

**BDO LEASING AND FINANCE, INC.**

**FINAL PROSPECTUS**

**PHP 15.00 Billion  
SEC-REGISTERED COMMERCIAL PAPERS**

*EXCLUSIVE SELLING AGENT:*

**BDO CAPITAL & INVESTMENT CORPORATION**

(BDO Capital and Investment Corporation is 100% owned by BDO Unibank  
BDO Leasing and Finance Inc is 85.09% owned by BDO Unibank, Inc and 1.11% owned by <sup>1</sup>BDO Capital  
Both BDO Capital and BDO Leasing are subsidiaries of BDO Unibank, Inc)

**The date of this Final Prospectus is 25 January 2019**

**ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL  
INFORMATION CONTAINED HEREIN IS TRUE AND CURRENT.**

**ROBERTO E. LAPID**  
*President and Vice Chairman*

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_ day of \_\_\_\_\_ 2019, affiant  
exhibiting before me his TIN No. 108-159-915.

Doc No. \_\_\_\_\_  
Page No. \_\_\_\_\_  
Book No. \_\_\_\_\_  
Series No. \_\_\_\_\_

<sup>1</sup> The ownership of BDO Capital with BDO Leasing and Finance Inc is an Equity Investment of BDO Capital.

SEC Number 097869  
File Number \_\_\_\_\_

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**BDO LEASING AND FINANCE, INC.**  
(Company's Full Name)

-----  
**Corporate Center Ortigas, 12ADB Avenue  
Ortigas Center, Mandaluyong City**

-----  
(Company's Address)

**635-5416**

-----  
(Telephone Number)

**December 31, 2017**

-----  
(Fiscal Year Ending)  
(month & day)

**FINAL PROSPECTUS**

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Form Type

**N.A**

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Amendment Designation (If applicable)

**September 30, 2018**

-----  
Period Ended Date

**N.A**

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(Secondary License Type and File Number)

A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION BUT HAS NOT YET BEEN DECLARED EFFECTIVE.

NO OFFER TO BUY THE SECURITIES CAN BE ACCEPTED AND NO PART OF THE PURCHASE PRICE CAN BE ACCEPTED OR RECEIVED UNTIL THE REGISTRATION STATEMENT HAS BECOME EFFECTIVE, AND ANY SUCH OFFER MAY BE WITHDRAWN OR REVOKED, WITHOUT OBLIGATION OR COMMITMENT OF ANY KIND, AT ANY TIME PRIOR TO NOTICE OF ITS ACCEPTANCE GIVEN AFTER THE EFFECTIVE DATE. AN INDICATION OF INTEREST IN RESPONSE HERETO INVOLVES NO OBLIGATION OR COMMITMENT OF ANY KIND.

THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY.

Republic of the Philippines

Department of Trade and Industry  
SECURITIES AND EXCHANGE COMMISSION  
SEC Building, EDSA, Mandaluyong, Metro Manila

REGISTRATION STATEMENT

(Initial Application)

Securities Regulation Code

**BDO LEASING AND FINANCE, INC.**

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(Exact Name of Registrant as specified in the Articles of incorporation and Registered name, if any.)

Corporate Center Ortigas, 12 ADB Avenue, Ortigas Center, Mandaluyong City 840-7000

-----  
Principal Office Telephone Number

BDO CAPITAL & INVESTMENT CORPORATION 878-4550

-----  
20th Floor, South Tower, BDO Corporate Tower, 7899 Makati Avenue, Makati City, Metro Manila

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(Name, Address and Telephone Number of Selling Agent to whom SEC and Legal Summons may be serviced)

Existing Authority to Issue Commercial Papers:

SEC-CFD Order No.	:	204
Expiry Date	:	---
Approved Debt Ceiling	:	P 15,000,000,000.00

Filed by:

<u>ROBERTO E. LAPID</u>	<u>Vice Chairman &amp; President</u>	<u>635-5817</u>
Name	Position	Tel. No.

Corporate Center Ortigas, 12 ADB Avenue, Ortigas Center, Mandaluyong City

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Address  
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To be filled up by S.E.C. only:

FILING FEE : \_\_\_\_\_

UPLR FUND : \_\_\_\_\_

TOTAL: \_\_\_\_\_

Approved for payment.

-----  
(Print Name and Signature)

-----  
(Position)

-----  
(Date)

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 12-1**

**REGISTRATION STATEMENT UNDER THE SECURITIES REGULATION CODE**

1. SEC Identification Number 97869
2. BDO Leasing and Finance, Inc.  
 Exact name of Registrant as specified in its charter  
Metro Manila, Philippines
3. Province, country or other jurisdiction of incorporation or organization  
Leasing and Financing
4. 320-000-486-050  
 BIR Tax Identification
5. General character of business of registrant
6. Industry Classification Code:  (SEC Use Only)
- 39F Corporate Center Ortigas, 12 ADB Avenue, Ortigas Center, Mandaluyong City.  
Tel: 840-7000 Fax: 633-7736

Address, including postal code, telephone number, FAX number including area code of registrant's principal offices

Not Applicable

8. If registrant is not resident in the Philippines, or its principal business is outside the Philippines, state name and address including postal code, telephone number and FAX number, including area code, and email address of resident agent in the Philippines.  
December 31, 2017
9. Fiscal Year Ending Date (Month and Day):

**COMPUTATION OF REGISTRATION FEE**

Title of each class of securities to be registered	Amount to be registered	Proposed Maximum offering price per unit	Proposed Maximum aggregate offering price	Amount of registration fee
Commercial Papers	Php 15,000,000,000.00	Php 100,000,000.00	Php 15,000,000,000.00	Php4,355,625.00

**BDO LEASING AND FINANCE, INC.**  
**( A subsidiary of BDO Unibank)**

**Total Commercial Paper License applied for is Php 15.00 Billion.**

**The Php 15.00 Billion will be discharged as follows:**

Payment for Maturing Obligation	Php 14,571,700,000.00
Other Expenses of Issuance and Distribution	Php 11,558,625.00
For relending	Php 416,741,375.00

The Commercial Paper is issued directly to the end-user.

**Maturing Obligations**

(as of Sep 30,2018)

Commercial Papers	8,465,700,000.00	4.000%-4.750%	10.02.2018-11.14.2018
Short-Term PNs	6,106,000,000.00	4.500%-5.000%	10.01.2018-12-20.2018

**Selling Agent's Fees**

In consideration for the commitment and undertaking and other services of the Selling Agent as provided herein, the Issuer shall pay selling commissions/fees equivalent to:

Over and above normal trading margins for CPs sourced by the Selling Agent, one-fortieth of one percent (1/40% per annum), based on the full term and principal of each CP sold during a given month.

**Dividends Policy**

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

There are no restrictions that will limit the ability to pay dividends on common equity. The company and its subsidiary, BDO Rental Inc, has no established dividends policy as of the moment.

**Dividends**

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 Board approved the declaration of cash dividends at P0.20 per share in favor of stockholders of record as of March 11, 2016 paid on March 30, 2016. Total dividends in 2016 amounted to P432.49 million.

On February 26, 2015, the Board approved the declaration of cash dividends at P0.175 per share in favor of stockholders of record as of March 11, 2015 paid on March 24, 2015. Total dividends in 2015 amounted to P378.43 million.

Local and Foreign Ownership as of Sep 30, 2018:

Foreign Shares : 824,829

Local Shares : 2,161,650,483

Total Shares : 2,162,475,312

The Company is a subsidiary of BDO Unibank. Its principal office is located at Corporate Center Ortigas, 12 ADB Avenue, Ortigas Center, Mandaluyong City. Its telephone number is (632) 635-6416.

Unless otherwise stated, the information contained in this document have been supplied by the Company, which accepts full responsibility for the accuracy of the information and confirms, after having made all reasonable inquiries, that to the best of its knowledge and belief, there are no material facts, the omission of which would make any statement in this document misleading in any material respect. Neither the delivery of this document nor any sale made hereunder shall, under any circumstances, create any implication that the information contained herein is correct as of any time subsequent to the date hereof.

