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## **Report of Independent Auditors**

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**The Board of Directors and the Stockholders**

**BDO Leasing and Finance, Inc.**

**(A Subsidiary of BDO Unibank, Inc.)**

39<sup>th</sup> Floor, BDO Corporate Center Ortigas

12 ADB Avenue, Ortigas Center

Mandaluyong City

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

#### ***Opinion***

We have audited the accompanying financial statements of BDO Leasing and Finance, Inc. and subsidiary (the Group) and of BDO Leasing and Finance, Inc. (the Parent Company), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of income, statements of comprehensive income (loss), statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2018, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group and of the Parent Company as at December 31, 2018 and 2017, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRS).

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

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

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**Certified Public Accountants**

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### **Key Audit Matters**

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

#### **(a) Adoption of PFRS 9, Financial Instruments**

##### *Description of the Matter*

Effective January 1, 2018, the Group and the Parent Company adopted PFRS 9, *Financial Instruments*, (PFRS 9) which replaced Philippine Accounting Standard (PAS) 39, *Financial Instruments: Recognition and Measurement*. The adoption of this new standard, which primarily affected the Group's and the Parent Company's classification and measurement of their financial assets and impairment of financial instruments using the expected credit losses, is considered significant in our audit due to the complexity of the accounting requirements and the significant judgement required in determining assumptions to be used in applying the standard.

The impact of the adoption of PFRS 9, and the related changes in accounting policies, basis of judgement and estimates, and risk management policies and procedures are disclosed in Notes 2, 3 and 5 to the financial statements.

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

We have obtained an understanding of the Group's and the Parent Company's implementation process of PFRS 9, including the changes to the Group's and the Parent Company's policies and information technology systems and processes. Our audit procedures for each of the new requirements of the PFRS 9 are the following:

##### **(i) Classification and Measurement**

- Evaluating the appropriateness of the Group's and the Parent Company's policy for classification and measurement of financial instruments based on the requirements of PFRS 9.
- Reviewing the sufficiency and appropriateness of the business model assessment and contractual cash flows characteristics assessment (i.e., testing if the cash flows arising relate solely to payment of principal and interest) performed by the Group and the Parent Company on their financial assets.
- Reviewing the classification and measurement analysis done by the Group and the Parent Company regarding the classification of financial assets into fair value through profit or loss, amortized cost and fair value through other comprehensive income.
- Evaluating the appropriateness of transition adjustments as a result of the adoption of PFRS 9 on classification and measurement of financial assets, and determining the adequacy of the related financial statement disclosures, including changes in accounting policies and basis of judgement and estimates.



(ii) Impairment

- Evaluating the appropriateness of the impairment policies, particularly those requiring the exercise of judgement such as when a credit exposure has experienced a significant increase in credit risk.
- Understanding and assessing appropriateness of expected credit loss (ECL) models used, including reasonableness of overlays or forward-looking information (FLI).
- Assessing completeness, accuracy, relevance and reliability of inputs in the ECL models, including historical information sourced outside of the controllership function or obtained from the third party sources.
- Reviewing the assessment done by the Group and the Parent Company regarding appropriateness of the ECL models and assumptions and estimates used and reasonableness of computed impairment loss.
- Evaluating appropriateness of the impairment adjustments resulting in the transition to PFRS 9, including completeness and reasonableness of related ECL disclosures.

**(b) Proper Valuation of Loans and Other Receivables**

*Description of the Matter*

The Group and the Parent Company had loans and other receivables that are subject to impairment. As of December 31, 2018, the Group and the Parent Company had loans and other receivables amounting to P34,352.6 million and P34,187.5 million, respectively, net of allowance for impairment of P550.8 million and P550.6 million, respectively. Loans and other receivables are the most significant assets of the Group and the Parent Company which account for 83% and 87% of the Group's and the Parent Company's total assets, respectively.

The allowance for impairment of loans and other receivables is considered to be a matter of significance as it requires the application of critical management judgement and use of subjective estimates in determining how much impairment loss are required to be recognized in the financial statements. These judgement and estimates are disclosed in the Group's and the Parent Company's accounting policies in Notes 2 and 3 to the financial statements.

