance Leases*

The Group has entered in various lease arrangements as a lessor. Critical judgment was exercised by management to distinguish each lease arrangement as either an operating or finance lease by looking at the transfer or retention of significant risks and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

The Group has determined that it has transferred all the significant risks and rewards of ownership of the properties which are leased out on finance lease arrangements. The Subsidiary's operations involve operating leases. The Group has determined that it retains all the significant risks and rewards of ownership over the properties which are leased out on operating lease arrangements.

##### *(b) Impairment of AFS Financial Assets*

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

No impairment loss was recognized in 2017, 2016 and 2015 for AFS financial assets.

##### *(c) Distinction Between Investment Properties and Owner-managed Properties*

The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in the supply process.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the production and supply of goods and services or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

(d) *Classification of Acquired Properties and Fair Value Determination of Non-current Assets Held-for-Sale and Investment Properties*

The Group classifies its acquired properties as NCAHS if expected that the properties will be recovered through sale rather than use, and as Investment Properties if intended to be held for capital appreciation or for rental to others. At initial recognition, the Group determines the fair value of the acquired properties through internally or externally generated appraisal. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the properties.

The Group provides additional criterion for booking real and chattel properties to NCAHS such that the real and chattel properties should have a ready buyer before it can be booked as NCAHS. Accounts with no ready buyers were classified as Investment Properties for real properties and as Repossessed chattels and other equipment under Other Assets account for other properties.

(e) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.12 and disclosures on relevant provisions are presented in Note 24.

### **3.2 Key Sources of Estimation Uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

*(a) Estimating Useful Lives of Property and Equipment, Investment Properties and Computer Software*

The Group estimates the useful lives of property and equipment, investment properties and computer software (classified as Intangible assets under Other Assets) based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment, investment properties and computer software are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of property and equipment, investment properties and computer software are presented in Notes 10, 11 and 12, respectively. Based on management's assessment as of December 31, 2017 and 2016, there is no change in estimated useful lives of property and equipment, investment properties and computer software during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

*(b) Impairment of Loans and Other Receivables*

Adequate amount of allowance for impairment is provided for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates the amount of allowance for impairment based on available facts and circumstances affecting the collectability of the accounts, including, but not limited to, the length of the Group's relationship with the customers, the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience. The Group also considers the loan loss provisioning requirements of the Bangko Sentral ng Pilipinas and The Financing Company Act. The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The carrying value of loans and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 9.

(c) *Impairment of Non-Financial Assets*

The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.18. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Impairment losses recognized on investment properties and other assets are presented in Notes 11 and 12, respectively. No impairment loss is recognized for property and equipment (see Note 10).

(d) *Determining Fair Value Measurement for Financial Instruments*

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

The carrying values and the fair values of the Group's AFS financial assets are disclosed in Notes 6 and 8.

(e) *Fair Value Measurement for Investment Properties*

The Group's land, building and improvements classified under investment properties are measured at cost model; however, the related fair value is disclosed at the end of the reporting period. In determining the fair value of these assets, the Group engages the services of professional and independent appraisers applying the relevant valuation methodologies as discussed in Note 6.

For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties.

(f) *Determining Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management has assessed that deferred tax assets recognized as at December 31, 2017 and 2016 may be recoverable.

The carrying value of the deferred tax assets (netted against deferred tax liabilities) as at December 31, 2017 and 2016 is disclosed in Note 21.

(g) *Valuation of Post-employment Defined Benefit Obligation*

The determination of the Group's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, and salary increase rate. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of retirement benefit obligation and expense and an analysis of the movements in the estimated present value of retirement benefit obligation, as well as significant assumptions used in estimating such obligation are presented in Note 19.2.

#### 4. **SEGMENT REPORTING**

##### ***4.1 Business Segments***

The Group is organized into different business units based on its products and services for purposes of management assessment of each unit. For management purposes, the Group is organized into three major business segments, namely: leasing, financing and others. These are also the basis of the Group in reporting to its chief operating decision-maker for its strategic decision-making activities.

The products under the leasing segment are the following:

- Operating leases; and,
- Finance leases.

The products under the financing segment are the following:

- Amortized commercial loans;
- Amortized retail loans;
- Installment paper purchases;
- Floor stock financing; and,
- Factoring of receivables.

The Group's products and services are marketed in the Metro Manila head office and in its five branches (see Note 1).

##### ***4.2 Segment Assets and Liabilities***

Segment assets are allocated based on their use or direct association with a specific segment and they include all operating assets used by a segment and consist principally of operating cash, and loans and receivables, net of allowances and provisions. Similar to segment assets, segment liabilities are also allocated based on their use or direct association with a specific segment. Segment liabilities include all bills payable and lease deposits. Segment assets and liabilities do not include deferred taxes.



### 4.3 Intersegment Transactions

Intersegment transactions in 2017 and 2016 pertain to rent income, management fee as well as dividends earned by the Parent Company from BDO Rental.

### 4.4 Analysis of Segment Information

Segment information can be analyzed as follows:

	<u>Leasing</u>	<u>Financing</u>	<u>Others</u>	<u>Eliminations</u>	<u>Group</u>
<b><u>For the Year Ended December 31, 2017</u></b>					
<b>Statement of Income</b>					
Segment revenues					
External	P 1,775.7	P 979.3	P 401.5	P -	P 3,156.5
Inter-segment	<u>-</u>	<u>-</u>	<u>120.4</u>	<u>( 120.4)</u>	<u>-</u>
	<u>1,775.7</u>	<u>979.3</u>	<u>521.9</u>	<u>( 120.4)</u>	<u>3,156.5</u>
Segment expenses					
External	1,367.5	815.2	254.5	-	2,437.2
Inter-segment	<u>-</u>	<u>-</u>	<u>0.4</u>	<u>( 0.4)</u>	<u>-</u>
	<u>1,367.5</u>	<u>815.2</u>	<u>254.9</u>	<u>( 0.4)</u>	<u>2,437.2</u>
Segment results	<u>P 408.2</u>	<u>P 164.1</u>	<u>P 267.0</u>	<u>(P 120.0)</u>	719.3
Tax expense					<u>148.8</u>
Net profit					<u>P 570.5</u>
<b><u>December 31, 2017</u></b>					
<b>Statement of Financial Position</b>					
Segment assets	<u>P 20,498.1</u>	<u>P 15,606.7</u>	<u>P 5,897.5</u>	<u>(P 531.2)</u>	<u>P 41,471.1</u>
Unallocated assets					<u>1,370.5</u>
Total assets					<u>P 42,841.6</u>
Segment liabilities	<u>19,400.4</u>	<u>17,066.5</u>	<u>-</u>	<u>-</u>	<u>P 36,466.9</u>
Unallocated liabilities					<u>932.4</u>
Total liabilities					<u>P 37,399.3</u>
Other segment information :					
Capital expenditures	<u>P 776.5</u>	<u>P -</u>	<u>P 6.1</u>	<u>P -</u>	<u>P 782.6</u>
Depreciation and amortization	<u>P 814.5</u>	<u>P -</u>	<u>P 21.7</u>	<u>P -</u>	<u>P 836.2</u>
Impairment and credit losses	<u>P -</u>	<u>P -</u>	<u>P 63.5</u>	<u>P -</u>	<u>P 63.5</u>
<b><u>For the Year Ended December 31, 2016</u></b>					
<b>Statement of Income</b>					
Segment revenues					
External	P 1,720.3	P 914.3	P 219.7	P -	P 2,854.3
Inter-segment	<u>-</u>	<u>-</u>	<u>60.7</u>	<u>( 60.7)</u>	<u>-</u>
	<u>1,720.3</u>	<u>914.3</u>	<u>280.4</u>	<u>( 60.7)</u>	<u>2,854.3</u>
Segment expenses					
External	1,267.8	673.9	161.9	-	2,103.6
Inter-segment	<u>-</u>	<u>-</u>	<u>0.7</u>	<u>( 0.7)</u>	<u>-</u>
	<u>1,267.8</u>	<u>673.9</u>	<u>162.6</u>	<u>( 0.7)</u>	<u>2,103.6</u>
Segment results	<u>P 452.5</u>	<u>P 240.4</u>	<u>P 117.80</u>	<u>( P 60.0)</u>	750.7
Tax expense					<u>180.7</u>
Net profit					<u>P 570.0</u>

	<u>Leasing</u>	<u>Financing</u>	<u>Others</u>	<u>Eliminations</u>	<u>Group</u>
<u>December 31, 2016</u>					
Statement of Financial Position					
Segment assets	P 19,430.1	P 14,130.8	P -	P -	P 33,560.9
Unallocated assets					<u>5,339.5</u>
Total assets					<u>P 38,900.4</u>
Segment liabilities	<u>17,798.5</u>	<u>15,050.3</u>	<u>-</u>	<u>-</u>	P 32,848.8
Unallocated liabilities					<u>702.1</u>
Total liabilities					<u>P 33,550.9</u>
Other segment information :					
Capital expenditures	<u>P 935.0</u>	<u>P -</u>	<u>P 2.0</u>	<u>P -</u>	<u>P 937.0</u>
Depreciation and amortization	<u>P 715.1</u>	<u>P -</u>	<u>P 22.9</u>	<u>P -</u>	<u>P 738.0</u>
Impairment and credit losses	<u>P -</u>	<u>P -</u>	<u>P 50.0</u>	<u>P -</u>	<u>P 50.0</u>

Segment expenses are allocated on the basis of gross income.

Net segment assets are comprised of the following:

	<u>2017</u>	
	<u>Leasing</u>	<u>Financing</u>
Receivables	P 13,951.7	P 16,022.8
Residual value of leased assets	5,974.4	-
Unearned income	( 1,361.1)	( 19.4)
Client's equity	<u>-</u>	<u>( 33.3)</u>
	18,565.0	15,970.1
Equipment under lease	<u>2,249.5</u>	<u>-</u>
	20,814.5	15,970.1
Allowance for impairment	<u>( 316.4)</u>	<u>( 363.4)</u>
	<u><b>P 20,498.1</b></u>	<u><b>P 15,606.7</b></u>
	<u>2016</u>	
	<u>Leasing</u>	<u>Financing</u>
Receivables	P 12,997.8	P 14,535.3
Residual value of leased assets	5,575.0	-
Unearned income	( 1,224.7)	( 39.8)
Client's equity	<u>-</u>	<u>( 37.2)</u>
	17,348.1	14,458.3
Equipment under lease	<u>2,375.0</u>	<u>-</u>
	19,723.1	14,458.3
Allowance for impairment	<u>( 292.9)</u>	<u>( 327.5)</u>
	<u><b>P 19,430.2</b></u>	<u><b>P 14,130.8</b></u>

The Group's bills payable, including payable to BDO Unibank, amounting to P30,478.3 and P27,268.1 as of December 31, 2017 and 2016, respectively, is allocated between the leasing and financing segments based on the carrying amounts of receivables of these segments. Deposits on lease amounting to P5,988.6 and P5,580.8 as of December 31, 2017 and 2016, respectively, are included in the leasing segment.

## 5. RISK MANAGEMENT

Management of the Group's credit risk, liquidity risk, market risk and operational risk are essential parts of the Group's organizational structure and philosophy. The risk management process is essentially a top-down process that emanates from the BOD. The BOD approves the overall institutional tolerance risk, including risk policies and risk philosophy of the Group.

The Group is exposed to a variety of financial risks which results from both its operating and investing activities. The Group's risk management is coordinated in close cooperation with the BOD, and focuses on actively securing the Group's short-to-medium term cash flows by minimizing the exposure to financial markets. The Group does not engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below and in the succeeding pages.

### 5.1 Foreign Exchange Risk

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates on financial assets arise from a portion of the Group's leasing and financing portfolio, cash and cash equivalents and lease deposits which are denominated in United States (U.S.) dollars.

The Group's foreign-currency denominated financial assets and financial liabilities translated into Philippine pesos at the closing rate at December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	<b>P 7.0</b>	P 4.8
Loans and other receivables	<b>746.6</b>	399.1
Bills payable	<b>( 600.7)</b>	( 380.2)
Lease deposits	<b>( 136.8)</b>	( 18.4)
	<b><u>P 16.1</u></b>	<b><u>P 5.3</u></b>

At December 31, 2017 and 2016, the currency exchange rates used to translate U.S. dollar denominated financial assets and financial liabilities to the Philippine pesos is approximately P49.9 and P49.8, respectively.

The following table illustrates the sensitivity of the net result for the year and equity with regard to the Group's financial assets and financial liabilities and the U.S. dollar – Philippine peso exchange rate. It assumes a +/-10.8% change and +/-15.1% change of the Philippine peso/U.S. dollar exchange rate at December 31, 2017 and 2016, respectively. These percentages have been determined based on the average market volatility in exchange rates in the previous 12 months at a 99% confidence level. The sensitivity analysis is based on the Group's foreign currency financial instruments held at the end of each reporting period.

	2017		2016	
	Depreciation of Peso	Appreciation of Peso	Depreciation of Peso	Appreciation of Peso
Profit before tax	P 1.7	( P 1.7 )	P 0.8	( P 0.8 )
Equity	1.2	( 1.2 )	0.6	( 0.6 )

Exposures to foreign exchange rates vary during the year depending on the volume of foreign currency denominated transactions. Nonetheless, the analysis above is considered to be representative of the Group's currency risk.

## 5.2 Interest Rate Risk

At December 31, 2017 and 2016, the Group is exposed to changes in market interest rates through its bills payable and a portion of BDO Leasing's loans and other receivables, which are subject to periodic interest rate repricing. All other financial assets and financial liabilities have fixed rates.

The Group follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. The current composition of the Group's assets and liabilities results in significant negative gap positions for repricing periods under one year. Consequently, the Group is vulnerable to increases in market interest rates. However, in consideration of the substantial net interest margins between the Group's marginal funding cost and its interest-earning assets, and favorable lease and financing terms which allow the Group to reprice annually, and to reprice at anytime in response to extraordinary fluctuations in interest rates, the Group believes that the adverse impact of any interest rate increase would be limited.

In addition, during periods of declining interest rates, the existence of a negative gap position favorably impacts the Group.

The following table illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates for bills payable of +/-0.6% at December 31, 2017 and +/-0.3% at December 31, 2016 and variable rate loans and other receivables of +/-2.4% at December 31, 2017 and +/-0.8% at December 31, 2016. These changes are considered to be reasonably possible based on observation of current market conditions for the past 12 months at a 99% confidence level. The calculations are based on the Group's and Parent Company's financial instruments held at the end of each reporting period. All other variables are held constant.

	2017	
	<u>Increase in Interest Rate</u>	<u>Decrease in Interest Rate</u>
Loans and other receivables	+2.4%	-2.4%
Bills payable	+0.6%	-0.6%
<b><u>Group/Parent Company</u></b>		
Increase (decrease) in:		
Profit before tax	P 0.3	( P 0.3 )
Equity	0.2	( 0.2 )
	2016	
	<u>Increase in Interest Rate</u>	<u>Decrease in Interest Rate</u>
Loans and other receivables	+0.8%	-0.8%
Bills payable	+0.3%	-0.3%
<b><u>Group/Parent Company</u></b>		
Increase (decrease) in:		
Profit before tax	P 0.9	( P 0.9 )
Equity	0.6	( 0.6 )

### 5.3 Credit Risk

Credit risk is the risk that one party to a financial instrument may fail to discharge an obligation and cause the other party to incur a financial loss. The Group manages credit risk by setting limits for individual borrowers, and groups of borrowers and industry segments. The Group maintains a general policy of avoiding excessive exposure in any particular sector of the Philippine economy.

The Group actively seeks to increase its exposure in industry sectors which it believes possess attractive growth opportunities. Conversely, it actively seeks to reduce its exposure in industry sectors where growth potential is minimal.

Although the Group's leasing and financing portfolio is composed of transactions with a wide variety of businesses, the results of operation and financial condition of the Group may be adversely affected by any downturn in these sectors as well as in the Philippine economy in general.

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

The concentration of credit risk for the Group and the Parent Company follows:

	2017			2016		
	Cash and Cash Equivalents	Loans and Other Receivables	AFS Financial Assets*	Cash and Cash Equivalents	Loans and Other Receivables	AFS Financial Assets*
<b>Group</b>						
Concentration by sector:						
Financial intermediaries	P 457.7	P 2,653.6	P -	P 370.5	P 2,696.5	P -
Manufacturing	-	3,228.3	-	-	4,753.4	-
Transportation, communication and energy	-	4,528.5	-	-	4,205.6	-
Wholesale and retail trade and personal activities	-	4,559.8	-	-	3,762.0	-
Real estate, renting and business activities	-	5,483.7	1,124.2	-	5,636.4	1,428.7
Agriculture, fishing and forestry	-	242.9	-	-	160.0	-
Other community, social and personal activities	-	13,627.9	-	-	10,167.4	-
	<u>P 457.7</u>	<u>P 34,324.7</u>	<u>P 1,124.2</u>	<u>P 370.5</u>	<u>P 31,381.3</u>	<u>P 1,428.7</u>
<b>Parent Company</b>						
Concentration by sector:						
Financial intermediaries	P 376.8	P 2,653.6	P -	P 293.2	P 2,696.5	P -
Manufacturing	-	3,228.3	-	-	4,753.4	-
Transportation, communication and energy	-	4,528.5	-	-	4,205.6	-
Wholesale and retail trade and personal activities	-	4,559.8	-	-	3,762.0	-
Real estate, renting and business activities-	-	5,483.7	1,124.2	-	5,636.4	1,428.7
Agriculture, fishing and forestry	-	242.9	-	-	160.0	-
Other community, social and personal activities	-	13,509.8	-	-	10,327.7	-
	<u>P 376.8</u>	<u>P 34,206.6</u>	<u>P 1,124.2</u>	<u>P 293.2</u>	<u>P 31,541.6</u>	<u>P 1,428.7</u>

\*AFS Financial Assets do not include equity securities.