No dealer, salesman or other person has been authorized by the Company to issue any advertisement or to give any information or make any representation in connection with the sale of the Short-Term Commercial Papers other than those contained in this document and, if issued, given or made, such advertisement, information or representation must not be relied upon as having been authorized by the Company.

## GLOSSARY

In this Offering Prospectus, unless the context requires otherwise, the following expressions have the following meanings:

“Articles”	.....	The Articles of Incorporation of the Company
“BAP”	.....	The Bankers Association of the Philippines
“BDO”	.....	Banco De Oro Unibank, Inc., the parent company
“Board”	.....	Board of Directors of the Company
“BSP”	.....	Bangko Sentral ng Pilipinas, the Philippines’ central monetary authority
“PhilRatings	.....	PhilRatings
“CPs”	.....	Commercial Papers
“Common Shares” or “Shares”	.....	The common shares of par value Php 1.00 each in the capital of the Company
“Company” or “BDOLFI” or or “BDO Leasing”	.....	BDO Leasing and Finance, Inc.
“Corporation Code	.....	The Corporation Code of the Philippines (Cabinet Bill No. 3)
“Directors”	.....	The directors of the Company holding office as of the date of this Offering Prospectus and as listed in the section of this Offering Prospectus headed “Directors and Senior Management”
“DOSRI”	.....	Directors, Officers, Stockholders and Related Interests
“FASB”	.....	The Financial Accounting Standards Board
“financing company”	.....	A company organized under the Financing Company Act (Republic Act No. 5980), and primarily engaged in the extension of lease and financing
“GDP”	.....	Gross Domestic Product
“GRT”	.....	Gross receipts tax
“Gross Income”	.....	Refers to the Company’s gross income or revenues
“Investors”	.....	Those person or entities who are invited to subscribe to or purchase the Offer Shares subject to and in accordance with the Offering
“Lead Underwriter”	.....	BDO Capital & Investment Corporation
“LTCPs”	.....	Long-term Commercial Papers
“Manual”	.....	The Manual of regulations for Banks and Other Financial Institutions
“market share”	.....	Unless otherwise stated, market share refers to the percentage contribution relative to the industry’s outstanding net leasing and financing receivables as estimated by the Philippine SEC
“NSO”	.....	National Statistics Office
“Philippine SEC”	.....	The Securities and Exchange Commission of the Philippines
“Philippine Stock Exchange” or “PSE”	.....	Philippine Stock Exchange, Inc.



“RCIT”	.....	Regular Corporate Income Tax
“Republic Act No. 337” or the	.....	The law pertaining to the power of the Monetary Board of
“General Banking Act”		the BSP to regulate and supervise financial institutions in general
“Republic Act No. 5980”, as	.....	The primary law regulating the organization and
amended by RA No. 8556, or		operation of financing companies
the “Financing Company Act”		
“Residual Value”	.....	The estimated value of a leased equipment at the end of the lease period
“SBL”	.....	Single Borrower’s Limit
“SMEs”	.....	Small- and medium-sized enterprises with total assets ranging from P1.50 Million to P60.0 Million
“SFAS No. 23”	.....	Accounting standard relating to deferred income tax accounting
“Shares”	.....	Common shares of par value Php 1.00 each in the capital of the Company
“SRC”	.....	Securities Regulation Code
“STCPs”	.....	Short-term commercial papers
“universal banks”	.....	Banking institutions with expanded commercial banking authorities
“VAT”	.....	Value-Added Tax

## SUMMARY INFORMATION

### THE COMPANY

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-five percent (85%)-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.

### SUMMARY FINANCIAL INFORMATION

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The following selected information was derived from the audited financial statements as of December 31, 2017 and for the years ended December 31, 2016 and 2015. The audited financial statements were audited by Punongbayan & Araullo, in accordance with the Generally Accepted Accounting Principles in the Philippines. The information should be read in conjunction with, and is qualified in its entirety by reference to such financial statements and related notes thereto and “Management’s Discussion and Analysis or Plan of Operation”.

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
(A Subsidiary of Banco De Oro Unibank, Inc.)

**STATEMENTS OF COMPREHENSIVE INCOME**

For the years ended December 31, 2017, 2016 and 2015

(Amounts in Millions of Philippine Pesos, Except Per Share Data)

		<u>Group</u>			<u>Parent Company</u>		
		<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>REVENUES</b>							
Interest and discounts	<b>Php</b>	<b>1,918.3</b>	1,760.7	1,571.6	<b>1,919.7</b>	1,760.4	1,571.4
Rent		<b>922.2</b>	890.2	807.1	-	-	-
Service fees and other income		<b>316.0</b>	203.4	227.5	<b>323.9</b>	268.5	186.8
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
		<b>3,156.5</b>	2,854.3	2,606.2	<b>2,241.82</b>	2,028.9	1,855.8
<b>OPERATING COSTS AND EXPENSES</b>							
Occupancy and equipment related expenses		<b>865.4</b>	775.2	702.5	<b>50.1</b>	58.9	53.6
Interest an Financing Charges		<b>850.3</b>	673.5	570.8	<b>784.0</b>	617.7	519.1
Tax and licenses		<b>268.9</b>	245.5	198.6	<b>246.6</b>	227.5	185.1
Employee Benefits		<b>227.0</b>	220.7	187.9	<b>227.0</b>	220.7	187.9
Impairment and credit losses		<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
Others		<b>120.5</b>	108.7	107.4	<b>119.0</b>	108.4	106.4
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
		<b>2,437.2</b>	2,103.6	1,880.8	<b>1,531.8</b>	1,313.1	1,165.6
<b>PROFIT BEFORE TAX</b>		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
		<b>719.3</b>	750.7	725.4	<b>710.0</b>	715.8	690.2
<b>TAX EXPENSE</b>		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
		<b>148.8</b>	180.7	169.8	<b>139.5</b>	145.8	134.6
<b>NET PROFIT</b>	<b>Php</b>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
		<b>570.5</b>	570.0	555.6	<b>570.5</b>	570.0	555.6
<b>OTHER COMPREHENSIVE INCOME</b>		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
		<b>(10.7)</b>	59.7	35.2	<b>(10.7)</b>	59.7	35.2
<b>TOTAL COMPREHENSIVE INCOME</b>		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
		<b>525.3</b>	559.3	615.3	<b>559.3</b>	559.3	517.7
<b>EARNINGS PER SHARE</b>	<b>Php</b>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
		<b>0.26</b>	0.26	0.26	<b>0.26</b>	0.26	0.26
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
**(A Subsidiary of Banco De Oro Unibank, Inc.)**

**STATEMENTS OF FINANCIAL POSITION**

For the years ended December 31, 2017 and 2016  
*(Amounts in Millions of Philippine Pesos)*

		<u>Group</u>		<u>Parent Company</u>
		<u>2017</u>	<u>2016</u>	<u>2017</u>
				<u>2016</u>
<b>ASSETS</b>				
Cash & cash equivalents	<b>Php</b>	457.7	370.5	293.2
Available-for-sale Financial Assets		4,642.0	3,521.6	3,521.6
Loans & Other Receivables – Net		34,324.7	31,381.3	31,541.6
Property and equipment – Net		2,256.6	2,381.2	6.3
Investment properties - Net		354.4	426.5	200.4
Other assets – Net		806.2	819.3	1,082.5
		<hr/>	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>Php</b>	<b>42,841.6</b>	38,900.4	<b>40,365.2</b>
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>LIABILITIES AND EQUITIES</b>				
Bills payable	<b>Php</b>	30,478.3	27,268.1	25,312.1
Accounts payable and other liabilities		877.9	651.9	412.7
Income Tax Payable		54.5	50.1	50.1
Lease deposits		5,988.6	5,580.8	5,521.2
		<hr/>	<hr/>	<hr/>
<b>TOTAL LIABILITIES</b>		<b>37,399.3</b>	33,550.9	<b>34,922.9</b>
		<hr/>	<hr/>	<hr/>
Capital stock		2,225.2	2,225.2	2,225.2
Additional paid-in capital		571.1	571.1	571.1
Treasury shares		(81.8)	(81.8)	(81.8)
Retained Earnings		2,618.5	2,480.5	2,480.5
Net Accumulated Actuarial Losses		(59.7)	(42.8)	(42.8)
Unrealized Fair Value Loss on AFS securities		169.0	197.3	197.3
		<hr/>	<hr/>	<hr/>
<b>TOTAL EQUITY</b>		<b>5,442.3</b>	5,349.5	<b>5,442.3</b>
		<hr/>	<hr/>	<hr/>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>Php</b>	<b>42,841.6</b>	38,900.4	<b>40,365.2</b>
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## **GENERAL RISK WARNING**

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The price of securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. Past performance is not a guide to future performance. There is an extra risk of losing money when securities are bought from smaller companies. There may be a big difference between the buying price and the selling price of these securities.