As discussed in item (a) above, on January 1, 2018, the Group and the Parent Company adopted PFRS 9, *Financial Instruments*, which introduced the ECL model in determining impairment of financial assets. Accordingly, the Group and the Parent Company used the ECL model in determining impairment of its loans and other receivables. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, the associated loss ratios and of default correlations between counterparties. Furthermore, the Group and the Parent Company incorporated FLI into both the assessment of whether the credit risk of an instrument has increased significantly from its initial recognition to the measurement of ECL. The Group and Parent Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The disclosures of the Group and the Parent Company on the allowance for impairment of loans and other receivables, and the related credit risk are included in Notes 5 and 9 to the financial statements.

*How the Matter was Addressed in the Audit*

In addition to the procedures performed in item (a) above, our audit procedures to address the risk of material misstatement relating to the adequacy of allowance for impairment of loans and other receivables, which were considered to be a significant risk, included:

- testing the design and operating effectiveness of key controls across the processes over the loan classification into stages, and the calculating and recording of the allowance for impairment;
- evaluating the appropriateness of the Group's and the Parent Company's credit policy and loan impairment process as approved by the Board of Directors;
- verifying that the loans are allocated to the appropriate stage by challenging the criteria used to allocate the loan to Stage 1, 2 or 3 in accordance with PFRS 9;
- on a sample basis, evaluating the appropriateness of the credit risk ratings of performing Stage 1 loans to assess appropriateness of credit risk monitoring;
- evaluating the inputs and assumptions, as well as the formulas used in the development of the ECL models for each of its loan portfolio. This includes assessing the appropriateness of design of the ECL impairment model and formula used in determining the probability of default, loss given default and exposure at default;
- for FLI used, assessing whether the forecasted macro-economic factors, which generally include but not limited to gross domestic product growth, unemployment rate, foreign exchange, stock market index, oil prices and interest rates, were appropriate. In addition, assessing the level of significance of correlation of selected macro-economic factors to the default rates as well as the impact of these variables to the ECL;
- assessing the borrowers' repayment abilities by examining payment history for selected loan accounts; and,
- on selected non-performing loan accounts, evaluating the management's forecast of recoverable cash flows, valuation of collaterals, estimates of recovery from other sources of collection.

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

*Description of the Matter*

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



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

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

In 2018, the total income related to financing lease contracts entered into by the Group and the Parent Company amounted to P1,893.6 million and P1,893.2 million, respectively, from revenues on interest and discounts for finance lease contracts and P938.3 million from revenues on rent by the Group for operating lease contracts.

The revenue recognition policy and the critical management judgement in applying the policy of the Group and the Parent Company are disclosed in Notes 2 and 3 to the financial statements, and the other disclosures relating to leases are included in Notes 9 and 19 to the financial statements.

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

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

#### **(d) Net Valuation of Investment Properties and Property and Equipment**

##### *Description of the Matter*

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

As of December 31, 2018, the Group's investment properties, and property and equipment amounted to P354.5 million and P2,254.9 million, respectively, while the Parent Company's investment properties, and property and equipment amounted to P128.4 million and P8.9 million, respectively. The Group's financial statement disclosures on the significant accounting policies and the appropriate valuation of investment properties, and property and equipment are included in Notes 2, 10 and 11 to the financial statements.

*How the Matter was Addressed in the Audit*

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

***Other Information***

Management is responsible for the other information. The other information comprises the information included in the Group's Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A, and Annual Report for the year ended December 31, 2018, but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS, SEC Form 17-A and Annual Report are expected to be made available to us after the date of this auditors' report.

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

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

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

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

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

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

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

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



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

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

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

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

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. As discussed in Note 22 to the financial statements, the Parent Company presented the supplementary information required by the Bureau of Internal Revenue under Revenue Regulation (RR) No. 15-2010 in a supplementary schedule filed separately from the basic financial statements. RR No. 15-2010 requires the supplementary information to be presented in the notes to the financial statements. Such supplementary information is the responsibility of management. The supplementary information is not a required part of the basic financial statements prepared in accordance with PFRS; it is not also a required disclosure under Securities Regulation Code Rule 68, as amended, of the SEC.