Loan classification and credit risk rating are an integral part of the Group's management of credit risk. On an annual basis, loans are reviewed, classified and rated based on internal and external factors that affect its performance. On a quarterly basis, loan classifications of impaired accounts are assessed and the results are used as basis for the review of loan loss provisions.

The Group's definition of its loan classification and corresponding credit risk ratings are described below.

- Current/Unclassified/Pass : Grades AAA to B
- Watchlisted : Grade B
- Especially Mentioned : Grade C
- Substandard : Grade D
- Doubtful : Grade E
- Loss : Grade F

Once an account is Watchlisted or Adversely Classified, the resulting risk rating grade is aligned based on the above classification.

(i) *Unclassified/Pass*

These are individual credits that do not have a greater-than-normal risk and do not possess the characteristics of adversely classified loans as to be defined below. These are credits that have the apparent ability to satisfy their obligations in full and therefore, no loss upon ultimate collection is anticipated. These are adequately secured by readily marketable collateral or other forms of support security or are supported by sufficient credit and financial information of favorable nature to assure repayment as agreed.

(ii) *Watchlisted*

Since early identification of troublesome or potential accounts is vital in portfolio management, a "Watchlisted" classification of credit accounts is maintained. These accounts are not adversely classified but they require more than normal attention to prevent these accounts from deteriorating to said category.

Past due or individually impaired financial assets comprise accounts under the following risk ratings:

(iii) *Adversely Classified*

a. *Especially Mentioned (EM)*

Accounts classified as EM are individual credits that have potential weaknesses particularly on documentation or credit administration that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment prospects of the loan and thus heighten the credit risk to the Group.

A credit may also be classified as "EM" if there is evidence of weakness in the borrower's financial condition or credit worthiness, or the credit is subject to an unrealistic repayment program or inadequate source of funds.

b. *Substandard*

Accounts classified as "Substandard" are individual credits or portions thereof, which appear to involve a substantial and unreasonable degree of risk to the Group because of unfavorable record or unsatisfactory characteristics. There exists in such accounts the possibility of future loss to the Group unless given closer supervision. Those classified as "Substandard" must have a well-defined weakness or weaknesses that jeopardize their liquidation. Such well-defined weaknesses may include adverse trends or development of financial, managerial, economic or political nature, or a significant weakness in collateral.

c. *Doubtful*

Accounts classified as "Doubtful" are individual credits or portions thereof which have the weaknesses inherent in those classified as "Substandard", with the added characteristics that existing facts, conditions and values make collection or liquidation in full highly improbable and in which substantial loss is probable. Positive and vigorous action is required to avert or minimize losses.

d. *Loss*

Accounts classified as “Loss” are individual credits or portions thereof which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. The amount of loss is difficult to measure and it is not practical or desirable to defer writing off these basically worthless assets even though partial recovery may be obtained in the future.

In addition to the above, credit portfolio review is another integral part of the Group’s management of credit risk. This exercise involves the conduct of periodic post approval review of individual credits whose main objective is to help monitor and maintain sound and healthy risk asset portfolio. Parameters of the credit portfolio review are structured so as to reflect both sides of the risk management equation such as credit quality and process. This function actuates the philosophy that credit quality is derived from sound risk management process. The credit quality of financial assets is managed by the Group using internal credit ratings.

The following table shows the exposure to credit risk as of December 31, 2017 and 2016 for each internal risk grade and the related allowance for impairment for loans and other receivables:

	<b>Group</b>		<b>Parent</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Individually impaired:</b>				
Grade C: EM	<b>P 376.8</b>	P 448.8	<b>P 376.8</b>	P 448.8
Grade D: Substandard	<b>217.6</b>	260.6	<b>217.6</b>	260.6
Grade E: Doubtful	<b>173.8</b>	148.4	<b>173.8</b>	148.4
Grade F: Loss	<b>196.0</b>	202.5	<b>196.0</b>	202.5
Gross amount	<b>964.2</b>	1,060.3	<b>964.2</b>	1,060.3
<b>Collectively Impaired –</b>				
Unclassified	<b>6,737.1</b>	4,601.8	<b>6,619.0</b>	4,762.1
<b>Past due but not impaired:</b>				
Aging of past due				
Below 30 days	<b>77.8</b>	3.7	<b>77.8</b>	3.7
30-60 days	<b>7.9</b>	3.0	<b>7.9</b>	3.0
61-90 days	<b>30.1</b>	2.5	<b>30.1</b>	2.5
91-180 days	<b>23.4</b>	10.8	<b>23.4</b>	10.8
More than 180 days	<b>-</b>	-	<b>-</b>	-
Gross amount	<b>139.2</b>	20.0	<b>139.2</b>	20.0
<b>Neither past due nor impaired</b>				
Grade B: Watchlisted	<b>253.0</b>	501.3	<b>253.0</b>	501.3
Unclassified	<b>26,937.3</b>	25,826.9	<b>26,937.3</b>	25,826.9
Gross amount	<b>27,190.3</b>	26,328.2	<b>27,190.3</b>	26,328.2
Total gross amount	<b>35,030.8</b>	32,010.3	<b>34,912.7</b>	32,170.6
Allowance for impairment	<b>( 706.1)</b>	( 629.0)	<b>( 706.1)</b>	( 629.0)
Carrying amount	<b>P 34,324.7</b>	P 31,381.3	<b>P 34,206.6</b>	P 31,541.6



The credit risk for cash and cash equivalents and debt securities presented under AFS financial assets is considered negligible, since the counterparties are reputable institutions with high quality external credit ratings.

The Group holds collateral against loans and other receivables in the form of mortgage interests over real and personal properties. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are periodically updated especially when a loan is individually assessed as impaired.

An estimate of the fair value of collateral and other security enhancements held against loans and other receivables that are not impaired as of December 31, 2017 and 2016 is shown below.

	<u>2017</u>	<u>2016</u>
Real property	<b>P 6,689.6</b>	P 6,630.1
Personal property	<u>46,720.5</u>	<u>42,676.6</u>
	<b><u>P 53,410.1</u></b>	<b><u>P 49,306.7</u></b>

An estimate of the fair value of collateral and other security enhancements held against loans and other receivables that are impaired as of December 31, 2017 and 2016 is shown below.

	<u>2017</u>	<u>2016</u>
Real property	<b>P 351.6</b>	P 209.3
Personal property	<u>1,368.7</u>	<u>4,622.7</u>
	<b><u>P 1,720.3</u></b>	<b><u>P 4,832.0</u></b>

The fair value of these collaterals somehow mitigates the credit risk to which the Group is exposed to.

The Group's manner of disposing the collateral for impaired loans and receivables is normally through sale of these assets after foreclosure proceedings have taken place. Aside from the foregoing, there are no other credit enhancements on the Group's financial assets held as of December 31, 2017 and 2016.

#### ***5.4 Liquidity Risk***

The primary business of financing companies entails the borrowing and relending of funds. Consequently, financing companies are subject to substantial leverage, and are therefore exposed to the potential financial risks that accompany borrowing.

The Group expects that its continued asset expansion will result in higher funding requirements in the future. Like most financing companies in the Philippines, the Group does not have a license to engage in quasi-banking function, and as such, it is precluded from engaging in deposit-taking activities. In addition, it is precluded under the General Banking Act from incurring borrowings from more than 19 lenders at any one time, which to some extent, restricts its access to the public debt markets.

The Group believes that it currently has adequate debt funding from banks, other financial institutions, and through the issuance of Short-Term Commercial Papers (STCPs). The P25.0 billion STCP licenses have been renewed in 2016. In 2017, the Group renewed the P15.0 billion STCP licenses.

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for short-term and long-term financial liabilities as well as cash outflows due in its day-to-day business.

Presented below and in the succeeding page are the financial assets and financial liabilities as of December 31, 2017 and 2016 analyzed according to when these are expected to be recovered or settled.

	<b>Group</b>				
	<b>One to Three Months</b>	<b>Three Months to One Year</b>	<b>One to Three Years</b>	<b>More Than Three Years</b>	<b>Total</b>
<b><u>2017</u></b>					
Financial assets					
Cash and cash equivalents	P 457.7	P -	P -	P -	P 457.7
Available-for-sale financial assets	2,079.4	-	-	2,562.6	4,642.0
Loans and other receivables	<u>4,478.2</u>	<u>8,145.4</u>	<u>13,544.9</u>	<u>8,156.2</u>	<u>34,324.7</u>
	<b><u>P 7,015.3</u></b>	<b><u>P 8,145.4</u></b>	<b><u>P 13,544.9</u></b>	<b><u>P 10,718.8</u></b>	<b><u>P 39,424.4</u></b>
Financial liabilities					
Bills payable	P 28,544.7	P 1,531.1	P 402.5	P -	P 30,478.3
Accounts payable and other liabilities	790.3	-	-	-	790.3
Lease deposits	<u>542.9</u>	<u>1,311.7</u>	<u>2,747.3</u>	<u>1,386.7</u>	<u>5,988.6</u>
	<b><u>P 29,877.9</u></b>	<b><u>P 2,842.8</u></b>	<b><u>P 3,149.8</u></b>	<b><u>P 1,386.7</u></b>	<b><u>P 37,257.2</u></b>
	<b><u>Parent Company</u></b>				
	<b>One to Three Months</b>	<b>Three Months to One Year</b>	<b>One to Three Years</b>	<b>More Than Three Years</b>	<b>Total</b>
Financial assets					
Cash and cash equivalents	P 376.8	P -	P -	P -	P 376.8
Available-for-sale financial assets	2,079.4	-	-	2,562.6	4,642.0
Loans and other receivables	<u>4,360.1</u>	<u>8,145.4</u>	<u>13,544.9</u>	<u>8,156.2</u>	<u>34,206.6</u>
	<b><u>P 6,816.3</u></b>	<b><u>P 8,145.4</u></b>	<b><u>P 13,544.9</u></b>	<b><u>P 10,718.8</u></b>	<b><u>P 39,225.4</u></b>
Financial liabilities					
Bills payable	P 26,485.5	P 1,390.3	P 402.5	P -	P 28,278.3
Accounts payable and other liabilities	586.5	-	-	-	586.5
Lease deposits	<u>535.1</u>	<u>1,294.5</u>	<u>2,719.3</u>	<u>1,369.2</u>	<u>5,918.1</u>
	<b><u>P 27,607.1</u></b>	<b><u>P 2,684.8</u></b>	<b><u>P 3,121.8</u></b>	<b><u>P 1,369.2</u></b>	<b><u>P 34,782.9</u></b>

		Group				
		One to Three Months	Three Months to One Year	One to Three Years	More Than Three Years	Total
<u>2016</u>						
Financial assets						
Cash and cash equivalents	P	370.5	P -	P -	P -	P 370.5
Available-for-sale financial assets		2,106.5	250.0	-	1,165.1	3,521.6
Loans and other receivables		<u>3,960.0</u>	<u>7,544.8</u>	<u>12,883.6</u>	<u>6,992.9</u>	<u>31,381.3</u>
	P	<u>6,437.0</u>	<u>7,794.8</u>	<u>12,883.6</u>	<u>8,158.0</u>	<u>35,273.4</u>
Financial liabilities						
Bills payable	P	25,147.1	P 1,618.2	P 502.8	P -	P 27,268.1
Accounts payable and other liabilities		572.4	-	-	-	572.4
Lease deposits		<u>484.7</u>	<u>936.4</u>	<u>2,912.3</u>	<u>1,247.4</u>	<u>5,580.8</u>
	P	<u>26,204.4</u>	<u>2,554.6</u>	<u>3,415.1</u>	<u>1,247.4</u>	<u>33,421.3</u>
		Parent Company				
		One to Three Months	Three Months to One Year	One to Three Years	More Than Three Years	Total
Financial assets						
Cash and cash equivalents	P	293.2	P -	P -	P -	P 293.2
Available-for-sale financial assets		2,106.5	250.0	-	1,165.1	3,521.6
Loans and other receivables		<u>4,120.3</u>	<u>7,544.8</u>	<u>12,883.6</u>	<u>6,992.9</u>	<u>31,541.6</u>
	P	<u>6,520.0</u>	<u>7,794.8</u>	<u>12,883.6</u>	<u>8,158.0</u>	<u>35,356.4</u>
Financial liabilities						
Bills payable	P	23,204.2	P 1,605.1	P 502.8	P -	P 25,312.1
Accounts payable and other liabilities		335.9	-	-	-	335.9
Lease deposits		<u>476.0</u>	<u>926.9</u>	<u>2,889.0</u>	<u>1,229.3</u>	<u>5,521.2</u>
	P	<u>24,016.1</u>	<u>2,532.0</u>	<u>3,391.8</u>	<u>1,229.3</u>	<u>31,169.2</u>

The Group and the Parent Company's maturing financial liabilities within the one to three month period pertain mostly to bills payable due to various private entities. Maturing bills payable are usually settled through repayments. When maturing financial assets are not sufficient to cover the related maturing financial liabilities, bills payable and other currently maturing financial liabilities are rolled over/refinanced or are settled by entering into new borrowing arrangements with other counterparties.

## 5.5 Price Risk

The Group is exposed to the changes in the market values of AFS financial assets held as of December 31, 2017 and 2016. The Group manages its risk by identifying, analyzing and measuring relevant or likely market price risks. To manage its price risk arising from its AFS financial assets, the Group does not concentrate its investment in any single counterparty.

If the prices of AFS financial assets changed by +/-2.0% at December 31, 2017 and +/-4.0% at December 31, 2016, then other comprehensive income would have increased/decreased by P64.8 in 2017 and by P140.9 in 2016. The analysis is based on the assumption on the change of the correlated equity indices, with all other variables held constant.

## 6. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 6.1 Carrying Amounts and Fair Values by Category

The following table summarizes by category the carrying amounts and fair values of financial assets and financial liabilities. Where fair value is presented, such fair value is determined based on valuation techniques described below.

	<u>Group</u>		<u>Parent</u>	
	<u>Carrying Amounts</u>	<u>Fair Values</u>	<u>Carrying Amounts</u>	<u>Fair Values</u>
<b><u>2017</u></b>				
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	P 457.7	P 457.7	P 376.8	P 376.8
Loans and other receivables	<u>34,324.7</u>	<u>33,524.1</u>	<u>34,206.6</u>	<u>33,406.0</u>
	34,782.4	33,981.8	34,583.4	33,782.8
AFS financial assets*	<u>3,242.0</u>	<u>3,242.0</u>	<u>3,242.0</u>	<u>3,242.0</u>
	<u>P 38,024.4</u>	<u>P 37,223.8</u>	<u>P 37,825.4</u>	<u>P 37,024.8</u>
Financial Liabilities				
At amortized cost:				
Bills payable	P 30,478.3	P 30,341.7	P 28,278.3	P 28,156.3
Accounts payable and other liabilities	790.3	790.3	586.5	586.5
Lease deposits	<u>5,988.6</u>	<u>5,988.6</u>	<u>5,918.1</u>	<u>5,918.1</u>
	<u>P 37,257.2</u>	<u>P 37,120.6</u>	<u>P 34,782.9</u>	<u>P 34,660.9</u>

*\*Unquoted AFS financial assets of the Group and the Parent Company amounting to P1,400.0 in 2017 have no available fair value data; hence, are excluded for the purpose of this disclosure. There are no unquoted AFS financial assets in 2016.*

	Group		Parent	
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
<u>2016</u>				
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	P 370.5	P 370.5	P 293.2	P 293.2
Loans and other receivables	<u>31,381.3</u>	<u>31,349.0</u>	<u>31,541.6</u>	<u>31,509.3</u>
	31,751.8	31,719.5	31,834.8	31,802.5
AFS financial assets	<u>3,521.6</u>	<u>3,521.6</u>	<u>3,521.6</u>	<u>3,521.6</u>
	<u>P 35,273.4</u>	<u>P 35,241.1</u>	<u>P 35,356.4</u>	<u>P 35,324.1</u>
Financial Liabilities				
At amortized cost:				
Bills payable	P 27,268.1	P 27,149.9	P 25,312.1	P 25,203.9
Accounts payable and other liabilities	572.4	572.4	335.9	335.9
Lease deposits	<u>5,580.8</u>	<u>5,580.8</u>	<u>5,521.2</u>	<u>5,521.2</u>
	<u>P 33,421.3</u>	<u>P 33,303.1</u>	<u>P 31,169.2</u>	<u>P 31,061.0</u>

The methods and assumptions used by the Group in estimating the fair value of the financial instruments are as follow:

(i) *Cash and Cash Equivalents*

The fair values of cash and cash equivalents approximate carrying amounts given their short-term maturities.

(ii) *AFS Financial Assets*

The fair value of available-for-sale financial assets is determined by direct reference to published price quoted in an active market for traded securities. On the other hand, unquoted AFS securities are carried at cost because the fair value cannot be reliably determined either by reference to similar financial instruments or through valuation technique.

Currently, there is no available market to sell the unquoted equity AFS securities. The Group will hold into the investments until management decides to sell them when there will be offers to buy out such investments on the appearance of an available market where the investments can be sold.