An investor deals in a range of investments each of which may carry a different level of risk.

### **PRUDENCE REQUIRED**

This risk disclosure does not purport to disclose all the risks and other significant aspects of investing in these securities. An investor should undertake his or her own research and study on the trading of securities before commencing any trading activity. He/She may request information on the securities and issuer thereof from the Commission which are available to the public.

### **PROFESSIONAL ADVICE**

An investor should seek professional advice if he or she is uncertain of, or has not understood any aspect of the securities to invest in or the nature of risk involved in trading of securities specially those high risk securities.

## 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.

#### **MARKET INFORMATION FOR SECURITIES OTHER THAN COMMON EQUITY**

CPs has no established public trading market from which market information for CPs can be obtained.

#### **USE OF PROCEEDS**

The net proceeds from the sale of the Php 15.00 Billion Commercial Papers (“CP”) Issue will be used as primarily for payment of maturing obligations and payment of other expenses of issuance and distribution. The remaining amount will then be used re-lending for future marketing requirements of the company.



Computation of net proceeds for the sale of Php 15.00 Billion will use these formulas.

$$\text{Proceeds} = \text{Discount} + \text{Credit Withholding Tax}$$

$$\text{Discount} = \frac{(\text{Face Value} \times 360)}{((\text{Rate} \times \text{Term}) + 360)}$$

$$\text{Gross Interest} = \text{Face Value} - \text{Discount}$$

$$\text{CWT} = \text{Gross Interest} \times 20\%$$

Net Proceeds for Commercial Papers sold will vary depending on the following factors :

1. Face Value
2. Term
3. Agreed upon yield or rate. Rates given to clients vary from 2.950% – 4.125%

Total Commercial Paper License applied for is Php 15.00 Billion.

The order of priority for the use of proceeds are as follows.

1. Retire the following debt.
2. For payment of other expenses of issuance and distribution.
3. Remaining amount will be used for re-lending for future marketing requirements of the company

<u>Lenders</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Dates</u>
(as of Sep 30,2018)			
Commercial Papers	8,465,700,000.00	4.000%-4.750%	10.02.2018-11.14.2018
Short-Term PNs	6,106,000,000.00	4.500%-5.000%	10.01.2018-12-20.2018

Outstanding Obligations (as of Sep 30,2018)

<u>Maturity Within 6 Months</u>	<u>Amount</u>	<u>Rate</u>	<u>Maturity Date</u>
Short-term Commercial Paper	8,465,700,000.00	4.0000%-4.7500%	10.02.2018-11.14.2018
Short-Term PN	16,525,760,200.00	3.0000%-5.0000%	10.01.2018-01.29.2019
Long-Term PN	154,695,125.00	3.2000%	11.09.2018-03.27.2019
<u>Maturity 6Months to 1Year</u>	<u>Amount</u>	<u>Rate</u>	<u>Maturity Date</u>
Short-term Commercial Paper	-	-	-
Short-Term PN	-	-	-
Long-Term PN	7,425,000.00	3.2000%	03.31.2019
<u>Maturity Over 1 Year</u>	<u>Amount</u>	<u>Rate</u>	<u>Maturity Date</u>
Short-term Commercial Paper	-	-	-
Short-Term PN	-	-	-
Long-Term PN	2,125,000,000.00	3.1000%-3.99927%	01.16.2020-06.29.2020
<u>Past due</u>	<u>Amount</u>	<u>Rate</u>	<u>Maturity Date</u>
Short-term Commercial Paper	-	-	-
Short-Term PN	-	-	-
Long-Term PN	-	-	-

2. For payment of other expenses of issuance and distribution with the ff breakdown Php 11,558,625.00

<b><u>Particular</u></b>	<b><u>Amount</u></b>
PhilRating	3,360,000.00
SEC Fees	4,355,625.00
Selling Agent Fees	3,750,000.00 (maximum estimate amount for the year)
Publication	50,000.00
Printing	40,000.00
Binding	3,000.00

3. Remaining amount of Php 416,741,375.00 will be used for re-lending for future marketing requirements of the company

No material amount of proceeds is to be used to acquire assets or finance the acquisition of other businesses.

No proceeds are to be used to reimburse any officer, director, employee or shareholder for service rendered, assets previously transferred, money loaned or advance or otherwise.

In the event of any deviation/adjustment in the planned use of proceeds, the Company shall inform its stockholders and SEC at least thirty (30) days prior to its implementation.

#### **DETERMINATION OF THE OFFERING PRICE**

The Maturity Value is One Hundred Percent of the face value.

The Offering Price is determined at the time of issuance of the CPs. The interest rates are based on prevailing market rates at the time of issue.

#### **OFFERING PERIOD**

The offering period will commence upon approval of the SEC of the CPs and will end upon the expiry of the license of the CPs.

#### **PLAN OF DISTRIBUTION**

BDOLF has appointed BDO Capital & Investment Corporation as its Exclusive Selling Agent.

Amount to be Underwritten: **Fifteen Billion Pesos Only**  
**(Php 15,000,000,000.00)**

BDO Capital & Investment Corporation, the sole underwriter of its CPs, is a wholly-owned subsidiary of Banco de Oro and is an affiliate of the Company.

BDO Capital, licensed by the Commission to engage in underwriting or distribution of securities to the public and as selling agent, shall sell the commercial papers of BDO Leasing and Finance, Inc. only to end-users, i.e. institutions who by the very nature of their functions do not sell nor trade debt instruments in the secondary market. This shall automatically exclude investment houses, securities dealers and brokers.

The distribution and sale of the commercial papers and the compliance by BDO Leasing with this agreement will not conflict with or constitute a breach of any agreement, contract or other instrument, its Articles of Incorporation, By-Laws or any resolution of the Board of Directors of the Issuer or any right of the stockholders of the Issuer.

In consideration for the commitment and undertaking and other services of the Selling Agent as provided herein, the Issuer shall pay selling commissions/fees equivalent to:

Over and above normal trading margins for CPs sourced by the Selling Agent, one-fortieth of one percent (1/40% per annum), based on the full term and principal of each CP sold during a given month.

The Issuer shall be answerable for and/or reimburse the Selling Agent, upon billing, the cost of documentary stamp taxes, legal and notarial fees incurred by the Selling Agent arising from or in connection with this Agreement, the offering and distribution of the CPs.

Selling Agents Commitment and Undertaking on the CP Issue - On the basis of the representations, warranties, and covenants of the Issuer, the Selling Agent hereby agrees with the Issuer as follows:

- a) Selling Agent's Commitment - The Selling Agent's Commitment and undertaking to sell the commercial paper issue of the Issuer shall be up to PESOS: **FIFTEEN BILLION ONLY** (Php 15,000,000,000.00).
- b) Term - The Selling Agent's commitment, unless a cease and desist order is issued by the SEC, shall be conterminous with the validity period of the Issuer's authority to issue CP.
- c) Termination or Cancellation - Notice of termination or cancellation of the agreement whether unilaterally or mutually agreed upon by the contracting parties should be made with SEC.
- d) Conditions To Selling Agent's Commitment - The Selling Agent's Commitment is premised on: i) the accuracy of the Issuer's representations and warranties herein; and ii) the performance by the Issuer of its obligations herein.
- e) Selling Agent's Fees - The maximum estimate amount for the year of Selling Agent fees is Php 3,750,000.00.