The engagement partner on the audits resulting in this independent auditors' report is Leonardo D. Cuaresma, Jr.

### **PUNONGBAYAN & ARAULLO**



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

CPA Reg. No. 0058647  
TIN 109-227-862  
PTR No. 7333690, January 3, 2019, Makati City  
SEC Group A Accreditation  
Partner - No. 0007-AR-5 (until July 9, 2021)  
Firm - No. 0002-FR-5 (until March 26, 2021)  
BIR AN 08-002511-7-2017 (until June 19, 2020)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until July 24, 2021)

February 20, 2019



**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2018 AND 2017**  
*(Amounts in Millions of Philippine Pesos)*

		<u>Group</u>		<u>Parent Company</u>	
	<u>Notes</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
<b><u>ASSETS</u></b>					
CASH AND CASH EQUIVALENTS	7	<b>P 274.6</b>	P 457.7	<b>P 228.5</b>	P 376.8
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	8	<b>3,591.9</b>	-	<b>3,591.9</b>	-
AVAILABLE-FOR-SALE FINANCIAL ASSETS	8	-	4,642.0	-	4,642.0
LOANS AND OTHER RECEIVABLES - Net	9	<b>34,352.6</b>	34,324.7	<b>34,187.5</b>	34,206.6
PROPERTY AND EQUIPMENT - Net	10	<b>2,254.9</b>	2,256.6	<b>8.9</b>	7.1
INVESTMENT PROPERTIES - Net	11	<b>354.5</b>	354.4	<b>128.4</b>	128.3
OTHER ASSETS - Net	12	<b>711.7</b>	806.2	<b>936.7</b>	1,004.4
<b>TOTAL ASSETS</b>		<b>P 41,540.2</b>	P 42,841.6	<b>P 39,081.9</b>	P 40,365.2
<b><u>LIABILITIES AND EQUITY</u></b>					
BILLS PAYABLE	14	<b>P 28,977.8</b>	P 30,478.3	<b>P 26,723.9</b>	P 28,278.3
ACCOUNTS PAYABLE AND OTHER LIABILITIES	15	<b>587.1</b>	877.9	<b>472.6</b>	672.0
INCOME TAX PAYABLE		-	54.5	-	54.5
LEASE DEPOSITS	16	<b>6,632.3</b>	5,988.6	<b>6,542.4</b>	5,918.1
Total Liabilities		<b>36,197.2</b>	37,399.3	<b>33,738.9</b>	34,922.9
CAPITAL STOCK	17	<b>2,225.2</b>	2,225.2	<b>2,225.2</b>	2,225.2
ADDITIONAL PAID-IN CAPITAL		<b>571.1</b>	571.1	<b>571.1</b>	571.1
TREASURY SHARES	17	<b>( 81.8 )</b>	( 81.8 )	<b>( 81.8 )</b>	( 81.8 )
NET ACCUMULATED ACTUARIAL LOSSES		<b>( 60.8 )</b>	( 59.7 )	<b>( 60.8 )</b>	( 59.7 )
NET UNREALIZED FAIR VALUE GAINS (LOSSES) ON:					
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		<b>( 195.0 )</b>	-	<b>( 195.0 )</b>	-
AVAILABLE-FOR-SALE FINANCIAL ASSETS		-	169.0	-	169.0
ACCUMULATED SHARE IN OTHER COMPREHENSIVE INCOME OF ASSOCIATE	12	<b>0.4</b>	-	<b>0.4</b>	-
RETAINED EARNINGS	17	<b>2,883.9</b>	2,618.5	<b>2,883.9</b>	2,618.5
Total Equity		<b>5,343.0</b>	5,442.3	<b>5,343.0</b>	5,442.3
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>P 41,540.2</b>	P 42,841.6	<b>P 39,081.9</b>	P 40,365.2

*See Notes to Financial Statements.*

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**  
*(Amounts in Millions of Philippine Pesos, Except Per Share Data)*