(iii) *Loans and Other Receivables*

The estimated fair value of loans and other receivables represents the discounted amount of estimated future cash flow expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

*(iv) Bills Payable*

The estimated fair value of bills payable represents the discounted amount of estimated future cash flows expected to be paid. Expected cash flows are discounted at current market rates to determine fair value.

*(v) Accounts Payable and Other Liabilities*

Fair values approximate carrying amounts given the short-term maturities of the liabilities.

*(vi) Lease Deposits*

Lease deposits are carried at amortized cost which represents the present value.

## **6.2 Fair Value Measurement and Disclosures**

### **6.2.1 Fair Value Hierarchy**

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

### 6.2.2 Financial Instrument Measured at Fair Value

The following table shows the fair value hierarchy of the Group and Parent Company's class of financial assets measured at fair value in the statements of financial position on a recurring basis as of December 31, 2017 and 2016. For the purpose of this disclosure, the investments in unquoted equity security classified as AFS financial assets amounting to P1,400.0 in 2017, in the Group and Parent Company's financial statements, is measured at cost less impairment charges because the fair value cannot be reliably measured and therefore, are not included (see Note 8). There are no unquoted AFS financial assets in 2016.

	<u>Note</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>December 31, 2017</u></b>					
AFS financial assets:					
Equity securities - quoted	8	P 2,067.0	P -	P -	P 2,067.0
Debt securities		<u>1,175.0</u>	<u>-</u>	<u>-</u>	<u>1,175.0</u>
		<u>P 3,242.0</u>	<u>P -</u>	<u>P -</u>	<u>P 3,242.0</u>
<b><u>December 31, 2016</u></b>					
AFS financial assets:					
Equity securities - quoted	8	P 2,092.9	P -	P -	P 2,092.9
Debt securities		<u>1,428.7</u>	<u>-</u>	<u>-</u>	<u>1,428.7</u>
		<u>P 3,521.6</u>	<u>P -</u>	<u>P -</u>	<u>P 3,521.6</u>

The Group and the Parent Company has no financial liabilities measured at fair value as of December 31, 2017 and 2016.

There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in both years.

### 6.2.3 *Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed*

The following summarizes the fair value hierarchy of the Group and the Parent Company's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed.

		<b>Group</b>			
	<u>Notes</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>December 31, 2017</u></b>					
<i>Financial assets:</i>					
Cash and cash equivalents	7	P 457.7	P -	P -	P 457.7
Loans and other receivables	9	-	-	33,524.1	33,524.1
		<u>P 457.7</u>	<u>P -</u>	<u>P 33,524.1</u>	<u>P 33,981.8</u>
<i>Financial liabilities:</i>					
Bills payable	13	P -	P -	P 30,341.7	P 30,341.7
Accounts payable and other liabilities	14	-	-	790.3	790.3
Lease deposits	15	-	-	5,988.6	5,988.6
		<u>P -</u>	<u>P -</u>	<u>P 37,120.6</u>	<u>P 37,120.6</u>
<b><u>December 31, 2016</u></b>					
<i>Financial assets:</i>					
Cash and cash equivalents	7	P 370.5	P -	P -	P 370.5
Loans and other receivables	9	-	-	31,349.0	31,349.0
		<u>P 370.5</u>	<u>P -</u>	<u>P 31,349.0</u>	<u>P 31,719.5</u>
<i>Financial liabilities:</i>					
Bills payable	13	P -	P -	P 27,149.9	P 27,149.9
Accounts payable and other liabilities	14	-	-	572.4	572.4
Lease deposits	15	-	-	5,580.8	5,580.8
		<u>P -</u>	<u>P -</u>	<u>P 33,303.1</u>	<u>P 33,303.1</u>
		<b>Parent Company</b>			
	<u>Notes</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>December 31, 2017</u></b>					
<i>Financial assets:</i>					
Cash and cash equivalents	7	P 376.8	P -	P -	P 376.8
Loans and other receivables	9	-	-	33,406.0	33,406.0
		<u>P 376.8</u>	<u>P -</u>	<u>P 33,406.0</u>	<u>P 33,782.8</u>



		Parent Company					
	Notes	Level 1		Level 2		Level 3	Total
<u>December 31, 2017</u>							
<i>Financial liabilities:</i>							
Bills payable	13	P	-	P	-	P 28,156.3	P 28,156.3
Accounts payable and other liabilities	14		-		-	586.5	586.5
Lease deposits	15		-		-	5,918.1	5,918.1
		P	-	P	-	P 34,660.9	P 34,660.9

**December 31, 2016**

<i>Financial assets:</i>					
Cash and cash equivalents	7	P 293.2	P -	P -	P 293.2
Loans and other receivables	9	-	-	31,509.3	31,509.3
		<u>P 293.2</u>	<u>P -</u>	<u>P 31,509.3</u>	<u>P 31,802.5</u>
<i>Financial liabilities:</i>					
Bills payable	13	P -	P -	P 25,203.9	P 25,203.9
Accounts payable and other liabilities	14	-	-	335.9	335.9
Lease deposits	15	-	-	5,521.2	5,521.2
		<u>P -</u>	<u>P -</u>	<u>P 31,061.0</u>	<u>P 31,061.0</u>

There have been no significant transfers among Levels 1 and 2 in the reporting periods.

Summarized below are the information on how the fair values of the Group's financial assets and financial liabilities are determined.

(a) Financial Instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The Group acquired fixed rate corporate bonds classified as AFS financial assets and are carried at Level 1. The fair value of the bonds is determined by direct reference to published prices in PDEx. As of December 31, 2017 and 2016, the Group also holds preferred shares which are listed in the PSE and are classified as AFS financial assets and are also carried at Level 1. The quoted market prices used by the Group are the closing share prices of the said preferred shares in the PSE as of the reporting period.

(b) Financial Instruments in Level 2

The fair value of financial instruments not traded in an active market is determined by using valuation techniques or by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment. When the Group uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

Currently, the Group has no financial instruments carried under Level 2.

(c) Financial Instruments in Level 3

The Group classifies financial instruments that have no quoted prices or observable market data where reference of fair value can be derived; hence, fair value is determined based on their discounted amount of estimated future cash flows expected to be received or paid, or based on their cost which management estimates to approximate their fair values.

**6.2.4 Fair Value Measurement for Non-Financial Assets**

Details of the Group and Parent Company's investment properties and the information about the fair value hierarchy as of December 31 are shown below.

		<b>Group</b>			
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b><u>2017</u></b>					
Land	<b>P</b>	-	<b>P</b>	-	<b>P 670.5</b>
Building and improvements		-	-	<b>43.8</b>	<b>43.8</b>
	<b>P</b>	<u>-</u>	<b>P</b>	<u>-</u>	<b>P 714.3</b>
				<b>714.3</b>	<b>714.3</b>
<b><u>2016</u></b>					
Land	<b>P</b>	-	<b>P</b>	-	<b>P 688.3</b>
Building and improvements		-	-	<b>46.6</b>	<b>46.6</b>
	<b>P</b>	<u>-</u>	<b>P</b>	<u>-</u>	<b>P 734.9</b>
				<b>734.9</b>	<b>734.9</b>
		<b>Parent Company</b>			
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b><u>2017</u></b>					
Land	<b>P</b>	-	<b>P</b>	-	<b>P 435.0</b>
Building and improvements		-	-	<b>43.8</b>	<b>43.8</b>
	<b>P</b>	<u>-</u>	<b>P</b>	<u>-</u>	<b>P 478.8</b>
				<b>478.8</b>	<b>478.8</b>

	Parent Company			
	Level 1	Level 2	Level 3	Total
<u>2016</u>				
Land	P -	P -	P 462.2	P 462.2
Building and improvements	<u>-</u>	<u>-</u>	<u>46.6</u>	<u>46.6</u>
	<u>P -</u>	<u>P -</u>	<u>P 508.8</u>	<u>P 508.8</u>

The fair value of the investment properties of the Group and Parent Company as of December 31, 2017 and 2016, under Level 3 measurement, was determined on the basis of a valuation carried out on the respective dates by either an independent or internal appraiser having appropriate qualifications and recent experience in the valuation of properties in the relevant locations. To some extent, the valuation process was conducted by the appraisers in discussion with the management of the Group and the Parent Company with respect to determination of the inputs such as size, age, and condition of the land and buildings and the comparable prices in the corresponding property location. In estimating the fair value of the properties, management takes into account the market participant's ability to generate economic benefits by using the assets in its highest and best use. Based on management's assessment, the best use of the investment properties of the Group and the Parent Company indicated above is their current use.

The foregoing fair value as determined by the appraisers were used by the Group and Parent Company in determining the fair value of discounted cash flows of the Investment Properties.

The fair value of these investment properties were determined based on the following approaches:

*(a) Fair Value Measurement for Land*

The Level 3 fair value of land was derived using the observable recent prices of the reference properties, which were adjusted for differences in key attributes such as property size, zoning and accessibility.

*(b) Fair Value Measurement for Buildings and Improvements*

The Level 3 fair value of the buildings and improvements was determined using the replacement cost approach that reflects the cost to a market participant to construct an asset of comparable usage, constructions standards, design and lay-out, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

There has been no change to the valuation techniques during the year for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2017 and 2016.

## 7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of December 31:

	<b>Group</b>		<b>Parent Company</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Cash on hand and in banks	<b>P 453.5</b>	P 365.7	<b>P 372.6</b>	P 288.4
Cash equivalents	<b>4.2</b>	4.8	<b>4.2</b>	4.8
	<b><u>P 457.7</u></b>	<u>P 370.5</u>	<b><u>P 376.8</u></b>	<u>P 293.2</u>

Cash in banks earn interest at rates based on daily bank deposit rates. Cash equivalents represent a special savings account and time deposit with average maturity of 35 to 90 days and annual interest rates ranging from 0.3% to 1.5% in 2017 and 0.3% to 1.2% in 2016.

## 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The composition of available-for-sale financial assets of the Group and the Parent Company as of December 31 pertains to the following:

	<b>2017</b>	<b>2016</b>
Smart Communication Inc. perpetual notes (Smart Notes)	<b>P 1,400.0</b>	P -
San Miguel Corporation preferred shares (SMC Shares)	<b>1,232.1</b>	1,232.1
8990 Holdings Inc. fixed rate bonds (8990 Holdings Bonds)	<b>937.2</b>	937.2
First Gen Corp. Series "F" preferred shares (First Gen Shares)	<b>680.0</b>	680.0
Sta. Lucia Land Inc. fixed rate bonds (Sta. Lucia Bonds)	<b>200.0</b>	200.0
Club shares and other equity investments	<b>0.8</b>	0.8
Century Properties Group, Inc. fixed rate bonds (Century Bonds)	<b>-</b>	250.0
	<b><u>4,450.1</u></b>	<u>3,300.1</u>
Accumulated unrealized fair value gains	<b>179.4</b>	207.8
Accrued interest receivable	<b>12.5</b>	13.7
	<b><u>P 4,642.0</u></b>	<u>P 3,521.6</u>

A reconciliation of the carrying amounts of AFS financial assets is as follows:

	<u>2017</u>		<u>2016</u>
Balance at beginning of year	<b>P 3,521.6</b>	P	3,540.2
Additions	<b>1,400.0</b>		-
Disposals/maturity	<b>( 251.2)</b>	(	13.9)
Fair value losses - net	<b>( 28.4)</b>	(	4.7)
Balance at end of year	<b><u>P 4,642.0</u></b>	P	<b><u>3,521.6</u></b>

In March 2017, the Group acquired Smart Notes amounting to P1,400.0 at an initial interest rate of 5.6%. The Smart Notes are perpetual in nature and have no fixed redemption date.

SMC Shares bear an annual dividend rate of 8.0%. The 8990 Holdings and Sta. Lucia Bonds carrying fixed rates of 6.2% and 6.7%, respectively, both with a term of five years and three months. The First Gen Shares carry a dividend rate of 8.0% per annum and are cumulative, non-voting, non-participating and non-convertible.

The Century Bonds, carrying a fixed rate of 6.0%, matured in September 2017.

Club shares and other equity investments consist of golf and country club shares of stock.

Dividend income earned from AFS financial assets are recorded as Dividend income account under Other Income-net in the statements of income (see Note 17).

The Group and the Parent Company recognized fair value losses of P28.4 and P4.7 in 2017 and 2016, respectively, and fair value gains of P61.3 in 2015. Fair value gains and losses are recorded as part of items that will be reclassified subsequently to profit or loss in the statements of comprehensive income.

The fair values of AFS financial assets have been determined based on quoted prices in active markets (see Note 6).

The Group and the Parent Company recognized a gain on disposal of AFS financial assets amounting to P1.5 in 2016, which is recorded as part of Miscellaneous under Other Income (see Note 17). There was no disposal of AFS financial assets in 2017.

Certain AFS financial assets with face amount of P1,912.1 and P1,970.0 as of December 31, 2017 and 2016, respectively, were used as collateral to secure the payment of certain bills payable (see Note 13).

## 9. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Receivables from customers:				
Finance lease receivables	P 13,951.7	P 12,997.8	P 13,951.7	P 12,997.8
Residual value of leased assets	5,974.4	5,575.0	5,974.4	5,575.0
Unearned leased income	( 1,361.1)	( 1,224.7)	( 1,361.1)	( 1,224.7)
	<u>18,565.0</u>	<u>17,348.1</u>	<u>18,565.0</u>	<u>17,348.1</u>
Loans and receivables financed	16,022.8	14,535.3	16,022.8	14,535.3
Unearned finance income	( 19.4)	( 39.8)	( 19.4)	( 39.8)
Client's equity	( 33.3)	( 37.2)	( 33.3)	( 37.2)
	<u>15,970.1</u>	<u>14,458.3</u>	<u>15,970.1</u>	<u>14,458.3</u>
Other receivables:				
Accounts receivable	297.8	29.2	188.4	138.5
Accrued interest receivable	97.6	91.1	97.6	91.1
Dividends receivable	55.5	50.0	55.5	110.0
Sales contract receivable	36.1	24.6	36.1	24.6
Accrued rental receivable	8.7	9.0	-	-
	<u>495.7</u>	<u>203.9</u>	<u>377.6</u>	<u>364.2</u>
	35,030.8	32,010.3	34,912.7	32,170.6
Allowance for impairment	( 706.1)	( 629.0)	( 706.1)	( 629.0)
	<u>P 34,324.7</u>	<u>P 31,381.3</u>	<u>P 34,206.6</u>	<u>P 31,541.6</u>

As of December 31, 2017 and 2016, 82.6% and 70.8%, respectively, of the total receivables from customers of the Group are subject to periodic interest repricing. Remaining receivables from customers earn annual fixed interest rates ranging from 4.0% to 17.7% in 2017 and 4.0% to 19.6% in 2016.

The breakdown of total loans as to secured and unsecured follows:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Secured				
Chattel mortgage	P 20,674.0	P 19,481.8	P 20,674.0	P 19,481.8
Real estate mortgage	2,492.2	1,000.4	2,492.2	1,000.4
Others	245.8	189.6	245.8	189.6
	<u>23,412.0</u>	<u>20,671.8</u>	<u>23,412.0</u>	<u>20,671.8</u>
Unsecured	<u>10,912.7</u>	<u>10,709.5</u>	<u>10,794.6</u>	<u>10,869.8</u>
	<u>P 34,324.7</u>	<u>P 31,381.3</u>	<u>P 34,206.6</u>	<u>P 31,541.6</u>

An analysis of the Group's and Parent Company's finance lease receivables as of December 31, 2017 and 2016 is shown below.

	<u>2017</u>	<u>2016</u>
Maturity of gross investment in:		
Finance lease receivables		
Within one year	<b>P 1,589.9</b>	P 1,228.9
Beyond one year but not beyond five years	<b>12,341.2</b>	11,740.3
Beyond five years	<u><b>20.6</b></u>	<u>28.6</u>
	<u><b>13,951.7</b></u>	<u>12,997.8</u>
Maturity of gross investment in:		
Residual value of leased assets		
Within one year	<b>1,862.9</b>	1,401.4
Beyond one year but not beyond five years	<b>4,106.8</b>	4,161.1
Beyond five years	<u><b>4.7</b></u>	<u>12.5</u>
	<u><b>5,974.4</b></u>	<u>5,575.0</u>
Gross finance lease receivables	<b>19,926.1</b>	18,572.8
Unearned lease income	<u><b>(1,361.1)</b></u>	<u>(1,224.7)</u>
Net investment in finance lease receivables	<u><b>P 18,565.0</b></u>	<u>P 17,348.1</u>

An analysis of the Group's and Parent Company's net investment in finance lease receivables follows:

	<u>2017</u>	<u>2016</u>
Due within one year	<b>P 3,370.8</b>	P 2,559.8
Due beyond one year but not beyond five years	<b>15,172.4</b>	14,751.0
Beyond five years	<u><b>21.8</b></u>	<u>37.3</u>
	<u><b>P 18,565.0</b></u>	<u>P 17,348.1</u>

Past due finance lease receivables amounted to P475.8 and P352.2 as of December 31, 2017 and 2016, respectively.

Past due loans and receivables financed amounted to P411.2 and P190.8 as of December 31, 2017 and 2016, respectively.