The responsibilities of the Selling Agent as follows:

**A. Reportorial requirements in the prescribed form:**

- a) Quarterly reports on CP transactions accompanied by interim quarterly financial statements to be submitted within thirty (30) calendar days following the end of the reference quarter.

**B. Notify the SEC and BSP on the following matters:**

1. When the Issuer is unable to provide the information necessary to meet reportorial requirements, the Selling Agent shall, not later than two (2) working days prior to due date, make notice of such fact to the Commission.

2. When the Issuer fails to pay in full any CP upon demand at stated maturity date, the Selling Agent shall, on the next working day, notify the SEC and the SEC will issue a cease and desist order enjoining the Issuer and the Selling Agent to stop the further sale of CPs.

**C. Conditions in the issuance of BDOLF P15.000 Billion CP Authority by the Bangko Sentral ng Pilipinas.**

1. BDOLFI shall limit its borrowings, including the issuance/sale of its SEC registered papers (CPs) to nineteen (19) or less lenders/purchasers at all times.
2. BDOLFI shall sell its commercial papers (CPs) only to end-users, i.e., institutions who by the very nature of their functions do not sell nor trade debt instruments in the secondary market. This shall automatically exclude investment houses, securities dealers and brokers.
3. BDOLFI shall submit to BSP-DTBNBFI a quarterly report of all buyers of BDOLFI's commercial papers including a list of its borrowings/lenders in the prescribed format **THIRTY (30) CALENDAR DAYS** from end of reference month.
4. BDOLFI shall inform in writing its selling agent and all CP buyers that (a) BDOLFI is a non-bank financial institution not authorized to engage in quasi-banking functions and therefore, not allowed to borrow from more than 19 at all times; and (b) they shall not sell BDOLFI's commercial papers in the secondary market without the prior consent of BDOLFI except when the sale is made to an existing creditor of BDOLFI. The selling agent and CP buyers shall affix their conforme in the letter advise.
5. BDOLFI's failure to comply with the foregoing conditions shall cause BSP to recommend to SEC the suspension of its CP authority.

**UNDERWRITERS REPRESENTATIVE ON THE BOARD OF DIRECTORS**

There is no arrangement whereby the underwriter has the right to designate or nominate a member/s of the board of directors of the Registrant.

**INTERESTS OF NAMED EXPERTS AND COUNSELS**

The audited financial statements of the Company as of and for the years ended December 31, 2017 and 2016, together with notes thereto, were audited by Punongbayan & Araullo, independent public accountants, as indicated in their reports which are included herein.

**Direct or Indirect Interest in Registrant**

The above-named experts and counsels will not receive a direct or indirect interest in the registrant nor was such expert and counsels are a promoter, underwriter, voting trustee, director, officer or employee of the registrant.

**DESCRIPTION OF REGISTRANT'S SECURITIES**

- A. Amount** : Php 15.000 Billion
- B. Expiry Date of License:** Three hundred sixty five (365) from the date of approval by the Securities and Exchange Commission
- C. Interest Rate** : Prevailing money market rates
- D. Minimum Purchase** : The minimum maturity value of each registered commercial instrument shall not be lower than THREE HUNDRED THOUSAND PESOS (Php300,000.00)
- E. Manner of Purchase** : The above mentioned commercial papers will be available for sale from the selling agent, subject to the minimum purchase amount with interest rate and maturity terms based on prevailing market conditions.
- F. Delivery of CP** : Delivery of the commercial paper will be made upon full payment of any purchase from the selling agent.
- G. Taxation** : The purchase of the above commercial papers will be subject to taxation rules and regulations of the Bureau of Internal Revenues pertaining to such purchase.
- H. Liabilities** : BDOLF as Commercial Paper Issuer is liable and responsible for any obligations arising from the sale of its commercial papers as provided for under pertinent sections of the Negotiable Instruments Law and the Securities Regulation Code. In addition, the Issuer is jointly responsible with the Selling Agent for complying with all reportorial requirements of the SEC and the Central Bank in connection with the commercial paper issue.
- I. Rights of Debt holders** : Debt holders shall not sell BDOLFI's commercial papers in the secondary market without prior consent of BDOLFI except when the sale is made to an existing creditor of BDOLFI. The selling agent and CP buyers shall affix their conforme in the letter advise.
- J. Debt Securities** : There are no debt securities to be disclosed. Also, there is no trustee(s) designated by the indenture.
- K. Credit Ratings** : BDOLFI was rated PRS Aa,(minus) by Philratings. Philratings sighted that BDOLF continues to be in a favorable position in a competitive market.
- L. Interest of Named Experts:** No experts or counsels will receive a direct or indirect interest in the registrant or was such expert and counsels are a promoter, underwriter, voting trustee, director, officer or employee of the registrant.

**INFORMATION WITH RESPECT TO THE REGISTRANT**

## **Business of Issuer**

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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-five percent (85%)-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.

## **2. Principal Products/Services**

The Company’s principal business is providing leasing & 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 financial assets such as receivables and inventories.

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 you plan to keep the asset up to the end of the term. With just a low upfront cost, you 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 a commercial client 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 a 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 you have your inventory 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 a 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 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 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 mediumenterprises (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.

### Employees

As of September 30, 2018, the Company had 201 employees – 20 senior officers, 82 junior officers and 99 rank & file employees. Of the total personnel, Executive Office is composed of two (2) employees; one hundred thirty three (133) under the Marketing group; fifty six (56) under the Operations group (Comptrollership and Operations); seven (7) under Risk and Compliance; and three (3) under Treasury.

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.

### 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:

<u>Related Party Category</u>	<u>Notes</u>	<u>Amount of Transaction</u>		
		<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Ultimate Parent Company (BDO)</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	38.7	99.7
Rent expense	(d)	12.3	10.5	9.8
Management fees	(e)	2.4	2.4	2.4
Employment 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

**Related Party Under Common****Ownership (BDO Capital and BDO Insurance)**

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

<i>Related Party Category</i>	<i>Notes</i>	<i>Outstanding Balance</i>	
		<i>2017</i>	<i>2016</i>
<b>Parent Company (BDO Unibank)</b>			
Savings and demand deposits	(a) P	453.0	P 365.2
Bills payable	(b)	4,782.99	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.

### Intellectual Property

As of December 31, 2017, the Company is the licensee from BDO Unibank of the following trademark registered with the Philippine Intellectual Property Office:

Trademarks	Validity of Registration (*subject for renewal)
	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.

## **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 2<sup>nd</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, 2023. Gross monthly rental amounts to P58,836.00 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.

The company does not intend to acquire any property or open new branches within the next 12 months.

## **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, its subsidiaries or its consolidated financial condition.

## **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.

## 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 buyback into treasury. Purchase of shares are covered by guidelines which include buy-back of shares when the share price 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.

### Market Information

**Debt Securities:** Php 15.000 Billion commercial paper

**Equity Securities:** Refer to Market Information.

#### h) Trading Market

The principal market for the Company's common equity is the Philippine Stock Exchange (PSE)

#### i) Stock Prices

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

<b>2018</b>	<b>High</b>	<b>Low</b>	<b>2017</b>	<b>High</b>	<b>Low</b>
1st quarter	3.20	3.10	1 <sup>st</sup> quarter	3.96	3.95
2nd quarter	3.20	2.60	2 <sup>nd</sup> quarter	4.05	3.90
3rd quarter	2.90	2.30	3 <sup>rd</sup> quarter	4.08	4.05
			4 <sup>th</sup> quarter	3.89	3.78
<b>2016</b>	<b>High</b>	<b>Low</b>	<b>2015</b>	<b>High</b>	<b>Low</b>
1 <sup>st</sup> quarter	2.85	2.84	1 <sup>st</sup> quarter	2.34	2.28
2 <sup>nd</sup> quarter	4.15	4.00	2 <sup>nd</sup> quarter	2.54	2.51
3 <sup>rd</sup> quarter	3.85	3.77	3 <sup>rd</sup> quarter	2.47	2.47
4 <sup>th</sup> quarter	3.79	3.79	4 <sup>th</sup> quarter	2.51	2.45

As at November 14, 2018 and December 31, 2017, the closing price of the Company's share were at P2.35 and P3.82, respectively.

Total number of stockholders as of September 30, 2018 was one thousand one hundred fifteen (1,115) and as of December 31, 2016 was one thousand one hundred thirty six (1,136). Common shares outstanding as of September 30, 2018 and December 31, 2016 totaled 2,162,475,312.

3) Price Information on the Latest Practicable date

The Company's shares were last traded on Dec 13, 2018 at P2.20 per share.

4) Dividends Policy

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

There are no restrictions that will limit the ability to pay dividends on common equity. The company and its subsidiary, BDO Rental Inc, has no established dividends policy as of the moment

5) Dividends

On February 24, 2016, the Board approved the declaration of cash dividends at P0.20 per share in favor of stockholders of record as of March 11, 2016 paid on March 30, 2016. Total dividends in 2016 amounted to P432.49 million.

On February 26, 2015, the Board approved the declaration of cash dividends at P0.175 per share in favor of stockholders of record as of March 11, 2015 paid on March 24, 2015. Total dividends in 2015 amounted to P378.43 million.

On February 25, 2014, the Company's Board of Directors approved the declaration of cash dividends at P0.15 per share in favor of stockholders of record as of March 13, 2014 paid on March 31, 2014. Total dividends in 2014 amounted to Php 324.37 million.

**Holders**

The Company's common stockholders, with their respective shareholdings, as of Sep 30, 2018 are as follows:

<u>Name</u>	<u>No. of Shares Held</u>	<u>% to Total</u>
Banco de Oro Unibank, Inc. (Parent Company)	1,840,115,176	85.093003%
Various Stockholders	<u>322,360,136</u>	<u>14.906997%</u>
	<u>2,162,475,312</u>	<u>100.000000%</u>

***The top twenty (20) stockholders of the Company as of Sep 30, 2018 are as follows:***

<i>Name of Stockholders</i>	<i>Securities</i>	<i>Shares Held</i>	<i>Percentage</i>
Banco De Oro Unibank, Inc.	Common	1,840,115,176.00	85.093003%
PCD Nominee Corp (Filipino)	Common	245,661,647.00	11.360206%
Samuel Uy Chua	Common	21,000,000.00	0.971109%
Equitable Computer Services, Inc. A/C Equitable	Common	12,320,000.00	0.569717%
Marylen Castro Mateo	Common	3,795,000.00	0.175493%
Jesselen Castro Versoza	Common	3,795,000.00	0.175493%
Samuel Uy Chua	Common	3,011,150.00	0.139246%
Constantino Chua	Common	2,497,200.00	0.115479%
Equitable Computer Services Inc.	Common	2,070,200.00	0.095733%
Victor Barranda	Common	1,157,475.00	0.053525%
Mercury Group of Companies	Common	1,089,165.00	0.050367%

<i>Name of Stockholders</i>	<i>Securities</i>	<i>Shares Held</i>	<i>Percentage</i>
Constantino Chua &/or Willington Chua &/or George W. Chua	Common	1,020,000.00	0.047168%
Nardo R. Leviste	Common	759,000.00	0.035099%
Oscar M. Lopez	Common	683,100.00	0.031589%
Willington/Constantino Chua/ George W. Chua Chua	Common	584,430.00	0.027026%
PCD Nominee Corp (Foreign)	Common	526,714.00	0.024357%
Willington Chua	Common	508,530.00	0.023516%
Pablo Son Keng Po	Common	455,400.00	0.021059%
Wilson Go	Common	438,625.00	0.020283%
Lim Chin Ben	Common	425,040.00	0.019655%

7) 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. ompa

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**September 2018 Compared to September 2017**

The company registered P247.5 million in net income for the period ending September 2018. These results were lower compared to the same period last year as rising interest rates increased borrowing costs which was also accompanied by a substantial increase in the documentary stamp tax costs on its commercial paper issuances due to the TRAIN law.

Gross revenues amounted to P2,395.7 million, an increase of 3% from P2,315.1 million last year. This was due to higher income from the loan portfolio and sale of various non-financial assets.

Interest and financing charges however rose 29% to P809.8 million due primarily to a rising interest rate environment. This resulted in lower interest margins for the current period, as the company's liabilities re-price faster than its receivables.

The company set aside P41.7 million as provision for credit and impairment losses, bringing its NPL cover to 95%. Taxes and licenses increased to P261.1 million due to a 47% increase in the cost of documentary stamp taxes resulting from implementation of the TRAIN law.

Depreciation Expense-Operating Lease went up 7% to P646 million due to new bookings of Operating Leases.

Litigation/assets acquired expenses decreased 63% to P10 million due to lower expenses related to foreclosed assets.



Total assets slightly declined year-on-year to P42.0 billion, mainly due to investment maturities. The Company's loans and other receivables-net climbed slightly to P34.6 billion from P33.7 billion in September 2017. Property, Plant and Equipment-net increased by P83.8 million.

Cash & cash equivalents went down by 49% or P207.9 million as the Company's free funds were used to reduce more expensive borrowings. As a result, Bills Payable declined to P29.6 billion. FVOCI Securities went down 17% to P3.8 billion as some investments matured.

Net Investment properties-net declined to P347 million from P417 million. Other Assets decreased to P741 million from P806 million.

Accounts Payable, accrued expenses and other liabilities decreased P106.7 million year-on-year mainly due to decrease in outstanding check payments to supplier/dealers.

Lease deposits went up from P5.8 billion in September 2017 to P6.6 billion, consistent with growth in volumes.

Stockholders' equity was steady at P5.3 billion.

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

	<b>September 2018</b>	<b>September 2017</b>
Current Ratio	0.39:1	0.39:1
Quick asset ratio	0.39:1	0.38:1
Debt to Equity Ratio	6.89:1	7.10:1
Net Profit Margin	10.33%	17.53%
Return on Equity	6.25%	10.39%

Formulas used:

Current ratio = Current Assets over Current Liabilities

Quick assets ratio = Quick assets over Current Liabilities

Debt to equity = Total Liabilities over Total Stockholders' Equity

Net profit margin = Net income over Gross Revenues

Return on ave. equity = Annualized Net income over Ave. Stockholders' Equity

**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 its subsidiary, BDO Rental. 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 DST 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 decreased 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 the Company. The joint venture company 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 increased 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 key performance indicators are as follows:

	<b>December 2016</b>	<b>December 2015</b>
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.

### ***2015 Compared to 2014***

Gross income for the year ended December 31, 2015 was P2.61 billion, an increase of P332.6 million, or 14.63% from P2.27 billion in 2014. Interest and discounts for the year ended December 31, 2015 were P1.57 billion, an increase of P120.7 million or 8.32% from P1.45 billion in 2014. Rent Income for the year ended December 31, 2015 were P807.1 million, an increase of P194.0 million or 31.64% from P613.1 million in 2014. 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, 2015 was at P27.9 billion, a P3.89 billion increase, or 16.21% from P24.0 billion as of December 31, 2014 with leasing portfolio improving by 17.44% or an increase of P2.4 billion.

Interest and financing charges for 2015 amounted to P570.8 million, consisting of finance charges from borrowings of P564.4 million and interest expense on lease deposits of P6.4 million. The increase of P102.9 million in financing charges is attributed to the increase in Bills Payable from P19.65 billion last year to P23.89 billion this year. Interest expense on leased deposits in 2015 amounted to P6.4 million or an increase of P3.1M from 2014's P3.2 million.