Interest and discounts in the statements of income consist of interest on:

		<b>Group</b>		
		<u>2017</u>	<u>2016</u>	<u>2015</u>
Loans and receivable financed	<b>P</b>	<b>979.3</b>	P 834.4	P 723.3
Finance lease receivables		<b>853.5</b>	835.8	802.8
AFS financial assets		<b>81.6</b>	86.6	42.0
Interest on defined benefit plan		<b>3.1</b>	3.1	2.8
Cash and cash equivalents		<u>.8</u>	<u>.8</u>	<u>.7</u>
	<b>P</b>	<b><u>1,918.3</u></b>	<u>P 1,760.7</u>	<u>P 1,571.6</u>
		<b>Parent Company</b>		
		<u>2017</u>	<u>2016</u>	<u>2015</u>
Loans and receivables financed	<b>P</b>	<b>978.9</b>	P 834.1	P 723.2
Finance lease receivables		<b>853.5</b>	835.8	802.8
AFS financial assets		<b>81.6</b>	86.6	42.0
Interest on defined benefit plan		<b>3.1</b>	3.1	2.8
Cash and cash equivalents		<u>.8</u>	<u>.8</u>	<u>.6</u>
	<b>P</b>	<b><u>1,917.9</u></b>	<u>P 1,760.4</u>	<u>P 1,571.4</u>

Interest income recognized on impaired loans and receivables amounted to P8.2 in 2017, P9.8 in 2016 and P2.7 in 2015.

The changes in the allowance or impairment for the Group and the Parent Company are summarized below.

		<u>2017</u>	<u>2016</u>	<u>2015</u>
Balance at beginning of year	<b>P</b>	<b>629.0</b>	P 580.1	P 496.8
Impairment losses during the year		<b>63.5</b>	50.0	83.3
Reclassification (see Note 11)		<b>13.9</b>	-	-
Accounts written-off		<u>(.3)</u>	<u>(1.1)</u>	<u>-</u>
Balance at end of year	<b>P</b>	<b><u>706.1</u></b>	<u>P 629.0</u>	<u>P 580.1</u>

Certain loans and receivables with carrying amount of P1,045.7 and P1,847.0 as of December 31, 2017 and 2016, respectively, were used as collateral to secure the payment of certain bills payable (see Note 13).

In 2017 and 2016, the BOD approved the write-off of certain loans and receivable financed and finance lease receivables with a total amount of P0.3 and P1.1, respectively.



## 10. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of 2017 and 2016 are shown below.

	<u>Transportation and Other Equipment</u>	<u>Furniture, Fixtures and Others</u>	<u>Leasehold Improvements</u>	<u>Total</u>
<b><u>Group</u></b>				
December 31, 2017				
Cost	P 4,385.5	P 41.2	P 1.3	P 4,428.0
Accumulated depreciation and amortization	( 2,136.0 )	( 34.5 )	( 0.9 )	( 2,171.4 )
Net carrying amount	<u>P 2,249.5</u>	<u>P 6.7</u>	<u>P 0.4</u>	<u>P 2,256.6</u>
December 31, 2016				
Cost	P 4,015.8	P 35.3	P 20.0	P 4,071.1
Accumulated depreciation and amortization	( 1,640.9 )	( 29.8 )	( 19.2 )	( 1,689.9 )
Net carrying amount	<u>P 2,374.9</u>	<u>P 5.5</u>	<u>P 0.8</u>	<u>P 2,381.2</u>
December 31, 2015				
Cost	P 3,512.1	P 36.5	P 20.0	P 3,568.6
Accumulated depreciation and amortization	( 1,299.6 )	( 28.8 )	( 18.5 )	( 1,346.9 )
Net carrying amount	<u>P 2,212.5</u>	<u>P 7.7</u>	<u>P 1.5</u>	<u>P 2,221.7</u>
<b><u>Parent Company</u></b>				
December 31, 2017				
Cost	P -	P 41.2	P 1.3	P 42.5
Accumulated depreciation and amortization	-	( 34.5 )	( 0.9 )	( 35.4 )
Net carrying amount	<u>P -</u>	<u>P 6.7</u>	<u>P 0.4</u>	<u>P 7.1</u>
December 31, 2016				
Cost	P -	P 35.3	P 20.0	P 55.3
Accumulated depreciation and amortization	-	( 29.8 )	( 19.2 )	( 49.0 )
Net carrying amount	<u>P -</u>	<u>P 5.5</u>	<u>P 0.8</u>	<u>P 6.3</u>
December 31, 2015				
Cost	P -	P 36.5	P 20.0	P 56.5
Accumulated depreciation and amortization	-	( 28.8 )	( 18.5 )	( 47.3 )
Net carrying amount	<u>P -</u>	<u>P 7.7</u>	<u>P 1.5</u>	<u>P 9.2</u>

A reconciliation of the carrying amounts of property and equipment at the beginning and end of 2017 and 2016 is shown below.

	Transportation and Other Equipment	Furniture, Fixtures and Others	Leasehold Improvements	Total
<b><u>Group</u></b>				
Balance at January 1, 2017, net of accumulated depreciation and amortization	P 2,374.9	P 5.5	P 0.8	P 2,381.2
Additions	776.5	6.1	-	782.6
Disposals	( 82.7)	-	-	( 82.7)
Reclassifications (see Note 12.5)	( 4.7)	-	-	( 4.7)
Depreciation and amortization charges for the year	( 814.5)	( 4.9)	( 0.4)	( 819.8)
Balance at December 31, 2017, net of accumulated depreciation and amortization	<u>P 2,249.5</u>	<u>P 6.7</u>	<u>P 0.4</u>	<u>P 2,256.6</u>
Balance at January 1, 2016, net of accumulated depreciation and amortization	P 2,212.5	P 7.7	P 1.5	P 2,221.7
Additions	935.0	2.0	-	937.0
Disposals	( 51.1)	-	-	( 51.1)
Reclassifications (see Note 12.5)	( 6.4)	-	-	( 6.4)
Depreciation and amortization charges for the year	( 715.1)	( 4.2)	( 0.7)	( 720.0)
Balance at December 31, 2016, net of accumulated depreciation and amortization	<u>P 2,374.9</u>	<u>P 5.5</u>	<u>P 0.8</u>	<u>P 2,381.2</u>
<b><u>Parent Company</u></b>				
Balance at January 1, 2017, net of accumulated depreciation and amortization	P -	P 5.5	P 0.8	P 6.3
Additions	-	6.1	-	6.1
Depreciation and amortization charges for the year	-	( 4.9)	( 0.4)	( 5.3)
Balance at December 31, 2017, net of accumulated depreciation and amortization	<u>P -</u>	<u>P 6.7</u>	<u>P 0.4</u>	<u>P 7.1</u>

	<u>Transportation and Other Equipment</u>	<u>Furniture, Fixtures and Others</u>	<u>Leasehold Improvements</u>	<u>Total</u>
<b><u>Parent Company</u></b>				
Balance at January 1, 2016, net of accumulated depreciation and amortization	P -	P 7.7	P 1.5	P 9.2
Additions	-	2.0	-	2.0
Depreciation and amortization charges for the year	<u>-</u>	<u>( 4.2)</u>	<u>( 0.7)</u>	<u>( 4.9)</u>
Balance at December 31, 2016, net of accumulated depreciation and amortization	<u>P -</u>	<u>P 5.5</u>	<u>P 0.8</u>	<u>P 6.3</u>

The cost of fully depreciated assets that are still being used in operations amounted to P51.7 and P43.7 for the Group as of December 31, 2017 and 2016, respectively, and P20.9 and P23.4 for the Parent Company as of December 31, 2017 and 2016, respectively.

Depreciation and amortization charges for 2017, 2016 and 2015 are included as part of Occupancy and Equipment-related Expenses account in the statements of income.

As of December 31, 2017 and 2016, the net book value of transportation and other equipment leased out by the Group (nil for the Parent Company) under operating lease arrangements amounted to P2,249.5 and P2,374.9, respectively.

In 2017, 2016 and 2015, the Group disposed of certain equipment with carrying value of P82.7, P51.1 and P52.5, respectively, resulting in a gain on sale of P6.0, P10.7 and P10.5, respectively (see Note 17).

## 11. INVESTMENT PROPERTIES

Investment properties include land, building and improvements held for rentals and capital appreciation.

The carrying amounts and accumulated depreciation at the beginning and end of 2017 and 2016 are shown below and in the succeeding pages.

	<u>Land</u>	<u>Building and Improvements</u>	<u>Total</u>
<b><u>Group</u></b>			
December 31, 2017			
Cost	P 369.9	P 38.9	P 408.8
Accumulated depreciation and amortization	-	( 29.0)	( 29.0)
Accumulated impairment	<u>( 24.5)</u>	<u>( 0.9)</u>	<u>( 25.4)</u>
Net carrying amount	<u>P 345.4</u>	<u>P 9.0</u>	<u>P 354.4</u>

	<u>Land</u>	<u>Building and Improvements</u>	<u>Total</u>
December 31, 2016			
Cost	P 462.5	P 63.5	P 526.0
Accumulated depreciation and amortization	-	( 54.4)	( 54.4)
Accumulated impairment	( 44.5)	( 0.6)	( 45.1)
Net carrying amount	<u>P 418.0</u>	<u>P 8.5</u>	<u>P 426.5</u>
December 31, 2015			
Cost	P 467.6	P 78.5	P 546.1
Accumulated depreciation and amortization	-	( 63.2)	( 63.2)
Accumulated impairment	( 44.8)	-	( 44.8)
Net carrying amount	<u>P 422.8</u>	<u>P 15.3</u>	<u>P 438.1</u>

**Parent Company**

December 31, 2017			
Cost	<b>P 143.8</b>	<b>P 38.9</b>	<b>P 182.7</b>
Accumulated depreciation and amortization	-	( 29.0)	( 29.0)
Accumulated impairment	( 24.5)	( 0.9)	( 25.4)
Net carrying amount	<u><b>P 119.3</b></u>	<u><b>P 9.0</b></u>	<u><b>P 128.3</b></u>
December 31, 2016			
Cost	P 236.4	P 63.5	P 299.9
Accumulated depreciation and amortization	-	( 54.4)	( 54.4)
Accumulated impairment	( 44.5)	( 0.6)	( 45.1)
Net carrying amount	<u>P 191.9</u>	<u>P 8.5</u>	<u>P 200.4</u>
December 31, 2015			
Cost	P 241.5	P 78.5	P 320.0
Accumulated depreciation and amortization	-	( 63.2)	( 63.2)
Accumulated impairment	( 44.8)	-	( 44.8)
Net carrying amount	<u>P 196.7</u>	<u>P 15.3</u>	<u>P 212.0</u>

A reconciliation of the carrying amounts at the beginning and end of 2017 and 2016 of investment properties is shown below.

	<u>Land</u>	<u>Building and Improvements</u>	<u>Total</u>
<b><u>Group</u></b>			
Balance at January 1, 2017, net of accumulated depreciation and amortization and impairment	<b>P 418.0</b>	<b>P 8.5</b>	<b>P 426.5</b>
Additions	1.0	3.7	4.7
Disposals	( 93.6)	( 0.4)	( 94.0)
Reclassifications (see Notes 9 and 12.6)	20.0	( 0.3)	19.7
Depreciation and amortization charges for the year	-	( 2.5)	( 2.5)
Balance at December 31, 2017, net of accumulated depreciation and amortization and impairment	<u><b>P 345.4</b></u>	<u><b>P 9.0</b></u>	<u><b>P 354.4</b></u>

	<u>Land</u>	<u>Building and Improvements</u>	<u>Total</u>
<b><u>Group</u></b>			
Balance at January 1, 2016, net of accumulated depreciation and amortization and impairment	P 422.8	P 15.3	P 438.1
Additions	2.9	0.8	3.7
Disposals	( 8.0)	( 3.1)	( 11.1)
Reclassifications	0.3	( 0.6)	( 0.3)
Depreciation and amortization charges for the year	<u>-</u>	<u>( 3.9)</u>	<u>( 3.9)</u>
Balance at December 31, 2016, net of accumulated depreciation and amortization and impairment	<u>P 418.0</u>	<u>P 8.5</u>	<u>P 426.5</u>
<b><u>Parent Company</u></b>			
Balance at January 1, 2017, net of accumulated depreciation and amortization and impairment	<b>P 191.9</b>	<b>P 8.5</b>	<b>P 200.4</b>
Additions	<b>1.0</b>	<b>3.7</b>	<b>4.7</b>
Reclassifications (see Notes 9 and 12.6)	<b>20.0</b>	<b>( 0.3)</b>	<b>19.7</b>
Disposals	<b>( 93.6)</b>	<b>( 0.4)</b>	<b>( 94.0)</b>
Depreciation and amortization charges for the year	<u>-</u>	<u>( 2.5)</u>	<u>( 2.5)</u>
Balance at December 31, 2017, net of accumulated depreciation and amortization and impairment	<u><b>P 119.3</b></u>	<u><b>P 9.0</b></u>	<u><b>P 128.3</b></u>
Balance at January 1, 2016, net of accumulated depreciation and amortization and impairment	P 196.7	P 15.3	P 212.0
Additions	2.9	0.8	3.7
Reclassifications	0.3	( 0.6)	( 0.3)
Disposals	( 8.0)	( 3.1)	( 11.1)
Depreciation and amortization charges for the year	<u>-</u>	<u>( 3.9)</u>	<u>( 3.9)</u>
Balance at December 31, 2016, net of accumulated depreciation and amortization and impairment	<u>P 191.9</u>	<u>P 8.5</u>	<u>P 200.4</u>

The appraised values of the investment properties as of December 31, 2017 and 2016 follow (see Note 6.2.4):

	<u>Group</u>	
	<u>2017</u>	<u>2016</u>
Land	<b>P 670.5</b>	P 688.3
Building and improvements	<u><b>43.8</b></u>	<u>46.6</u>
	<u><b>P 714.3</b></u>	<u>P 734.9</u>

	<b>Parent Company</b>	
	<b>2017</b>	<b>2016</b>
Land	<b>P 435.0</b>	P 462.2
Building and improvements	<b>43.8</b>	46.6
	<b>P 478.8</b>	P 508.8

Fair values have been determined based on valuations made by independent and/or in-house appraisers, which are the market value for land and building and related improvements and reproduction cost for certain building and improvements. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made. In addition, there are certain significant assumptions that are considered in the valuation of these properties, based on the following: (a) extent, character and utility of the properties; (b) sales or listing of prices for similar properties; (c) highest and best use of the property; and (d) accumulated depreciation for depreciable properties. Internal appraisals were made for all properties with book value of P5.0 or less, while external appraisals were made for all properties with book value exceeding P5.0.

Direct operating expenses incurred on investment properties recognized in profit or loss are insignificant.

Depreciation and amortization charges for 2017 and 2016 are included as part of Occupancy and Equipment-related Expenses account in the statements of income. There were no impairment losses recognized in 2017 and 2016.

Gain on sale of investment properties of the Parent Company, recorded as Gain on sale of investment properties as part of Other Income, amounted to P59.1, P9.5, and P6.4 in 2017, 2016 and 2015, respectively (see Note 17).

## 12. OTHER ASSETS

Other assets consist of the following:

		<b>Group</b>		<b>Parent Company</b>	
	<b>Notes</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Deferred input VAT	12.2	<b>P 269.1</b>	P 278.0	<b>P -</b>	P -
Equity investments	12.1	<b>266.6</b>	280.1	<b>797.8</b>	911.0
Deferred tax assets – net	21	<b>110.1</b>	41.7	<b>110.1</b>	41.7
Intangible assets – net	12.4	<b>29.4</b>	42.8	<b>29.4</b>	42.8
Prepaid expenses	12.3	<b>27.8</b>	105.7	<b>27.6</b>	29.1
Retirement benefit asset	19	<b>25.8</b>	51.8	<b>25.8</b>	51.8
Non-current assets					
held-for-sale - net	12.6	<b>9.8</b>	0.4	<b>9.8</b>	0.4
Repossessed chattels and other equipment - net	12.5	<b>4.7</b>	9.8	<b>-</b>	-
Miscellaneous - net		<b>62.9</b>	9.0	<b>3.9</b>	5.7
		<b>P 806.2</b>	P 819.3	<b>P 1,004.4</b>	P 1,082.5

## 12.1 Equity Investments

Equity investments consist of the following:

	% Interest Held	Group		Parent Company	
		2017	2016	2017	2016
Subsidiary – BDO Rental	100%	P -	P -	P 531.2	P 630.9
Associate – MMPC Auto Financial Services Corp. (MAFSC)	40%	<u>266.6</u>	<u>280.1</u>	<u>266.6</u>	<u>280.1</u>
		<u>P 266.6</u>	<u>P 280.1</u>	<u>P 797.8</u>	<u>P 911.0</u>

A reconciliation of the carrying amounts of equity investments is as follows:

	Subsidiary		Associate	
	2017	2016	2017	2016
Acquisition costs	<u>P 250.0</u>	<u>P 250.0</u>	<u>P 300.0</u>	<u>P 300.0</u>
Accumulated equity in total comprehensive income:				
Balance at beginning of year	380.9	469.1	( 19.9)	-
Dividend income	( 120.0)	( 60.0)	-	-
Share in net profit (loss)	20.3	81.3	( 20.0)	( 19.9)
Share in 2016 net operating loss carry-over	-	-	6.5	-
Reclassification	<u>-</u>	<u>( 109.5)</u>	<u>-</u>	<u>-</u>
	<u>281.2</u>	<u>380.9</u>	<u>( 33.4)</u>	<u>( 19.9)</u>
	<u>P 531.2</u>	<u>P 630.9</u>	<u>P 266.6</u>	<u>P 280.1</u>

In 2016, the Parent Company reclassified as part of its Accounts receivable under Loans and Other Receivables account (see Note 9), the amount of P109.4, representing the deposit for future stock subscription from BDO Rental, which did not materialize as a result of the cancellation of BDO Rental's application for capital increase on December 20, 2016. In 2017, the accounts receivable was fully paid by BDO Rental to the Parent Company.