As of December 31, 2015, total provision for impairment losses amounted to P83.4 million, a decrease of P16.6 million from last year's P100.0 million. There were no accounts written off in 2015.

Taxes and licenses amounted to P198.6 million for the year ended December 31, 2015, an increase of P19.3 million, or 10.76% from P179.3 million for the year ended December 31, 2014. The increase was mainly the result of higher DST in 2015 vis a vis 2014, by P15.3 million.

Salaries and employee benefits expense amounted to P187.9 million in 2015 as compared to P161.4 million in 2014. Occupancy and equipment related expenses for the year ended December 31, 2015 amounted to P702.5 million, an increase of P168.2 million, or 31.48% from December 2014's P534.3 million. This was brought about by the improved operating lease business of BDO Rental.

Litigation/assets acquired expenses increased by 21.29% or from P24.9 million in 2014 to P30.2 million in 2015.

Other expenses increased to P107.4 million in 2015 as compared to P91.7 million as of 2014.

The Company registered a net income of P555.6 million for the year ended December 31, 2015.

Total assets amounted to P34.5 billion in December 31, 2015, an increase of P5.27 billion from the P29.25 billion balance of December 2014. Available-for-sale financial assets of P3.54 billion is comprised of investments in various corporate fixed rate bonds and preferred shares listed in the PSE. Leasing and Financing portfolio increased by 16.21%, representing an increase of P3.89 billion from last year. Property and Equipment-net amounted to P2,221.7 million as of 2015, or an increase of P209.12 million over last year's P2,012.6 million. This is due to the increase in booked leases of BDO Rental. Investment properties-net increased to P438.1 million from 2014's P320.6 million due to purchase of land for Operating Lease. Other assets stood at P522.0 million in 2015, primarily consisting of deferred input VAT of P260.6 million, prepaid expenses P102.2 million; and intangible assets P50.9 million.

Income tax payable, deferred tax liabilities, accounts payable, and other liabilities increased to P422.7 million from P417.2 million last year.

Lease deposits, amounting to P4.98 billion in 2015, increased by P788.7 million or 18.80% from last year's P4.19 billion. This was also due to the increased volume of lease transactions of the Company.

Stockholders' equity increased by P236.9 million or 4.75%, due to the increase in Net Income year-on-year.

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

	<b>December 2015</b>	<b>December 2014</b>
Current Ratio	0.46:1	0.41:1
Quick Asset Ratio	0.45:1	0.40:1
Debt to Equity Ratio	5.61:1	4.87:1
Net Profit Margin	21.32%	22.17%
Return on Equity	10.89%	10.33%

The Current Ratio (computed as current assets divided by current liabilities) and Quick Asset Ratio (quick asset divided by current liabilities) registered slight improvements from last year. Debt to equity ratio, computed as total liabilities divided by total equity, increased from 4.87:1 in 2014 to 5.61:1 in 2015 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. However, Return on Equity, which is net income over average equity, improved to 10.89% in 2015.

As of December 31, 2017, the Company raised a total of zero Commercial Papers.

**Actual Proceeds as at Dec 31,2017**

Gross Proceeds	0.00
Net Proceeds	0.00

<b>Expenditures</b>		
Rollover	0.00	
Relending	0.00	
PN Payment	0.00	Balance - Dec 31,2017 <b>15,000,000,000.00</b>

As of Sep 30, 2018, the Company raised gross proceeds of approximately P8,465,700,000 from the CP. After deducting the discounted interest (net of withholding tax), the net proceeds from the CP amounted to P8,413,909,650.00. The net proceeds will be used by the Company to further solidify the Company's capital adequacy and financial strength, among others, specifically as follows: (1) Re-lending; (2) Payment of Maturing Obligations; and (3) Rollover of Existing CP Placements.

**Actual Proceeds as at Sep 30,2018**

Gross Proceeds	8,465,700,000.00
Net Proceeds	8,413,909,650.00

**Expenditures**

Rollover	6,384,154,971.00	
Relending	358,291,874.00	
PN Payment	1,671,462,805.00	Balance - Sep 30,2018 <b>6,534,300,000.00</b>

**Related Party Transactions**

*(Amounts in Millions of Philippine Pesos)*

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

The Group's and Parent Company's related parties include BDO Unibank and affiliates as described below.

The summary of the Company's significant transactions with its related parties in September 30, 2018, December 31, 2017 and September 30, 2017 are as follows:

**BDO Leasing & Finance Inc**  
**Related Party Transaction**  
**September 30, 2018, December 31, 2017 and September 30, 2017**

<u>Related Party Category</u>	Note	<u>Amount of Transaction</u>		
		September 30, 2018	December 31, 2017	September 30, 2017
<b>Ultimate Parent Company (BDO Unibank)</b>				
Interest Income on savings and demand deposits	(a) P	0.4 P	0.8 P	0.6
Interest expense on Bills Payable	(b)	66.6	141.5	115.7
Rent Expense	(c)	10.0	12.3	9.3
Management fees	(d)	12.0	13.8	9.7
Service fees	(e)	0.1		
Employee stock option plan		5.2	6.3	2.8
<b>Subsidiary (BDO Rental)</b>				
Rent Income	(c)	0.1	0.1	0.1
Management fees	(d)	0.3	0.4	0.3
Dividend Income	(h)	35.0	120.0	120.0
<b>Related Party under Common Ownership</b>				
Service and charges fees	(e, i)	2.1	5.0	2.5
Interest expense on Bills Payable	(j)	109.4	94.1	7.6
Rent Expense		11.2		

<u>Related Party Category</u>	Note	<u>Outstanding Balance</u>		
		September 30, 2018	December 31, 2017	September 30, 2017
<b>Parent Company (BDO Unibank)</b>				
Savings and demand deposits	(a) P	214.6 P	453.0 P	422.8
Bills Payable	(b)	2,789.2	4,782.9	3,841.2
Employee stock option		5.2	-	2.8
<b>Related Party under Common Ownership</b>				
Accounts Receivable	(i)		0.8	
Bills Payable	(j)	3,971.0	3,901.0	842.5
Unearned Rental Income	(k)	6.4	4.6	1.2
<b>Key Management Personnel</b>				
Loans to Officers	(f)	4.3	7.5	9.4
<b>Retirement Fund</b>				
Shares of stock	(g)	1.2	1.0	

- a) The Group maintains savings and demand deposit accounts with BDO Unibank. As of September 30, 2018, December 31, 2017 and September 30, 2017, 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 September 30, 2018 and 2017 is included as part of Interest and Discounts under the Revenues account in the statements of income.
- b) The Group obtains short-term bills payable from BDO Unibank. The amount outstanding from borrowings as of September 30, 2018, December 31, 2017 and September 30, 2017 is presented under Bills Payable account in the statements of financial position. Interest expense incurred on these bills payable September 30, 2018 and 2017 is included as part of Interest and Financing Charges under Operating Costs and Expenses account in the statements of income.
- c) 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 September 30, 2018 and 2017 is presented as part of Occupancy and equipment-related expenses 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 September 30, 2018 and 2017 is presented as part of Other Income in the statements of income. There is no outstanding receivable and payable on these transactions as of the end of September 30, 2018, December 31, 2017 and September 30, 2017.
- d) 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 is shown as part of Other 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 in the Parent Company's statements of income. There are no outstanding receivable and payable on these transactions as of the end of September 30, 2018, December 31, 2017 and September 30, 2017.
- e) 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 both for September 30, 2018 and 2017 is included as part of Other Operating Costs and Expenses in the statements of income. There are no outstanding payable related on this transaction as of the end of September 30, 2018, December 31, 2017 and September 30, 2017.
- f) 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 comprehensive 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 September 30, 2018, December 31, 2017 and September 30, 2017.