As of December 31, 2017 and 2016, the Parent Company holds 250 million common shares of BDO Rental representing 100% ownership.

On January 28, 2016, the Parent Company entered into an agreement with Sojitz Corporation, JACCS Co., Ltd. and Mitsubishi Motors Philippines Corporation, which resulted in the incorporation of MAFSC, as an associate of BDO Leasing. MAFSC is registered with the SEC on May 31, 2016, to engage in extending credit facilities to individual and corporate buyers of Mitsubishi vehicles in the Philippines and commercial and industrial enterprises. Its principal office is located at 38th floor, Robinsons Equitable Tower, ADB Avenue cor. Poveda St., Ortigas Center, Pasig City.

MAFSC started its commercial operations on June 1, 2016. The Parent Company owns 40% of MAFSC by making a capital contribution of P300.0 and has exercised significant influence over MAFSC in 2016. The Parent Company recognized share in MAFSC's net loss in 2017 and 2016 are presented as part of Miscellaneous-net under Other Income account in the Parent Company's statements of income (see Note 17).

The summarized financial information in respect of the Group and Parent Company's equity investments are set out below.

	<u>Total Assets</u>	<u>Total Liabilities</u>	<u>Revenues</u>	<u>Net Profit (Loss)</u>
<b><u>December 31, 2017</u></b>				
BDO Rental	<u>P 3,007.7</u>	<u>P 2,476.5</u>	<u>P 922.2</u>	<u>P 20.3</u>
MAFSC	<u>P 3,719.1</u>	<u>P 3,053.5</u>	<u>P 224.3</u>	<u>(P 50.1)</u>
<b><u>December 31, 2016</u></b>				
BDO Rental	<u>P 3,055.2</u>	<u>P 2,424.3</u>	<u>P 907.4</u>	<u>P 81.3</u>
MAFSC	<u>P 727.2</u>	<u>P 27.0</u>	<u>P 6.9</u>	<u>(P 49.8)</u>

In 2017 and 2016, the Group and Parent Company have assessed that no impairment loss is necessary to be recognized for the equity investments.

### ***12.2 Deferred Input VAT***

Deferred input VAT pertains to the VAT due or paid by the Group on purchases of capital assets for lease in the ordinary course of business wherein the application against the output VAT is amortized over the useful life of the asset or 60 months, whichever is shorter.

### ***12.3 Prepaid Expenses***

In 2017, creditable withholding taxes of BDO Rental, Inc. amounting to P109.2, previously part of Prepaid Expenses, have been reclassified to Accounts receivable (see Note 9). In 2016, prepaid expenses of the Group include creditable withholding taxes of BDO Rental amounting to P76.5 as of December 31, 2016.

### ***12.4 Intangible Assets***

Intangibles Assets represent the unamortized cost of the leasing system of the Parent Company that was used starting 2015. Amortization expense on intangible assets amounted to P13.9, P13.5, and P12.7 in 2017, 2016, and 2015, respectively, and is included as part of Occupancy and Equipment-related Expenses account in the statement of income.



### 12.5 Repossessed Chattels and Other Equipment

Repossessed chattels and other equipment of the Group include certain transportation equipment returned to BDO Rental which were reclassified from property and equipment to other assets at year-end. As of December 31, 2017 and 2016, the Parent Company had no remaining repossessed chattels and other equipment.

No depreciation expense and impairment loss was recognized on repossessed chattels and other equipment in 2017, 2016 and 2015.

### 12.6 Non-current Assets Held-for-Sale

The gross carrying amounts and accumulated impairment losses of non-current assets held-for-sale are shown below.

	<u>2017</u>	<u>2016</u>
Cost	<b>P 15.5</b>	P 0.5
Accumulated impairment	<b>( 5.7)</b>	( 0.1)
	<b><u>P 9.8</u></b>	<b><u>P 0.4</u></b>

A reconciliation of the carrying amounts of non-current assets held-for-sale at the beginning and end of 2017 and 2016 is shown below.

	<u>2017</u>	<u>2016</u>
Balance at January 1, net of accumulated impairment	<b>P 0.4</b>	P 4.2
Additions	<b>16.4</b>	0.6
Disposals	<b>( 1.3)</b>	( 4.4)
Reclassifications (see Note 11)	<b>( 5.7)</b>	-
Balance at December 31, net of accumulated impairment	<b><u>P 9.8</u></b>	<b><u>P 0.4</u></b>

## 13. BILLS PAYABLE

This account consists of:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Borrowings from:				
Banks	<b>P 19,783.2</b>	P 12,867.2	<b>P 17,592.2</b>	P 10,918.7
Others	<b>10,626.9</b>	14,358.0	<b>10,626.9</b>	14,358.0
Accrued interest	<b><u>68.2</u></b>	<u>42.9</u>	<b><u>59.2</u></b>	<u>35.4</u>
	<b><u>P 30,478.3</u></b>	<b><u>P 27,268.1</u></b>	<b><u>P 28,278.3</u></b>	<b><u>P 25,312.1</u></b>

Bills payable to banks represent peso borrowings from local banks (including BDO Unibank as of December 31, 2017, 2016 and 2015 – see Note 20), with annual interest rates ranging from 2.2% to 3.5% in 2017, and 2.2% to 3.3% both in 2016 and 2015. As of December 31, 2017, 2016 and 2015, bills payable – others represent short-term notes issued to corporate investors, with annual interest rates ranging from 2.5% to 3.3%, 2.3% to 2.7% and 2.4% to 2.8% in 2017, 2016 and 2015, respectively. These rates approximate prevailing market rates. As of December 31, 2017 and 2016, bills payable amounting to P1,414.9 and P1,197.9, respectively, are secured by the Group's AFS financial assets with face amount of P1,912.1 and P1,970.0 as of December 31, 2017 and 2016, respectively, and certain loans receivables with carrying value amounting to P1,045.7 and P1,847.0, as of December 31, 2017 and 2016 (see Notes 8 and 9).

Interest and financing charges consist of interest on:

	Note	2017	2016	2015
<b><u>Group</u></b>				
Bills payable - banks		P 487.8	P 259.7	P 253.2
Bills payable - others		356.7	408.6	311.2
Amortization on lease deposits	15	3.8	3.3	6.4
Others		<u>2.0</u>	<u>1.9</u>	<u>-</u>
		<b><u>P 850.3</u></b>	<b><u>P 673.5</u></b>	<b><u>P 570.8</u></b>
<b><u>Parent Company</u></b>				
Bills payable - banks		P 424.9	P 206.4	P 203.1
Bills payable - others		356.7	408.6	311.2
Amortization on lease deposits	15	.4	.8	4.8
Others		<u>2.0</u>	<u>1.9</u>	<u>-</u>
		<b><u>P 784.0</u></b>	<b><u>P 617.7</u></b>	<b><u>P 519.1</u></b>

Presented below is the reconciliation of the Groups liabilities arising from financing activities, which includes both cash and non-cash changes.

	Group	Parent
Balance as of January 1, 2017	P 27,268.1	P 25,312.1
Cash flows from financing activities		
Additional borrowings	166,621.1	159,093.9
Repayments of bills payable	( 163,410.2 )	( 156,127.7 )
Balance at December 31, 2017	<b><u>P 30,478.3</u></b>	<b><u>P 28,278.3</u></b>

#### 14. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities consist of the following:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Accounts payable	<b>P 628.4</b>	P 458.5	<b>P 431.0</b>	P 223.8
Accrued taxes and other expenses	<b>61.6</b>	55.9	<b>61.5</b>	55.8
Withholding taxes payable	<b>26.0</b>	23.8	<b>24.0</b>	20.9
Other liabilities	<b>161.9</b>	113.7	<b>155.5</b>	112.2
	<b><u>P 877.9</u></b>	<u>P 651.9</u>	<b><u>P 672.0</u></b>	<u>P 412.7</u>

Accounts payable include amount payable to BDO Unibank amounting to P16.9 as of December 31, 2016, representing the Group's liability arising from the stock option plan offered to the Group's employees. There are no related payable arising from this transaction in 2017 [see Note 2.19(e)].

Other liabilities include, among others, unapplied cash receipts, taxes, and insurance, mortgage and other fees.

Management considers the carrying amounts of accounts payable and other liabilities recognized in the statements of financial position to be reasonable approximation of their fair values due to their short duration.

#### 15. LEASE DEPOSITS

This account represents deposits on:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Finance leases	<b>P 5,918.1</b>	P 5,521.2	<b>P 5,918.1</b>	P 5,521.2
Operating leases	<b>70.5</b>	59.6	<b>-</b>	-
	<b><u>P 5,988.6</u></b>	<u>P 5,580.8</u>	<b><u>P 5,918.1</u></b>	<u>P 5,521.2</u>

Interest expense on lease deposits accrued using the effective interest method in the Group's financial statements amounted to P3.8, P3.3 and P6.4 in 2017, 2016 and 2015 respectively, and P0.4, P0.8 and P4.8 in 2017, 2016 and 2015, respectively, in the Parent Company's financial statements (see Note 13). These are included as part of Interest and Financing Charges under Operating Costs and Expenses in the Group and Parent Company's statements of income.

## 16. EQUITY

### 16.1 Capital Management Objectives, Policies and Procedures

The Group's capital management objectives are:

- (a) To provide an adequate return to shareholders by pricing products commensurately with the level of risk; and,
- (b) To ensure the Group's ability to continue as a going concern.

The Group sets the amount of capital in proportion to its overall financing structure and the Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Group's capital and overall financing as of December 31, 2017 and 2016 are shown below.

	<u>2017</u>	<u>2016</u>
Total equity	<b>P 5,442.3</b>	P 5,349.5
Cash and cash equivalents	<b>( 457.7)</b>	( 370.5)
Net capital	<b><u>P 4,984.6</u></b>	<u>P 4,979.0</u>
Bills payable	<b>P 30,478.3</b>	P 27,268.1
Lease deposits	<b>5,988.6</b>	5,580.8
Total equity	<b><u>5,442.3</u></b>	<u>5,349.5</u>
Overall financing	<b><u>P 41,909.2</u></b>	<u>P 38,198.4</u>
Capital-to-overall financing ratio	<b><u>0.12:1.00</u></b>	<u>0.13:1.00</u>

Under Republic Act No. 8556, the Group is required to maintain the following capital requirements:

- Minimum paid-up capital of P10.0 million; and,
- Additional capital requirements for each branch of P1.0 million for branches established in Metro Manila, P0.5 million for branches established in other classes of cities and P0.25 million for branches established in municipalities.

As of December 31, 2017 and 2016, the Group is in compliance with this minimum paid-up capital requirement.

### ***16.2 Preferred Shares***

The Parent Company has 200,000 authorized preferred shares at P100 par value a share with the following features:

- (a) Issued serially in blocks of not less than 100,000 shares;
- (b) No pre-emptive rights to any or all issues on other disposition of preferred shares;
- (c) Entitled to cumulative dividends at a rate not higher than 20% yearly;
- (d) Subject to call or with rights for their redemption, either mandatory at a fixed or determinable date after issue; and,
- (e) Nonvoting, except in cases expressly provided for by law.

None of these authorized preferred shares have been issued as of December 31, 2017 and 2016.

### ***16.3 Common Shares***

As of December 31, 2017 and 2016, out of the total authorized capital stock of 3,400,000,000 common shares with par value of P1.00 per share, 2,162,475,312 common shares, net of treasury shares of 62,693,718, common shares amounting to P2,162.5 are issued and outstanding.

### ***16.4 Retained Earnings***

On February 22, 2017, the BOD approved the declaration of cash dividends at P0.2 per share amounting to P432.5. The dividends were declared in favor of stockholders of record as of March 10, 2017 and were paid on March 29, 2017.

On February 24, 2016, the BOD approved the declaration of cash dividends at P0.2 per share amounting to P432.5. The dividends were declared in favor of stockholders of record as of March 11, 2016 and were paid on March 30, 2016.

On February 25, 2015, the BOD approved the declaration of cash dividends at P0.175 per share amounting to P378.4. The dividends were declared in favor of stockholders of record as of March 11, 2015 and were paid on March 24, 2015.

The Group's retained earnings are restricted to the extent of the cost of the treasury shares as of the end of the reporting periods.

### ***16.5 Track Record of Registration of Securities***

On January 6, 1997, the Parent Company was listed with the PSE with 106,100,000 additional common shares and 15,120,000 existing common shares with par value of P1.00 per share. The listing was approved by the SEC in May 1996. As of December 31, 2017 and 2016, the Parent Company's number of shares registered totaled 3,400,000,000 with par value of P1.00 per share and closed at a price of P3.82 in 2017 and P3.79 in 2016. The total number of stockholders is 1,122 and 1,136 as of December 31, 2017 and 2016, respectively.

## 17. OTHER INCOME

This account is composed of the following:

	Notes	Group		
		2017	2016	2015
Dividend income	8	P 215.2	P 150.3	P 154.3
Gain on sale of property and equipment and investment properties	10, 11	65.1	20.2	16.9
Day-one gains – net		4.8	2.5	18.4
Miscellaneous – net	8, 12, 20	<u>30.9</u>	<u>30.4</u>	<u>37.9</u>
		<u>P 316.0</u>	<u>P 203.4</u>	<u>P 227.5</u>
	Notes	Parent Company		
		2017	2016	2015
Dividend income	8	P 215.2	P 150.3	P 154.3
Gain on sale of investment properties	11	59.1	9.5	6.4
Day-one gains – net		1.3	0.1	0.6
Miscellaneous – net	8, 12, 20	<u>48.3</u>	<u>108.6</u>	<u>123.1</u>
		<u>P 323.9</u>	<u>P 268.5</u>	<u>P 284.4</u>

Dividend income pertains to income earned for investments in Smart Notes, SMC shares and First Gen shares (see Note 8).

Day-one gains – net represent the fair value gains on initial recognition of lease deposits (representing excess of principal amount over fair value of leased deposits), net of the day one losses on initial recognition of the residual value receivables under finance lease.

## 18. LEASES

The Group's finance lease contracts generally have lease terms ranging from 24 to 60 months.

In the ordinary course of business, the Group enters into various operating leases with lease terms ranging from 12 months to 15 years. Operating lease income, presented under Rent account in the Group's statements of income for the years ended December 31, 2017, 2016 and 2015, amounted to P922.2, P890.2 and P807.1, respectively.

Future minimum rental receivables under operating leases follow:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Within one year	<b>P 831.4</b>	P 804.5	P 209.1
After one year but not more than five years	<b>924.7</b>	883.5	1,354.7
More than five years	<u><b>87.7</b></u>	<u>100.3</u>	<u>112.8</u>
	<u><b>P 1,843.8</b></u>	<u>P 1,788.3</u>	<u>P 1,676.6</u>

## 19. EMPLOYEE BENEFITS

### 19.1 Employee Benefits

Expenses recognized for salaries and employee benefits for the Group and the Parent Company are presented below.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Salaries and wages	<b>P 130.9</b>	P 122.1	P 108.0
Bonuses	<b>42.2</b>	43.9	38.8
Retirement – defined benefit plan	<b>17.1</b>	14.1	14.1
Employee stock option plan	<b>6.3</b>	16.9	-
Social security costs	<b>3.9</b>	3.9	3.5
Other benefits	<u><b>26.6</b></u>	<u>19.8</u>	<u>23.5</u>
	<u><b>P 227.0</b></u>	<u>P 220.7</u>	<u>P 187.9</u>

The Employee benefits expense account includes the expense arising from Employee Stock Option Plan [see Note 2.19(e)] recognized by the Parent Company over the vesting period. There are no related payable arising from this transaction as of December 31, 2017 (see Note 14).

### 19.2 Post-employment Benefits

#### (a) Characteristics of the Defined Benefit Plan

The Group maintains a wholly-funded, tax-qualified, noncontributory and multi-employer retirement plan that is being administered by a trustee bank covering all regular full-time employees.

The normal retirement age is 60 with a minimum of 5 years of credited service. The plan also provides for an early retirement at age 50 with a minimum of 5 years of credited service and late retirement after age 60 but not beyond 65 years of age, both subject to the approval of the Group's BOD.

(b) *Explanation of Amounts Presented in the Financial Statements*

Actuarial valuations are made annually to update the post-employment benefit costs and the related amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2017 and 2016.

The amounts of retirement benefit asset (presented under Other Assets account – see Note 12) the Group and the Parent Company recognized in the statements of financial position are determined as follows:

	<u>2017</u>		<u>2016</u>
Fair value of plan assets	<b>P 279.4</b>	P	264.0
Present value of the obligation	<b>( 251.6)</b>	(	205.5)
Effect of asset ceiling	<b>( 2.0)</b>	(	6.7)
Balance at end of year	<b><u>P 25.8</u></b>	<u>P</u>	<u>51.8</u>

The movement in the fair value of plan assets is presented below.

	<u>2017</u>		<u>2016</u>
Balance at beginning of year	<b>P 264.0</b>	P	245.4
Interest income	<b>14.8</b>		12.2
Contributions to the plan	<b>12.2</b>		12.0
Return on plan assets (excluding amounts included in net interest)	<b>( 9.5)</b>	(	0.9)
Benefits paid	<b>( 2.1)</b>	(	4.7)
Balance at end of year	<b><u>P 279.4</u></b>	<u>P</u>	<u>264.0</u>

The movements in the present value of the retirement benefit obligation recognized in the books are as follows:

	<u>2017</u>		<u>2016</u>
Balance at beginning of year	<b>P 205.5</b>	P	176.9
Current service cost	<b>17.1</b>		14.1
Interest expense	<b>11.3</b>		8.7
Benefits paid	<b>( 2.1)</b>	(	4.9)
Remeasurements:			
Actuarial losses (gains) arising from changes in:			
- experience adjustments	<b>72.6</b>		8.6
- demographic assumptions	<b>( 34.1)</b>		-
- financial assumptions	<b>( 18.7)</b>		2.1
Balance at end of year	<b><u>P 251.6</u></b>	<u>P</u>	<u>205.5</u>



The composition of the fair value of plan assets at the end of the reporting period for each category and risk characteristics is shown below.

	<u>2017</u>		<u>2016</u>
Cash and cash equivalents	<b>P 31.4</b>	P	30.8
Unit investment trust funds	<b>61.4</b>		49.6
Loans	<b>12.6</b>		2.2
Equity instruments	<b>6.6</b>		6.1
Real estate	<u><b>2.8</b></u>		<u>2.7</u>
	<u><b>114.8</b></u>		<u>91.4</u>
Debt instruments:			
Government bonds	<b>90.9</b>		107.6
Other bonds	<u><b>57.8</b></u>		<u>48.2</u>
	<u><b>148.7</b></u>		<u>155.8</u>
Others	<u><b>15.9</b></u>		<u>16.8</u>
	<u><b>P 279.4</b></u>	P	<u>264.0</u>

The retirement trust fund assets are valued by the fund manager at fair value using the mark-to-market valuation. While no significant changes in asset allocation are expected in the next financial year, the retirement plan trustee may make changes at any time.

Actual return on plan assets amounted P5.3 in 2017, P11.2 in 2016 and P3.6 in 2015.

Except for certain shares of stock of the Parent Company, plan assets do not comprise any of the Parent Company's own financial instruments or any of its assets occupied and/or used in its operations [see Note 20(h)].

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit plan are as follows:

	<u>2017</u>		<u>2016</u>		<u>2015</u>
<i>Reported in profit or loss:</i>					
Current service cost	<b>P 17.1</b>	P	14.1	P	14.1
Net interest income	<u><b>( 3.2)</b></u>	(	<u>3.1</u>	(	<u>2.8</u>
	<u><b>P 13.9</b></u>	P	<u>11.0</u>	P	<u>11.3</u>
<i>Reported in other comprehensive income:</i>					
Actuarial losses (gains) arising from:					
- experience adjustments	<b>P 72.6</b>	P	8.6	P	5.7
- demographic changes	<b>( 34.1)</b>	-		(	( 7.8)
- changes in financial assumptions	<b>( 18.7)</b>		2.1	(	( 4.8)
Return on plan assets (excluding amounts included in net interest)	<b>9.5</b>		0.9		7.1
Effect of asset ceiling	<u><b>( 5.1)</b></u>	(	<u>2.1</u>		<u>1.4</u>
	<u><b>P 24.2</b></u>	P	<u>9.5</u>	P	<u>1.6</u>

Current service cost is presented as a part of Employee Benefits account. The net interest income is included as part of Interest and Discounts account in the statements of income.

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

In determining the amounts of the post-employment benefit obligation, the following significant actuarial assumptions were used:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Discount rates	5.7%	5.5%	4.9%
Expected rate of salary increases	6.0%/8.0%/ 9.0%/10.0%	9.0%	8.0%

Assumptions regarding future mortality are based on published statistics and mortality tables. The projected retirement date of the employees is at age 60 or at age of 50 with completion of 10 years of service, whichever is shorter. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms to maturity approximating to the terms of the retirement obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *Risks Associated with the Retirement Plan*

The plan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) *Investment and Interest Risks*

The present value of the retirement benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan asset is concentrated in cash and cash equivalents, unit investment trust funds, loans and equity instruments. Due to the long-term nature of plan obligation, a level of continuing debt instruments is an appropriate element of the Group's long-term strategy to manage the plans efficiently.

(ii) *Longevity and Salary Risks*

The present value of the retirement benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) *Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions, the Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described as follows.

(i) *Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the retirement benefit obligation as of December 31, 2017 and 2016:

		<u>Impact on Retirement Benefit Obligation</u>		
		<u>Change in Assumption</u>	<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>
<b><u>December 31, 2017</u></b>				
Discount rate	+/-1.0%	(P	16.5)	P 18.9
Salary growth rate	+/-1.0%		16.0 (	14.4)
<b><u>December 31, 2016</u></b>				
Discount rate	+/-1.0%	(P	7.9)	P 7.1
Salary growth rate	+/-1.0%		6.9 (	6.3)

The above table of sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the retirement benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the retirement benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the retirement benefit obligation recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) *Asset-liability Matching Strategy*

The retirement plan trustee has no specific matching strategy between the plan assets and the plan liabilities.

(iii) *Funding Arrangements and Expected Contributions.*

The plan is currently overfunded by P25.8 as of December 31, 2017 based on the latest actuarial valuation.

The Parent Company expects to make contribution of P12.2 to the plan during the next financial year.

The maturity profile of undiscounted expected benefits payments from the plan for the next 10 years follows:

Within one year	P	55.8
More than one year to five years		74.9
More than five years to ten years		<u>125.2</u>
	P	<u>255.9</u>

## 20. RELATED PARTY TRANSACTIONS

The Group's and Parent Company's related parties include BDO Unibank, related party under common ownership, key management personnel and the retirement benefit fund as described below.

The summary of the Group's and Parent Company's transactions with its related parties in 2017, 2016 and 2015 and the related outstanding balances as of December 31, 2017 and 2016 are as follows:

Related Party Category	Notes	Amount of Transaction		
		2017	2016	2015
Ultimate parent company (BDO Unibank)				
Interest income on savings and demand deposits	(a)	P 0.8	P 0.7	P 0.6
Interest expense on bills payable	(b)	141.5	38.0	99.7
Rent expense	(d)	12.3	10.5	9.8
Management fees	(e)	13.8	2.4	2.4
Employee stock option plan	2.19, 19	6.3	16.9	-
Subsidiary (BDO Rental)				
Dividend income	(i)	120.0	60.0	-
Management fees	(e)	0.4	0.4	0.4
Rent income	(d)	0.1	0.4	0.4
Service fees	(c)	-	-	6.9
Under common ownership				
Service and charges fees	(f), (k)	5.0	5.5	4.0
Interest expense on bills payable	(l)	94.1	-	-
Key management personnel				
Short-term benefits	(g)	47.5	50.4	65.6
Loans to officers	(g)	3.8	5.0	3.5

Related Party Category	Notes	Outstanding Balance	
		2017	2016
Ultimate parent company (BDO Unibank)			
Savings and demand deposits	(a)	P 453.0	P 365.2
Bills payable	(b)	4,782.9	2,575.8
Employee stock option plan	2.19, 19	-	16.9
Subsidiary (BDO Rental)			
Dividend receivable	(i)	-	60.0
Accounts receivable	(j)	-	109.4
Under common ownership			
Accounts receivable	(k)	0.8	0.7
Bills payable	(l)	3,901.0	-
Unearned rental income	(m)	4.6	-
Key management personnel			
Loans to officers	(g)	7.5	10.0
Retirement benefit fund			
Shares of stock	(h)	2.0	1.0

- (a) The Group maintains savings and demand deposit accounts with BDO Unibank. As of December 31, 2017 and 2016, savings and demand deposit accounts maintained with BDO Unibank are included under Cash and Cash Equivalents account in the statements of financial position (see Note 7). Interest income earned on these deposits in 2017, 2016 and 2015 is included as part of Interest and Discounts account under Revenues in the statements of income.
- (b) The Group obtains short-term bills payable from BDO Unibank. The amount outstanding from borrowings as of December 31, 2017 and 2016 is presented under Bills Payable account in the statements of financial position (see Note 13). Interest expense incurred on these bills payable in 2017, 2016 and 2015 is included as part of Interest and Financing Charges account under Operating Costs and Expenses in the statements of income.
- (c) On January 4, 2010, the Parent Company and BDO Rental entered into a Service Agreement whereby BDO Rental will handle the collection of certain factored receivables of the Parent Company, for a fee as agreed by the Parent Company and the sellers of the factored receivables. Under the Service Agreement, BDO Rental shall perform the monitoring of the payment due dates of the factored receivables, remit to the Parent Company all collections made and send monthly statement of accounts to customers. The related expense charged to the Parent Company based on the Service Agreement is included in Other Expenses account under Operating Costs and Expenses in the Parent Company's statements of income. The Service Agreement was discontinued in 2016, hence, there are no outstanding intercompany payable and receivable from this transaction as of December 31, 2017 and 2016.

- (d) The Parent Company leases its head office premises and certain branch offices from BDO Unibank for terms ranging from three to five years, renewable for such period and under such terms and conditions as may be agreed upon with the Parent Company and BDO Unibank. Related rent expense incurred in 2017, 2016 and 2015 is presented as part of Occupancy and Equipment-related Expenses account under Operating Costs and Expenses account in the statements of income. On the other hand, the Parent Company charges BDO Rental for the spaces that the latter occupies in the head office premises. Rent charged to BDO Rental in 2017, 2016 and 2015 is presented as part of Other Income-net account in the statements of income (see Note 17). There are no outstanding receivable and payable on these transactions as of the end of 2017 and 2016.
- (e) In 2013, the Parent Company entered into a service level agreement with BDO Unibank wherein BDO Unibank will charge the Parent Company for certain management services that the former provides to the latter. Management fees paid by the Parent Company to BDO Unibank are shown as part of Other Expenses account under Operating Costs and Expenses in the statements of income. Also, the Parent Company charges BDO Rental for the management services it renders to BDO Rental. This is presented as part of Other Income-net account in the Parent Company's statements of income (see Note 17). There are no outstanding receivable and payable on these transactions as of the end of 2017 and 2016.
- (f) The Parent Company engaged the services of BDO Capital and Investment Corporation (BDO Capital), a wholly owned subsidiary of BDO Unibank for underwriting services related to the Parent Company's issuance of short term commercial papers. Service and charges fees paid by the Parent Company to BDO Capital amounting to P3.2 for 2017 and P4.0 both for 2016 and 2015 are included as part of Other Expenses account under Operating Costs and Expenses in the statements of income. There are no outstanding payable on this transaction as of the end of 2017 and 2016.
- (g) Compensation of key management personnel (covering officer positions starting from Assistant Vice President and up) is included as part of Employee Benefits under Operating Costs and Expenses in the statements of income of the Group and Parent Company. Short-term employee benefits include salaries, paid annual leave and paid sick leave, profit sharing and bonuses, and non-monetary benefits. The Group also granted loans to officers which are secured by mortgage on the property, bear interest at 9.0% per annum and have terms ranging from 3 to 4 years. Outstanding loans to officers are presented as part of Accounts receivable under Loans and Other Receivables account (see Note 9). The Group assessed that these loans are not impaired as of December 31, 2017 and 2016.
- (h) The retirement fund holds, as an investment, 519,915 shares of stock of the Parent Company as of December 31, 2017 and 2016, which has a market value of P3.82 and P1.90 per share as of December 31, 2017 and 2016, respectively (see Note 19.2). The retirement fund does not hold any shares of stock of BDO Unibank.
- (i) In 2017 and 2016 (nil in 2015), BDO Rental declared cash dividends amounting to P120.0 (received in 2017) and P60.0 (outstanding in 2016, received in 2017), respectively.

- (j) In 2015, BDO Rental received cash from the Parent Company as subscription payments for the increase in authorized capital stock, representing 25% of the total subscribed capital stock. BDO Rental cancelled its application for the increase in authorized capital stock with the SEC on December 20, 2016. This resulted in outstanding receivable by the Parent Company from BDO Rental in 2016 (see Note 12.1). In 2017, the receivables relating to this transaction were collected in full.
- (k) In 2016, the Parent Company earned from BDO Insurance Brokers, Inc. (BDO Insurance) service charges and fees for accounts referred and are included as part of Miscellaneous-net under Other Income-net account in the statements of income (see Note 17). This resulted to the outstanding receivable of the Parent Company from BDO Insurance in 2017 and 2016 which is recorded as part of Accounts receivables under Loans and Other Receivables account in the statements of financial position (see Note 9). The Group assessed that such receivable is not impaired.
- (l) In 2017, the Parent Company obtains short-term bills payable from BDO Strategic Holdings Inc. and SM Prime Holdings, Inc. The amount outstanding from borrowings is presented under Bills Payable account in the statement of financial position (see Note 13). Interest expense incurred on these bills payable is included as part of Interest and Financing Charges account under Operating Costs and Expenses in the 2017 statement of income.
- (m) In 2017, BDO Rental, entered into Operating Lease Agreement with BDO Nomura Securities, Inc. (BDO Nomura) which will commence in 2018. Prepaid rental made by BDO Nomura is included as part of Other Liabilities under Accounts Payable and Other Liabilities account in the 2017 statement of financial position.

## 21. TAXES

### 21.1 Taxes and Licenses

This account is composed of the following:

	<b>Group</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Documentary stamp tax	<b>P 148.4</b>	P 131.1	P 107.1
Gross receipts tax	<b>86.2</b>	81.3	72.0
Local taxes	<b>19.9</b>	16.5	12.6
Others	<b>14.4</b>	16.6	6.9
	<b><u>P 268.9</u></b>	<u>P 245.5</u>	<u>P 198.6</u>
	<b>Parent Company</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Documentary stamp tax	<b>P 137.6</b>	P 118.5	P 98.1
Gross receipts tax	<b>86.2</b>	81.3	72.0
Local taxes	<b>12.0</b>	11.1	8.5
Others	<b>10.8</b>	16.6	6.5
	<b><u>P 246.6</u></b>	<u>P 227.5</u>	<u>P 185.1</u>

## 21.2 Current and Deferred Taxes

The components of tax expense for the years ended December 31 follow:

	<b>Group</b>		
	<b>2017</b>	2016	2015
<i>Reported in statements of income</i>			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	<b>P 192.9</b>	P 207.1	P 190.8
Final tax at 20%	<u><b>16.8</b></u>	<u>19.0</u>	<u>11.8</u>
	<b>209.7</b>	226.1	202.6
Deferred tax income relating to origination and reversal of temporary differences	( <u><b>60.9</b></u> )	( <u>45.4</u> )	( <u>32.8</u> )
	<u><b>P 148.8</b></u>	<u>P 180.7</u>	<u>P 169.8</u>
<i>Reported in statements of comprehensive income</i>			
Deferred tax income relating to origination of temporary differences:			
Actuarial gains and losses	( <b>P 7.3</b> )	( P 2.9 )	( P 0.5 )
AFS financial assets	( <u><b>0.1</b></u> )	( <u>0.6</u> )	<u>0.5</u>
	( <u><b>P 7.4</b></u> )	( <u>P 3.5</u> )	<u>P -</u>
<b>Parent Company</b>			
	<b>2017</b>	2016	2015
<i>Reported in statements of income</i>			
Current tax expense:			
RCIT at 30%	<b>P 183.6</b>	P 172.2	P 155.7
Final tax at 20%	<u><b>16.8</b></u>	<u>19.0</u>	<u>11.7</u>
	<b>200.4</b>	191.2	167.4
Deferred tax income relating to origination and reversal of temporary differences	( <u><b>60.9</b></u> )	( <u>45.4</u> )	( <u>32.8</u> )
	<u><b>P 139.5</b></u>	<u>P 145.8</u>	<u>P 134.6</u>
<i>Reported in statements of comprehensive income</i>			
Deferred tax expense (income) relating to origination of temporary differences:			
Actuarial gains and losses	( <b>P 7.3</b> )	( P 2.9 )	( P 0.5 )
AFS financial assets	( <u><b>0.1</b></u> )	( <u>0.6</u> )	<u>0.5</u>
	( <u><b>P 7.4</b></u> )	( <u>P 3.5</u> )	<u>P -</u>



A reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in the statements of income follows:

	<b>Group</b>					
	<b>2017</b>		<b>2016</b>		<b>2015</b>	
Tax on pretax profit	<b>P</b>	<b>215.8</b>	<b>P</b>	<b>225.2</b>	<b>P</b>	<b>217.6</b>
Adjustment for income subjected to lower tax rate	(	<b>8.4)</b>	(	<b>9.5)</b>	(	<b>6.0)</b>
Tax effects of:						
Non-taxable income	(	<b>48.0)</b>	(	<b>47.5)</b>	(	<b>53.1)</b>
Reversal of deferred tax liability	(	<b>43.7)</b>	(	<b>33.5)</b>	(	<b>36.4)</b>
Non-deductible expense		<b>42.0</b>		<b>35.9</b>		<b>39.8</b>
Deductible temporary differences not recognized	(	<b>17.2)</b>		<b>-</b>		<b>-</b>
Non-deductible interest expense		<b>8.3</b>		<b>10.1</b>		<b>7.9</b>
	<b>P</b>	<b>148.8</b>	<b>P</b>	<b>180.7</b>	<b>P</b>	<b>169.8</b>
<b>Parent Company</b>						
	<b>2017</b>		<b>2016</b>		<b>2015</b>	
Tax on pretax profit	<b>P</b>	<b>213.0</b>	<b>P</b>	<b>214.7</b>	<b>P</b>	<b>207.6</b>
Adjustment for income subjected to lower tax rate	(	<b>8.4)</b>	(	<b>9.5)</b>	(	<b>6.0)</b>
Tax effects of:						
Non-taxable income	(	<b>53.1)</b>	(	<b>71.2)</b>	(	<b>77.5)</b>
Reversal of deferred tax liability	(	<b>43.7)</b>	(	<b>33.5)</b>	(	<b>36.4)</b>
Non-deductible expense		<b>40.4</b>		<b>35.9</b>		<b>39.6</b>
Deductible temporary differences not recognized	(	<b>17.2)</b>		<b>-</b>		<b>-</b>
Non-deductible interest expense		<b>8.5</b>		<b>9.4</b>		<b>7.3</b>
	<b>P</b>	<b>139.5</b>	<b>P</b>	<b>145.8</b>	<b>P</b>	<b>134.6</b>