- g) The retirement fund holds, as an investment, 519,915 shares of stock of the Parent Company in 2018 and 2017, respectively, which has a market value of P2.40 and P1.90 per share as of December 30, 2018 and 2017, respectively. The retirement fund does not hold any shares of stock of BDO Unibank.
- h) BDO Rental declared Cash Dividends which is presented as part of other income in the Parent company's statement of income in September 30, 2018 and 2017. This resulted in outstanding receivable of the Parent Company from BDO Rental in 2017 which is recorded as part of Dividends receivable under Loans and Other Receivables account in the statements of financial position.
- i) The Parent Company earned from BDO Insurance Brokers, Inc. (BDO Insurance) service charges and fees for accounts referred and are included as part of Service Fees and other Income. This resulted in outstanding receivable of the Parent Company from BDO Insurance in 2018 and 2017 which is recorded as part of Accounts receivables under Loans and Other Receivables account in the statements of financial position. The Parent assessed that such receivable is not impaired.
- j) 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 September 30, 2018 and 2017.
- k) In 2017, BDO Rental, entered into Operating Lease Agreement with BDO Nomura Securities, Inc. (BDO Nomura) which will commence this 2018. Prepaid rental made by BDO Nomura is included as part of Other Liabilities under Accounts Payable and Other Liabilities account in September 30, 2018 statement of financial position. Rent charged to BDO Nomura is presented as part of Rent in the statements of income.

### **Commitments and Contingencies**

In the ordinary course of business, the company may incur contingent liabilities and commitments such as guarantees and pending litigation arising from normal business transactions which are not shown in the accompanying financial statements. Management does not anticipate significant losses from these commitments and contingencies that would adversely affect the company's operations.

### **Economic Events**

Management is continuously evaluating the current business climate and the impact of recent economic events on the present operations of the company. As the need arises, the company will recognize related effects in the ensuing financial statements.

### **Risk Factors**

We assessed the financial risk exposure of the company and subsidiaries particularly on currency, interest, credit, market and liquidity risks. There were no changes that would materially affect the financial condition and results of operations of the company.

Risk Management of the company's credit risks, market risks, liquidity risks, 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 of Directors. The Board approves the overall institutional tolerance for risk, including risk policies and risk Philosophy of the Company.

### **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 placers. 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.

## **INFORMATION ON INDEPENDENT ACCOUNTANT**

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

#### **(1) External Audit Fees and Services**

##### **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.

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 also no material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationship of the company with unconsolidated entities or other persons created during the reporting period.

There is also no material commitments for capital expenditure. No known trends events or uncertainties that have or had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations were noted.

No significant elements of income or loss that did not arise from registrant's continuing operations were identified.

## **(2) 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.

## **ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE ISSUER**

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**

**FILIPINO, 61 YEARS OLD**

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.

**NESTOR V. TAN**

**DIRECTOR**

**FILIPINO, 59 YEARS OLD**

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.

**ANTONIO N. COTOCO**  
**DIRECTOR**  
**FILIPINO, 69 YEARS OLD**

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.

**JECI A. LAPUS**  
**DIRECTOR**  
**FILIPINO, 64 YEARS OLD**

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.

**LUIS S. REYES JR.**  
**DIRECTOR AND TREASURER**  
**FILIPINO, 60 YEARS OLD**

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.

**EXEQUIEL P. VILLACORTA, JR.**  
**DIRECTOR**  
**FILIPINO, 72 YEARS OLD**

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 PBCom; 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**  
**FILIPINO, 60 YEARS OLD**

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.

**JESSE H.T. ANDRES**  
**INDEPENDENT DIRECTOR**  
**FILIPINO, 53 YEARS OLD**

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.

**MA. LEONORA V. DE JESUS**

**INDEPENDENT DIRECTOR  
FILIPINO, 67 YEARS OLD**

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.

**VICENTE S. PÉREZ, JR.  
INDEPENDENT DIRECTOR  
FILIPINO, 59 YEARS OLD**

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.

**JOSEPH JASON M. NATIVIDAD  
CORPORATE SECRETARY  
FILIPINO, 45 YEARS OLD**

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 independent directors of the Registrant are Messrs. Jesse H.T. Andres and Vicente S. Perez Jr, and Ms. Ma. Leonora V. De Jesus.

**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 (5) 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.

**Significant Employee**

There is no person, other than the executive officers, 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 November 30, 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 up to November 30, 2018:

1. bankruptcy petition by or against any business of which such director was a general partner or executive officer either at the time of bankruptcy or within two (2) years prior to that time;
2. a conviction by final judgment, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign;
3. 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;
4. 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

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
	Rosario C. Crisostomo			First Vice President
	Cosme S. Trinidad, Jr.			First Vice President

in million pesos	Year	Salary	Bonuses	Other Annual Compensation
2016	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.

**A. 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 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 diems* by the approval of the shareholders representing at least a majority of the outstanding capital stock.

**B. Outstanding warrants or options held by the registrants 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.

**C. 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**

(1) Sep 30, 2018 the Company is 85% owned by the Parent Company and the remaining 15% is owned by various stockholders with only one stockholder having a 5% holding of the outstanding capital stock as of said date.

Title of Class	Name, address of record owner and relationship with issuer	Name of Beneficial Owner & Relationship with Record Owner	Citizenship	Number of Shares Held	Percentage
Common	BDO Unibank Inc.* ( <i>Philippine Commercial International Bank; Banco De Oro Unibank, Inc.</i> ) BDO Corporate Center, 7899 Makati Avenue, Makati City  <b>BDO Unibank, Inc. is the parent company of the Company.</b>		Filipino	1,840,115,176	85.09%
Common	PCD Nominee Corp G/F Makati Stock Exchange Building, 6767 Ayala Ave., Makati City  PCD Nominee has no relationship with the issuer except as stockholder  PCD, being a nominee corporation, only holds legal title, not beneficial ownership of the lodged shares	Various shareholders  No stockholder owns more than 5% of the company's voting securities	Filipino  Foreigner	245,661,647  425,040	11.36%  0.02%

***Security Ownership of Management as of Sep 30, 2018:***

As of Sep 30, 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	<b>Teresita T. Sy</b> Chairperson	Chairperson	Filipino	100 (R)	0.0000046%
Common	<b>Roberto E. Lapid</b> Vice Chairman & President	Vice-Chairman & President	Filipino	100 (R)	0.0000046%
Common	<b>Jesse H.T. Andres</b>	Independent Director	Filipino	100 (R)	0.0000046%
Common	<b>Antonio N. Cotoco</b>	Director	Filipino	115 (R)	0.0000053%
Common	<b>Ma. Leonora V. De Jesus</b>	Independent Director	Filipino	100 (R)	0.0000046%
Common	<b>Jeci A. Lapus</b>	Director	Filipino	100 (R)	0.0000046%

Common	<b>Vicente S. Perez, Jr.</b>	Independent Director	Filipino	100 (R)	0.0000046%
Common	<b>Luis S. Reyes Jr.</b>	Director	Filipino	100 (R)	0.0000046%
Common	<b>Nestor V. Tan</b>	Director	Filipino	100 (R)	0.0000046%
Common	<b>Exequiel P. Villacorta, Jr.</b>	Director	Filipino	100 (R)	0.0000046%
Common	<b>Walter C. Wassmer</b>	Director	Filipino	100 (R)	0.0000046%
Common	<b>Rosario C. Crisostomo</b>	First 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

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.

The Group's and Parent Company's related parties include BDO Unibank and affiliates as described below.