The components of net deferred tax assets (see Note 12) as of December 31, 2017 and 2016 follow:

Statements of Financial Position								
Group				Parent Company				
2017		2016		2017		2016		
Deferred tax assets:								
Allowance for impairment on:								
Loans and discounts	P	87.9	P	71.9	P	87.9	P	71.9
Investment properties and non-current assets held-for-sale		9.3		13.6		9.3		13.6
Accounts receivable		7.9		2.6		7.9		2.6
Retirement benefit obligation		22.5		15.3		22.5		15.3
		127.6		103.4		127.6		103.4

Statements of Financial Position			
Group		Parent Company	
2017	2016	2017	2016
Deferred tax liabilities:			
Unrealized fair value gains on AFS financial assets	( 10.3 )	( 10.3 )	( 10.5 )
Lease income differential	( 7.2 )	( 7.2 )	( 50.9 )
Others	-	-	( 0.3 )
	( 17.5 )	( 17.5 )	( 61.7 )
Net deferred tax assets	P 110.1	P 110.1	P 41.7

The components of deferred tax income in profit and loss and in other comprehensive income for the years ended December 31, 2017, 2016 and 2015 follow:

Group			
2017	2016	2015	
<i>In profit or loss:</i>			
Deferred tax assets:			
Allowance for impairment on:			
Loans and discounts	P 16.0	P 9.8	P 1.8
Accounts receivable	5.3	1.4	0.3
Investment properties and non-current assets held-for-sale	( 4.3 )	( 1.1 )	( 7.5 )
Retirement benefit obligation	( 0.1 )	1.8	2.1
	16.9	11.9	( 3.3 )
Deferred tax liabilities:			
Lease income differential	43.7	33.5	36.4
Others	0.3	-	( 0.3 )
	44.0	33.5	36.1
Net deferred tax income	P 60.9	P 45.4	P 32.8
Parent Company			
2017	2016	2015	
<i>In profit or loss:</i>			
Deferred tax assets:			
Allowance for impairment on:			
Loans and discounts	P 16.0	P 9.8	P 2.1
Accounts receivable	5.3	1.4	-
Investment properties and non-current assets held-for-sale	( 4.3 )	( 1.1 )	( 7.5 )
Retirement benefit obligation	( 0.1 )	1.8	2.1
Others	-	-	( 0.2 )
	16.9	11.9	( 3.5 )
Deferred tax liabilities:			
Lease income differential	43.7	33.5	36.4
Others	0.3	-	( 0.1 )
	44.0	33.5	36.3
Net deferred tax income	P 60.9	P 45.4	P 32.8

	<b>Group/Parent Company</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<i>In other comprehensive income:</i>			
Deferred tax income on:			
Net actuarial losses	<b>P 7.3</b>	P 2.9	P 0.5
Unrealized fair value gains on AFS financial assets	<u><b>0.1</b></u>	<u>0.6</u>	<u>(0.5)</u>
Net deferred tax income	<u><b>P 7.4</b></u>	<u>P 3.5</u>	<u>P -</u>

### ***21.3 Supplementary Information Required Under Revenue Regulations (RR) Nos. 15-2010 and 19-2011***

The Bureau of Internal Revenue (BIR) issued RR No. 15-2010 and RR No. 19-2011 which required certain supplementary information to be disclosed as part of the notes to financial statements. The supplementary information is, however, not a required part of the basic financial statements prepared in accordance with PFRS; it is neither a required disclosure under the SEC rules and regulations covering the form and content of financial statements under the Securities Regulation Code Rule 68, as amended.

The Parent Company presented this tax information required by the BIR as a supplementary schedule filed separately from the basic financial statements.

## **22. EARNINGS PER SHARE**

Basic earnings per share were computed as follows:

	<b>Group</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Net profit	<b>P 570.5</b>	P 570.0	P 555.6
Divided by the weighted average number of outstanding common shares – net*	<u><b>2,162.0</b></u>	<u>2,162.0</u>	<u>2,162.0</u>
Basic earnings per share	<u><b>P 0.26</b></u>	<u>P 0.26</u>	<u>P 0.26</u>
	<b>Parent Company</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Net profit	<b>P 570.5</b>	P 570.0	P 555.6
Divided by the weighted average number of outstanding common shares – net*	<u><b>2,162.0</b></u>	<u>2,162.0</u>	<u>2,162.0</u>
Basic earnings per share	<u><b>P 0.26</b></u>	<u>P 0.26</u>	<u>P 0.26</u>

\* net of treasury shares

There were no outstanding dilutive potential common shares as of December 31, 2017 and 2016.

**23. EVENT AFTER THE END OF THE REPORTING PERIOD**

On February 21, 2018, the BOD approved the declaration of cash dividends at P0.1 per share amounting to P216.2. The dividends were declared in favor of stockholders of record as of March 9, 2018 and are payable on March 27, 2018.

**24. CONTINGENT LIABILITIES AND COMMITMENTS**

***24.1 Operating Lease Commitments – Group as Lessee***

The Group leases the head office and certain branch offices from BDO Unibank. Total lease payments presented as part of Occupancy and Equipment-related Expenses account under Operating Costs and Expenses in the statements of income amounted to P13.6 in 2017, P19.6 in 2016 and P18.2 in 2015.

Future minimum lease payments under these operating leases follow:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Within one year	<b>P 12.5</b>	P 12.5	P 7.5
After one year but not more than five years	<b>42.6</b>	42.4	6.8
More than five years	<u><b>0.2</b></u>	<u>-</u>	<u>-</u>
	<u><b>P 55.3</b></u>	<u>P 54.9</u>	<u>P 14.3</u>

***24.2 Others***

In addition to those already mentioned in the preceding notes, in the ordinary course of business, the Group incurs contingent liabilities and commitments arising from normal business transactions which are not reflected in the accompanying financial statements. As of December 31, 2017, management does not anticipate significant losses from these contingencies and commitments that would adversely affect the Group's financial position and results of operations.



An instinct for growth™

**Report of Independent Auditors  
to Accompany Supplementary  
Information Required by the  
Securities and Exchange  
Commission Filed Separately from  
The Basic Financial Statements**

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**Punongbayan & Araullo**

20th Floor, Tower 1  
The Enterprise Center  
6766 Ayala Avenue  
1200 Makati City  
Philippines

T +63 2 988 2288

**The Board of Directors and the Stockholders**

**BDO Leasing and Finance, Inc.**

**(A Subsidiary of BDO Unibank, Inc.)**

39th Floor, BDO Corporate Center Ortigas

12 ADB Avenue, Ortigas Center

Mandaluyong City

We have audited the financial statements of BDO Leasing and Finance, Inc. and subsidiary (the Group) and of BDO Leasing and Finance, Inc. (the Parent Company) for the year ended December 31, 2017, on which we have rendered the attached report dated February 21, 2018. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The applicable supplementary schedules (see table of contents) to the Group as of December 31, 2017 and for the year then ended, in compliance with the requirements of the Securities Regulation Code Rule 68, as amended, are presented for purposes of additional analysis and are not required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of management. The information in such supplementary schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**PUNONGBAYAN & ARAULLO**

By: **Leonardo D. Cuaresma, Jr.**  
Partner

CPA Reg. No. 0058647

TIN 109-227-862

PTR No. 6616006, January 3, 2018, Makati City

SEC Group A Accreditation

Partner - No. 0007-AR-4 (until April 30, 2018)

Firm - No. 0002-FR-4 (until April 30, 2018)

BIR AN 08-002511-7-2017 (until June 19, 2020)

Firm's BOA/PRC Cert. of Reg. No. 0002 (until December 31, 2018)

February 21, 2018

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**Certified Public Accountants**

Punongbayan & Araullo is the Philippine member firm of Grant Thornton International Ltd

Offices in Cavite, Cebu, Davao  
BOA/PRC Cert of Reg. No. 0002  
SEC Accreditation No. 0002-FR-4

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**BDO Leasing and Finance, Inc. and Subsidiary**  
**SEC Supplementary Schedules**  
**December 31, 2017**

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**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
**(A Subsidiary of BDO Unibank, Inc.)**  
**Schedule A - Financial Assets**  
**December 31, 2017**  
**(Amount in Philippine Pesos)**

<i>Name of issuing entity and association of each issue</i>	<i>Number of shares or principal amount of bonds or notes</i>	<i>Amount shown on the balance sheet</i>	<i>Valued based on the market quotation at balance sheet date</i>	<i>Income received and accrued</i>
<b><u>Available-for-Sale Financial Assets</u></b>				
Smart Communication Inc.	1,400,000,000	1,400,000,000	1,400,000,000	64,569,108
8990 Holdings Inc.	937,220,000	974,913,052	974,913,052	58,182,618
Sta. Lucia Land Inc.	200,000,000	200,094,404	200,094,404	13,430,000
San Miguel Corporation	8,461,600	647,312,400	647,312,400	48,389,775
San Miguel Corporation	7,966,600	637,328,000	637,328,000	47,799,600
First Gen Corporation	6,800,000	782,000,000	782,000,000	54,400,000
Valley Golf Country Club	1	280,000	280,000	0
Tagaytay Splendido	1	80,000	80,000	0
Century Properties Group Inc.	0	0	0	10,000,000
Total AFS Financial Assets		4,642,007,856	4,642,007,856	296,771,101

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)**  
**December 31, 2017**  
*(Amount in Philippine Pesos)*

Name and designation of debtor	Balance at beginning of period	Additions	Deductions		Ending Balance		Balance at end of period
			Amounts collected	Amounts written off	Current	Not current	
Amounts Due from Related Parties:							
L.V. Locsin Condominium Corporation	P 167	-	P 167	P -	-	P -	-
L.V. Locsin Condominium Corporation	1,128,200	-	1,128,200	-	-	-	-
Bautista, Sps. Arnold S. and Venus T.	1,989,433	-	327,051	-	1,662,382	-	1,662,382
Crisostomo, Gerardo Contreras	-	988,832	32,961	-	955,871	-	955,871
	3,117,801	988,832	1,488,380	-	2,618,253	-	2,618,253
Loans to Officers and Employees:							
Lapid, Roberto Estrera	206,738		206,738		-		-
Kapuno, Rosalisa Bantog	828,505.26		361,110		467,396		467,396
Verzola, Sps. Agérico Melcior S. Serietta P.	625,150.97		625,151		-		-
Natividad, Joseph Jason Martinez	1,369,453.44		342,363.36		1,027,090		1,027,090
Agustin, Peter Blair Sauton	522,190.62		289,359.87		232,831		232,831
So, Jennifer Facunda	248,712.00		238,407.88		10,304		10,304
Gulane, Jennifer T.	631,466.88		230,365.89		401,101		401,101
Tabanao, Dean Arvin D.	1,239,784.39		302,591.35		937,193		937,193
Paguio, Rommel I.	482,252.74		185,086.39		297,166		297,166
Calamiong, Sheryl G.	699,391.02		699,391.02		-		-
Reyes, Luis Jr.	1,338,927.66		508,581.26		830,346		830,346
Handig, Joeven Y.	1,138,802.66		261,452.01		877,351		877,351
Lapid, Roberto Estrera	667,542		667,542		-		-
Magrara, Marlon F.		606,906	113,202		493,703		493,703
Clemente, Razel		684,975	684,975		-		-
Zapata, Anne Marie Therese		830,641	55,376		775,265		775,265
Jimenez, Frieda Concepcion		1,681,965	525,000.00		1,156,965		1,156,965
	9,998,918	3,804,487	6,296,693	-	7,506,712	-	7,506,712
Loans to Directors ( not officer or employee )							
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
P 13,116,719	P 4,793,319	P 7,785,073	P 10,124,965	P 10,124,965	P 10,124,965	P 10,124,965	10,124,965



**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*

Schedule C - Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements  
December 31, 2017  
*(Amount in Philippine Pesos)*

Name and Designation of debtor	Balance at beginning of period	Additions	Amounts collected (i)	Deductions		Current	Non-current	Balance at end of period
				Amounts written off (ii)				
BDO Rental, Inc.	169,375,000		169,375,000					0
	169,375,000	0	169,375,000		0	0	0	0

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**

*(A Subsidiary of BDO Unibank, Inc.)*

**Schedule D - Intangible Assets - Other Assets**

**December 31, 2017**

*(Amount in Philippine Pesos)*

<i>Description</i>	<i>Beginning balance</i>	<i>Additions at Cost</i>	<i>Charged to cost and expenses</i>	<i>Charged to other accounts</i>	<i>Other changes additions (deductions)</i>	<i>Ending balance</i>
Computer Software	P 42,783,552	P 599,875	( P 13,940,215 )	P	P	29,443,212
	P 42,783,552	P 599,875	( P 13,940,215 )	-	-	P 29,443,212

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
Schedule E - Long-Term Debt  
December 31, 2017  
*(Amount in Philippine Pesos)*

<i>Title of issue and type of obligation <sup>(i)</sup></i>	<i>Amount authorized by indenture</i>	<i>Amount shown under caption "Current portion of long-term debt" in related balance sheet <sup>(ii)</sup></i>	<i>Amount shown under caption "Long-Term Debt" in related balance sheet <sup>(iii)</sup></i>	<i>Interest Rate</i>	<i>Maturity Date</i>
Bills Payable - Others					
Development Bank of the Philippines (DBP)	132,482,500	105,986,000	26,496,500	3.200%	March 27, 2019
Development Bank of the Philippines (DBP)	18,562,500	14,850,000	3,712,500	3.200%	March 31, 2019
	151,045,000	120,836,000	30,209,000		
Total Bills Payable - Others	P 151,045,000	P 120,836,000	P 30,209,000		

(i) Include in the column each type of obligation authorized (i.e., loans, bonds, warrants, etc.)

(ii) This column is to be totalled to correspond to the related balance sheet caption.

(iii) Include in this column details as to interest rates, amounts or number of periodic installments, and maturity date.

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**

*(A Subsidiary of BDO Unibank, Inc.)*

**Schedule F - Indebtedness to Related Parties (Long-term Loans from Related Companies)**

**December 31, 2017**

*(Amount in Philippine Pesos)*

<i>Name of related party</i>	<i>Balance at beginning of period</i>	<i>Balance at end of period</i>
------------------------------	---------------------------------------	---------------------------------

- nothing to report -

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**Schedule G - Guarantees of Securities of Other Issuers**  
**December 31, 2017**  
**(Amount in Philippine Pesos)**

<i>Name of issuing entity of securities guaranteed by the company for which this statement is filed</i>	<i>Title of issue of each class of securities guaranteed</i>	<i>Total amount guaranteed and outstanding</i>	<i>Amount owned by person for which statement is filed</i>	<i>Nature of guarantee</i>
---	--	--	--	----------------------------

- nothing to report -

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
Schedule H - Capital Stock  
December 31, 2017  
(Amount in Philippine Pesos)

<i>Title of Issue</i>	<i>Number of shares authorized</i>	<i>Number of shares issued and outstanding as shown under the related balance sheet caption</i>	<i>Number of shares reserved for options, warrants, conversion and other rights</i>	<i>Number of shares held by</i>		
				<i>Related parties</i>	<i>Directors, officers and employees</i>	<i>Others</i>
Preferred Shares	200,000	-	-	-	-	-
Common shares	3,400,000,000	2,162,475,312		1,914,711,807	152,915	247,610,590
BDO Unibank Inc.				1,914,711,807		

\*Determination of number of shares and outstanding

Number of shares issued	2,225,169,030.00
Less shares held in treasury	62,693,718.00
	<u>2,162,475,312.00</u>

BDO Leasing and Finance, Inc.  
 Ortigas Center, Mandaluyong City  
**Reconciliation of Retained Earnings Available for Dividend Declaration**  
**December 31, 2017**  
*(Amounts in Millions)*

<b>Unappropriated Retained Earnings Available for Dividend declaration at beginning of Year</b>	P	2,480.5
<b>Prior Year's Outstanding Reconciling Items , net of tax</b>		
Share in net profit of subsidiary and an associate	( P	441.0 )
Deferred tax income	(	103.4 )
Net interest income on retirement benefit asset	(	3.1 )
Day-one gain	(	0.1 )
	(	547.5 )
<b>Unappropriated Retained Earnings Available for Dividend declaration at beginning of Year, as Adjusted</b>		1,932.9
<b>Net Profit Per Audited Financial Statements</b>		570.5
<b>Non -actual/unrealized income, net of tax</b>		
Deferred tax income	(	65.3 )
Share in net profit of subsidiary and an associate	(	20.3 )
Net interest income on retirement benefit asset	(	3.1 )
Day-one gain	(	1.3 )
Unrealized foreign exchange gain	(	1.1 )
	(	91.1 )
<b>Net income actually earned during the year</b>		479.4
<b>Other Transaction During the Year</b>		
Dividend declared	(	432.5 )
<b>Unappropriated Retained Earnings Available for Dividend Declaration at End of Year</b>	<b>P</b>	<b><u>1,979.8</u></b>

## BDO LEASING AND FINANCE, INC.

(A Subsidiary of BDO Unibank, Inc.)