The summary of the Company's significant transactions with its related parties in September 30, 2018, December 31, 2017 and September 30, 2017 are as follows:

### **BDO Leasing & Finance Inc Related Party Transaction September 30, 2018, December 31, 2017 and September 30, 2017**

<u>Related Party Category</u>	<u>Note</u>	<u>Amount of Transaction</u>		
		September 30, 2018	December 31, 2017	September 30, 2017
<b>Ultimate Parent Company (BDO Unibank)</b>				
Interest Income on savings and demand deposits	(a) P	0.4 P	0.8 P	0.6
Interest expense on Bills Payable	(b)	66.6	141.5	115.7
Rent Expense	(c)	10.0	12.3	9.3
Management fees	(d)	12.0	13.8	9.7
Service fees	(e)	0.1		
Employee stock option plan		5.2	6.3	2.8
<b>Subsidiary (BDO Rental)</b>				
Rent Income	(c)	0.1	0.1	0.1
Management fees	(d)	0.3	0.4	0.3
Dividend Income	(h)	35.0	120.0	120.0
<b>Related Party under Common Ownership</b>				
Service and charges fees	(e, i)	2.1	5.0	2.5
Interest expense on Bills Payable	(j)	109.4	94.1	7.6
Rent Expense		11.2		

<u>Related Party Category</u>	<u>Note</u>	<u>Outstanding Balance</u>		
		September 30, 2018	December 31, 2017	September 30, 2017
<b>Parent Company (BDO Unibank)</b>				
Savings and demand deposits	(a)	P 214.6	P 453.0	P 422.8
Bills Payable	(b)	2,789.2	4,782.9	3,841.2
Employee stock option		5.2	-	2.8
<b>Related Party under Common Ownership</b>				
Accounts Receivable	(i)		0.8	
Bills Payable	(j)	3,971.0	3,901.0	842.5
Unearned Rental Income	(k)	6.4	4.6	1.2
<b>Key Management Personnel</b>				
Loans to Officers	(f)	4.3	7.5	9.4
<b>Retirement Fund</b>				
Shares of stock	(g)	1.2	1.0	

- a) The Group maintains savings and demand deposit accounts with BDO Unibank. As of September 30, 2018, December 31, 2017 and September 30, 2017, 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 September 30, 2018 and 2017 is included as part of Interest and Discounts under the Revenues account in the statements of income.
- b) The Group obtains short-term bills payable from BDO Unibank. The amount outstanding from borrowings as of September 30, 2018, December 31, 2017 and September 30, 2017 is presented under Bills Payable account in the statements of financial position. Interest expense incurred on these bills payable September 30, 2018 and 2017 is included as part of Interest and Financing Charges under Operating Costs and Expenses account in the statements of income.
- c) 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 September 30, 2018 and 2017 is presented as part of Occupancy and equipment-related expenses 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 September 30, 2018 and 2017 is presented as part of Other Income in the statements of income. There is no outstanding receivable and payable on these transactions as of the end of September 30, 2018, December 31, 2017 and September 30, 2017.

- d) 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 is shown as part of Other 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 in the Parent Company's statements of income. There are no outstanding receivable and payable on these transactions as of the end of September 30, 2018, December 31, 2017 and September 30, 2017.
- e) 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 both for September 30, 2018 and 2017 is included as part of Other Operating Costs and Expenses in the statements of income. There are no outstanding payable related on this transaction as of the end of September 30, 2018, December 31, 2017 and September 30, 2017.
- f) 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 comprehensive 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 September 30, 2018, December 31, 2017 and September 30, 2017.
- g) The retirement fund holds, as an investment, 519,915 shares of stock of the Parent Company in 2018 and 2017, respectively, which has a market value of P2.40 and P1.90 per share as of December 30, 2018 and 2017, respectively. The retirement fund does not hold any shares of stock of BDO Unibank.
- h) BDO Rental declared Cash Dividends which is presented as part of other income in the Parent company's statement of income in September 30, 2018 and 2017. This resulted in outstanding receivable of the Parent Company from BDO Rental in 2017 which is recorded as part of Dividends receivable under Loans and Other Receivables account in the statements of financial position.
- i) The Parent Company earned from BDO Insurance Brokers, Inc. (BDO Insurance) service charges and fees for accounts referred and are included as part of Service Fees and other Income. This resulted in outstanding receivable of the Parent Company from BDO Insurance in 2018 and 2017 which is recorded as part of Accounts receivables under Loans and Other Receivables account in the statements of financial position. The Parent assessed that such receivable is not impaired.
- j) 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 September 30, 2018 and 2017.

k) In 2017, BDO Rental, entered into Operating Lease Agreement with BDO Nomura Securities, Inc. (BDO Nomura) which will commence this 2018. Prepaid rental made by BDO Nomura is included as part of Other Liabilities under Accounts Payable and Other Liabilities account in September 30, 2018 statement of financial position. Rent charged to BDO Nomura is presented as part of Rent in the statements of income.

The Company, to finance its lending requirements, borrows funds from BDO Unibank at prevailing market rates. As of end of September 30, 2018, the Company has a total dollar borrowings amounting to Php 2,030 Million. 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.

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.

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.

Loans to officers NIL as of December 31, 2017.

## **CORPORATE GOVERNANCE**

The Company has adopted a Manual of Corporate Governance, which was filed with and duly approved by the Commission. Pursuant to the Manual, the Company established an evaluation system to measure or determine the level of performance of the Board of Directors and top level management. The rating form, which is duly approved by the Board of the Company, is accomplished on an annual basis.

The Company requires its directors and senior officers to attend seminars conducted by reputable service providers and conduct its own training and seminars to fully comply with the adopted leading practices on good governance.

There has been no deviation from the Company's Manual of Corporate Governance.

The Company will continue to send its directors and senior officers to attend training programs and seminars to further improve the corporate governance of the Company.



**OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION**

<b><u>Particular</u></b>	<b><u>Amount</u></b>
PhilRating	3,360,000.00
SEC Fees	4,355,625.00
Selling Agent Fees	3,750,000.00 (maximum estimate amount for the year)
Publication	50,000.00
Printing	40,000.00
Binding	3,000.00
<b>Total</b>	<b><u><u>11,558,625.00</u></u></b>



Republic of the Philippines  
Department of Finance  
Securities and Exchange Commission

**MARKETS AND SECURITIES REGULATION DEPARTMENT**

**CERTIFICATE OF PERMIT TO OFFER SECURITIES FOR SALE**

THE ISSUANCE OF THIS CERTIFICATE OF PERMIT IS PERMISSIVE ONLY AND DOES NOT CONSTITUTE  
A RECOMMENDATION OR ENDORSEMENT OF THE SECURITIES PERMITTED TO BE ISSUED

THIS IS TO CERTIFY that the securities of

**BDO LEASING AND FINANCE, INC.**

consisting of **FIFTEEN BILLION PESOS (Php15,000,000,000) worth of Commercial Papers**, covered under **SEC MSRD Order No. 2, Series of 2019**, have been registered and may now be offered for sale or sold to the public subject to full compliance with the provisions of the Securities Regulation Code and its Amended Implementing Rules and Regulations, Revised Code of Corporate Governance and other applicable laws and orders as may be issued by the Commission.

Issued at PICC, Pasay City, Philippines this 19 day of January Two Thousand and Nineteen.



  
**VICENTE GRACIANO P. FELIZMENIO, JR.**  
Director







MARKETS AND SECURITIES REGULATION DEPARTMENT

IN THE MATTER OF : SEC MSRD Order No. 2;  
 : Series of 2019  
**BDO LEASING AND FINANCE, INC.** :  
 :  
 -Registrant- : Registration of Securities  
 X -----X (Commercial Papers)

**ORDER**

Upon consideration of the Registration Statement and other papers and documents attached thereto which were filed on behalf of **BDO LEASING AND FINANCE, INC.**, for the registration of **Fifteen Billion Pesos (Php15,000,000,000.00) worth of Commercial Papers**, the Commission resolved in its meeting of January 24, 2019 to render the same effective in accordance with Sections 8 and 12 of the Securities Regulation Code and its Implementing Rules and Regulations.

Let a Certificate of Permit to Offer Securities for Sale be issued in favor of the subject company authorizing the sale of the aforementioned securities.

Let this **Order** be published at the expense of the Issuer in a newspaper of general circulation and uploaded in its website within two (2) business days from its issuance. The corporation is hereby directed to furnish the Commission with a copy of the affidavit of publication of this Order.

**SO ORDERED.**

PICC, Pasay City, Philippines, January 29, 2019.

  
**VICENTE GRACIANO P. FELIZMENIO, JR.**  
 Director