## Schedule of Philippine Financial Reporting Standards and Interpretations

Adopted by the Securities and Exchange Commission and the

Financial Reporting Standards Council as of December 31, 2017

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements		✓		
Conceptual Framework Phase A: Objectives and Qualitative Characteristics		✓		
Practice Statement Management Commentary			✓	
<i>Philippine Financial Reporting Standards (PFRS)</i>				
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	✓		
	Amendments to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	✓		
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters	✓		
	Amendments to PFRS 1: Government Loans	✓		
<b>PFRS 2</b>	Amendments to PFRS 1: Deletion of Short-term Exemptions	✓		
	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions* (effective January 1, 2018)			✓
<b>PFRS 3 (Revised)</b>	Business Combinations	✓		
	Amendment to PFRS 3: Remeasurement of Previously Held Interests in a Joint Operation (effective January 1, 2019)			✓
<b>PFRS 4</b>	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, <i>Financial Instruments</i> , with PFRS 4, <i>Insurance Contracts</i> * (effective January 1, 2018)			✓
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations	✓		
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources			✓
<b>PFRS 7</b>	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures – Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
<b>PFRS 8</b>	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures* (effective when PFRS 9 is first applied)			✓
	Operating Segments	✓		
<b>PFRS 9</b>	Financial Instruments (2014)* (effective January 1, 2018)			✓
	Amendments to PFRS 9: Prepayment Features with Negative Compensation* (effective January 1, 2019)			✓
<b>PFRS 10</b>	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance	✓		
	Amendments to PFRS 10: Investment Entities	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective date deferred indefinitely)			✓
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception	✓		



<b>PFRS 11</b>	Joint Arrangements			✓
	Amendments to PFRS 11: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
	Amendment to PFRS 11: Remeasurement of Previously Held Interests in a Joint Operation (effective January 1, 2019)			✓
<b>PFRS 12</b>	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance	✓		
	Amendments to PFRS 12: Investment Entities	✓		
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception	✓		
<b>PFRS 13</b>	Fair Value Measurement	✓		
<b>PFRS 14</b>	Regulatory Deferral Accounts			✓
<b>PFRS 15</b>	Revenue from Contracts with Customers* (effective January 1, 2018)			✓
<b>PFRS 16</b>	Leases* (effective January 1, 2019)			✓
<b>PFRS 17</b>	Insurance Contracts* (effective January 1, 2021)			✓
<b>Philippine Accounting Standards (PAS)</b>				
<b>PAS 1 (Revised)</b>	Presentation of Financial Statements	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
<b>PAS 2</b>	Inventories			✓
<b>PAS 7</b>	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
<b>PAS 8</b>	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
<b>PAS 10</b>	Events After the Reporting Period	✓		
<b>PAS 11</b>	Construction Contracts			✓
<b>PAS 12</b>	Income Taxes	✓		
	Amendments to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses	✓		
	Amendment to PAS 12 - Tax Consequences of Dividends* (effective January 1, 2019)			✓
<b>PAS 16</b>	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Bearer Plants	✓		
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
<b>PAS 17</b>	Leases	✓		
<b>PAS 18</b>	Revenue	✓		
<b>PAS 19 (Revised)</b>	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans - Employee Contributions	✓		
<b>PAS 20</b>	Accounting for Government Grants and Disclosure of Government Assistance			✓
<b>PAS 21</b>	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendments: Net Investment in a Foreign Operation	✓		
<b>PAS 23 (Revised)</b>	Borrowing Costs	✓		
	Amendment to PAS 23: Eligibility for Capitalization	✓		
<b>PAS 24 (Revised)</b>	Related Party Disclosures	✓		
<b>PAS 26</b>	Accounting and Reporting by Retirement Benefit Plans			✓
<b>PAS 27 (Revised)</b>	Separate Financial Statements	✓		
	Amendments to PAS 27: Investment Entities	✓		
	Amendments to PAS 27: Equity Method in Separate Financial Statements	✓		
<b>PAS 28 (Revised)</b>	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective date deferred indefinitely)			✓
	Amendments to PAS 28: Investment Entities - Applying the Consolidation Exception	✓		
	Amendment to PAS 28: Measurement of Investment in Associates at Fair Value through Profit or Loss (effective January 1, 2018)			✓
	Amendment to PAS 28: Long-term Interest in Associates and Joint Venture (effective January 1, 2019)			✓

<b>PAS 29</b>	Financial Reporting in Hyperinflationary Economies			✓
<b>PAS 32</b>	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
<b>PAS 33</b>	Earnings Per Share	✓		
<b>PAS 34</b>	Interim Financial Reporting	✓		
<b>PAS 36</b>	Impairment of Assets	✓		
	Amendment to PAS 36: Recoverable Amount Disclosures for Non-financial Assets	✓		
<b>PAS 37</b>	Provisions, Contingent Liabilities and Contingent Assets	✓		
<b>PAS 38</b>	Intangible Assets	✓		
	Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
<b>PAS 39</b>	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives	✓		
	Amendments to PAS 39: Eligible Hedged Items	✓		
<b>PAS 40</b>	Investment Property	✓		
	Amendment to PAS 40: Reclassification to and from Investment Property (effective January 1, 2018)			✓
<b>PAS 41</b>	Agriculture			✓
	Amendments to PAS 41: Bearer Plants			✓
<b>Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)</b>				
<b>IFRIC 1</b>	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
<b>IFRIC 2</b>	Members' Share in Co-operative Entities and Similar Instruments			✓
<b>IFRIC 4</b>	Determining Whether an Arrangement Contains a Lease	✓		
<b>IFRIC 5</b>	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
<b>IFRIC 6</b>	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
<b>IFRIC 7</b>	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies			✓
<b>IFRIC 9</b>	Reassessment of Embedded Derivatives**	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives**	✓		
<b>IFRIC 10</b>	Interim Financial Reporting and Impairment	✓		
<b>IFRIC 12</b>	Service Concession Arrangements			✓
<b>IFRIC 13</b>	Customer Loyalty Programmes**	✓		
<b>IFRIC 14</b>	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement and their Interaction**	✓		
<b>IFRIC 16</b>	Hedges of a Net Investment in a Foreign Operation			✓
<b>IFRIC 17</b>	Distributions of Non-cash Assets to Owners**	✓		
<b>IFRIC 18</b>	Transfers of Assets from Customers**	✓		
<b>IFRIC 19</b>	Extinguishing Financial Liabilities with Equity Instruments**	✓		
<b>IFRIC 20</b>	Stripping Costs in the Production Phase of a Surface Mine			✓
<b>IFRIC 21</b>	Levies	✓		
<b>IFRIC 22</b>	Foreign Currency Transactions and Advance Consideration (effective January 1, 2018)			✓

<i>Philippine Interpretations - Standing Interpretations Committee (SIC)</i>				
<b>SIC-7</b>	Introduction of the Euro			✓
<b>SIC-10</b>	Government Assistance - No Specific Relation to Operating Activities			✓
<b>SIC-13</b>	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
<b>SIC-15</b>	Operating Leases - Incentives	✓		
<b>SIC-25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders**	✓		
<b>SIC-27</b>	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
<b>SIC-29</b>	Service Concession Arrangements: Disclosures			✓
<b>SIC-31</b>	Revenue - Barter Transactions Involving Advertising Services**	✓		
<b>SIC-32</b>	Intangible Assets - Web Site Costs**	✓		

\* These standards will be effective for periods subsequent to 2017 and are not early adopted by the Company.

\*\* These standards have been adopted in the preparation of financial statements but the Company has no significant transactions covered in both years presented.

**BDO Leasing and Finance, Inc. and Subsidiary**  
**Financial Ratios**  
**December 31, 2017 and 2016**  
*(Amounts in Millions of Philippine Pesos)*

	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<b>I. Current/liquidity ratios</b>				
Current ratio				
$\frac{\text{Total current assets}}{\text{Total current liabilities}}$	<u>12,590.0</u>	<u>11,936.3</u>	<b>0.38</b>	0.41
	33,145.5	28,888.6		
Quick ratio				
$\frac{\text{Quick assets}}{\text{Total current liabilities}}$	<u>12,387.5</u>	<u>11,719.2</u>	<b>0.37</b>	0.41
	33,145.5	28,888.6		
<b>II. Solvency ratios; debt-to-equity ratios</b>				
Solvency ratio				
$\frac{(\text{After tax net profit} + \text{Depreciation})}{\text{Total liabilities}}$	<u>1,406.7</u>	<u>1,289.3</u>	<b>0.04</b>	0.04
	37,399.3	33,551.1		
Debt-to-equity ratio				
$\frac{\text{Total liabilities}}{\text{Total equity}}$	<u>37,399.3</u>	<u>33,551.1</u>	<b>6.87</b>	6.27
	5,442.3	5,349.5		
<b>III. Asset-to-equity ratio</b>				
Asset-to-equity ratio				
$\frac{\text{Total assets}}{\text{Total equity}}$	<u>42,841.6</u>	<u>38,900.4</u>	<b>7.87</b>	7.27
	5,442.3	5,349.5		
<b>IV. Interest coverage ratio</b>				
Interest coverage ratio				
$\frac{\text{Earnings before interest and taxes}}{\text{Interest expense}}$	<u>1,567.2</u>	<u>1,422.3</u>	<b>1.85</b>	2.11
	847.9	673.5		
<b>V. Profitability ratios</b>				
Net profit margin				
$\frac{\text{Net Profit}}{\text{Interest income} + \text{Other operating income}}$	<u>570.5</u>	<u>570.0</u>	<b>18.07%</b>	19.97%
	3,156.5	2,854.3		
Return on equity				
$\frac{\text{Net profit}}{\text{Average equity}}$	<u>570.5</u>	<u>570.0</u>	<b>10.57%</b>	10.78%
	5,395.9	5,286.1		
Return on assets				
$\frac{\text{Net profit}}{\text{Average assets}}$	<u>570.5</u>	<u>570.0</u>	<b>1.40%</b>	1.55%
	40,871.0	36,709.0		

## VI. Others

Total real estate investments to Assets

<u>Total investment properties</u>	<u>354.4</u>	<u>426.5</u>	<b>0.83%</b>	1.10%
Total assets	42,841.6	38,900.4		

Loans to Assets

<u>Total loans and other receivables</u>	<u>34,324.7</u>	<u>31,381.3</u>	<b>80.12%</b>	80.67%
Total assets	42,841.6	38,900.4		

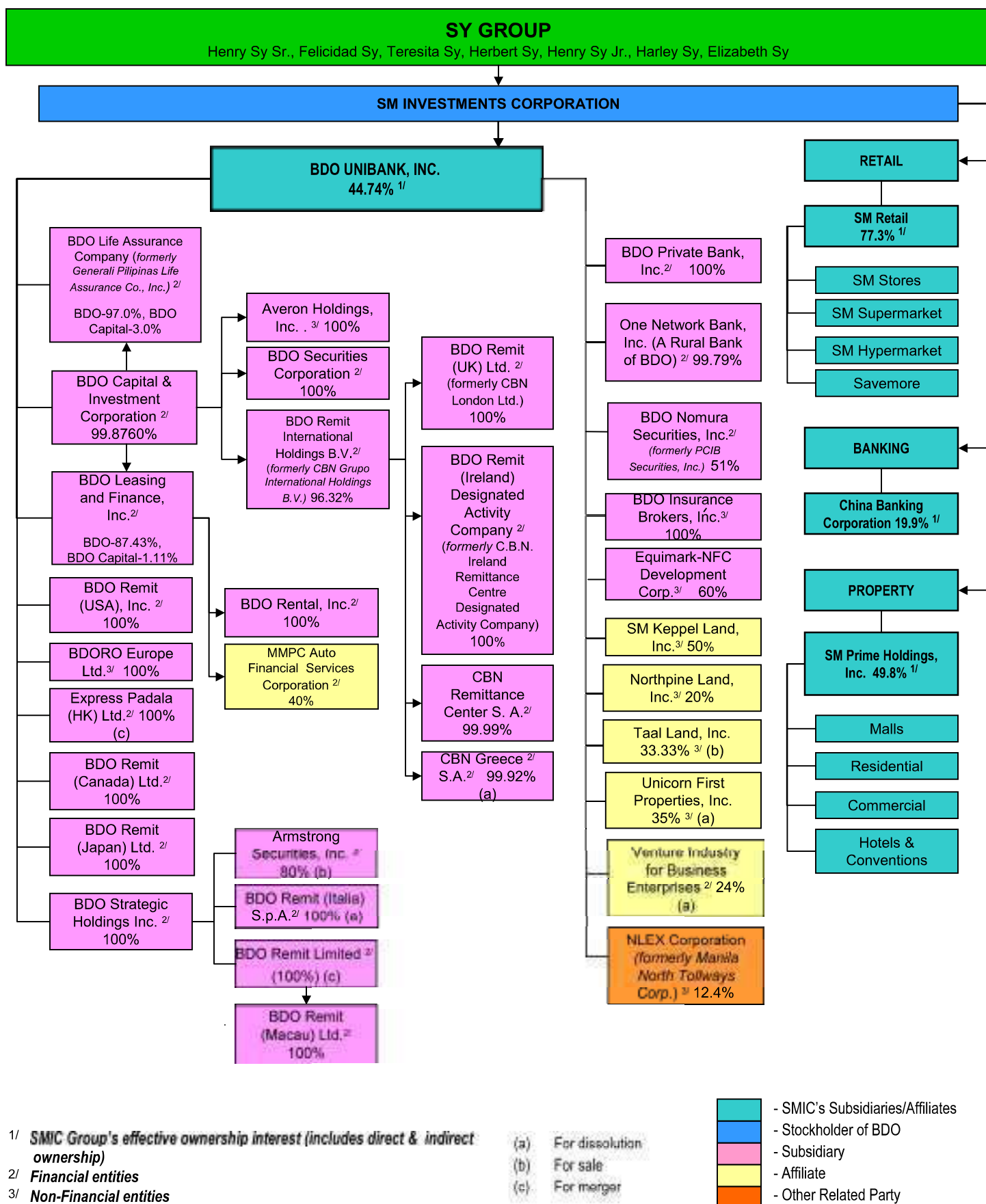
DOSRI to Net worth

<u>Receivables from Directors, Officers, Stakeholders and Related Interests</u>	<u>10.1</u>	<u>13.1</u>	<b>0.19%</b>	0.24%
Total equity	5,442.3	5,349.5		

Amount of receivable from a single corporation to  
Total receivables

<u>Loan to a single corporation</u>	<u>1,278.1</u>	<u>1,300.0</u>	<b>3.72%</b>	4.14%
Total loans and other receivables	34,324.7	31,381.3		

**BDO Unibank, Inc. Group Map**  
As of 31 December 2017



**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
**(A Subsidiary of BDO Unibank, Inc.)**  
**Use of Proceeds**  
**December 31, 2017**  
**(Amount in Philippine Pesos)**

**Gross/ Net Proceeds as disclosed in Final Prospectus**

Existing Commercial Paper Placements	12,194,200,000.00
Payment of Maturing Obligation	2,107,000,000.00
For Relending	687,241,375.00
Issuance and Distribution Expense	11,558,625.00
	15,000,000,000.00

**Actual Proceeds - December 31, 2017**

Gross Proceeds	-
Net Proceeds	-

**Expenditures**

Rollover	-
Relending	
PN Payment	-

<b>Balance - December 31, 2017</b>	<b>15,000,000,000.00</b>
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\*\* There was no issuance of Commercial Papers made from date of license renewal (Dec 20,2017) up to year-end 2017.

**CERTIFICATE ON THE COMPILATION SERVICES FOR THE PREPARATION OF THE  
FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS**

I hereby certify that I am the Certified Public Accountant (CPA) who performed the compilation services related to the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework and reports as required by accounting and auditing standards for BDO Leasing and Finance Inc. for the period ending December 31, 2017.

In discharging this responsibility, I hereby declare that;

X I, am the Vice President-Comptroller of BDO Leasing and Finance Inc.

       I, am the (position) of (name of organization/person) and was contracted to perform this service.

Furthermore, in my compilation services for the preparation of the Financial Statements and Notes to the Financial Statements, I was not assisted by or did not avail of the services of Punongbayan & Araullo who is the external auditor who rendered the audit opinion for the said Financial Statements and Notes to the Financial Statements.

I hereby declare, under penalties of perjury and violation of Republic Act No. 9298, that my statements are true and correct.

SIGNATURE OVER PRINTED NAME: Rosalisa B. Kapuno

PROFESSIONAL IDENTIFICATION CARD NO.: 00558959

VALID UNTIL: December 14, 2019

ACCREDITATION NUMBER: 2223

VALID UNTIL: December 14, 2019

MANDALUYONG CITY 27 FEB 2018

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BDO Leasing and Finance, Inc.  
39/F BDO Corporate Center Ortigas,  
12 ADB Avenue, Ortigas Center,  
Mandaluyong City, 1550  
Tel. 63(2) 688-1288  
Fax +63(2) 635-6453, 635-5811, 635-3898

KIM BRIGUERA-DACARA  
NOTARY PUBLIC FOR THE CITY OF MANDALUYONG  
APPOINTMENT NO. 0204-18  
UNTIL DECEMBER 31, 2019  
IBP LIFETIME ROLL NO. 1010007  
PTR NO. 3405017 / 1-3-2018 MANDALUYONG  
MCLE NO. V-0004637  
29TH FLR., BDO CORPORATE CENTER ORTIGAS  
12 ADB AVE. MANDALUYONG