		<u>Group</u>			<u>Parent Company</u>		
	<u>Notes</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>REVENUES</b>							
Interest and discounts	7, 8, 9, 20	<b>P 1,967.1</b>	P 1,918.3	P 1,760.7	<b>P 1,966.7</b>	P 1,917.9	P 1,760.4
Rent	19	<b>938.3</b>	922.2	890.2	<b>-</b>	-	-
Other income - net	18	<b>310.1</b>	316.0	203.4	<b>264.7</b>	323.9	268.5
		<b>3,215.5</b>	3,156.5	2,854.3	<b>2,231.4</b>	2,241.8	2,028.9
<b>OPERATING COSTS AND EXPENSES</b>							
Interest and financing charges	14	<b>1,170.2</b>	850.3	673.5	<b>1,074.8</b>	784.0	617.7
Occupancy and equipment-related expenses	10, 11, 12, 25	<b>911.8</b>	865.4	775.2	<b>49.7</b>	50.1	58.9
Taxes and licenses	22	<b>345.2</b>	268.9	245.5	<b>320.2</b>	246.6	227.5
Employee benefits	20	<b>235.7</b>	227.0	220.7	<b>235.7</b>	227.0	220.7
Litigation/assets acquired expenses		<b>14.3</b>	41.6	30.0	<b>14.3</b>	41.6	29.9
Impairment and credit losses	8, 9, 11, 12	<b>1.0</b>	63.5	50.0	<b>0.8</b>	63.5	50.0
Other expenses	21	<b>117.0</b>	120.5	108.7	<b>115.8</b>	119.0	108.4
		<b>2,795.2</b>	2,437.2	2,103.6	<b>1,811.3</b>	1,531.8	1,313.1
<b>PROFIT BEFORE TAX</b>		<b>420.3</b>	719.3	750.7	<b>420.1</b>	710.0	715.8
<b>TAX EXPENSE</b>	22	<b>89.6</b>	148.8	180.7	<b>89.4</b>	139.5	145.8
<b>NET PROFIT</b>		<b>P 330.7</b>	P 570.5	P 570.0	<b>P 330.7</b>	P 570.5	P 570.0
<b>Basic and Diluted Earnings Per Share</b>	23	<b>P 0.15</b>	P 0.26	P 0.26	<b>P 0.15</b>	P 0.26	P 0.26

*See Notes to Financial Statements.*



**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**  
*(Amounts in Millions of Philippine Pesos)*

	<b>Group</b>			<b>Parent Company</b>		
Notes	2018	2017	2016	2018	2017	2016
<b>NET PROFIT</b>	<b>P 330.7</b>	P 570.5	P 570.0	<b>P 330.7</b>	P 570.5	P 570.0
<b>OTHER COMPREHENSIVE INCOME</b>						
Item that will not be reclassified subsequently to profit or loss						
Fair valuation of equity investments at fair value through other comprehensive income (FVOCI):						
Fair value losses during the year	8 ( 450.5 )	-	-	( 450.5 )	-	-
Fair value losses on disposed financial assets at FVOCI	8 135.7	-	-	135.7	-	-
Remeasurements of post-employment defined benefit plan	20 ( 1.6 )	( 24.2 )	( 9.5 )	( 1.6 )	( 24.2 )	( 9.5 )
Share in other comprehensive income of an associate accounted for under equity method	12 0.4	-	-	0.4	-	-
	( 316.0 )	( 24.2 )	( 9.5 )	( 316.0 )	( 24.2 )	( 9.5 )
Tax income	22 4.6	7.3	2.9	4.6	7.3	2.9
	( 311.4 )	( 16.9 )	( 6.6 )	( 311.4 )	( 16.9 )	( 6.6 )
Item that will be reclassified subsequently to profit or loss						
Fair value losses on debt instruments at FVOCI	8 ( 54.5 )	-	-	( 54.5 )	-	-
Fair valuation of available-for-sale (AFS) financial assets:						
Fair value losses during the year	8 -	( 28.2 )	( 4.0 )	-	( 28.2 )	( 4.0 )
Fair value gains on matured and disposed AFS financial assets reclassified to profit or loss	8 -	( 0.2 )	( 0.7 )	-	( 0.2 )	( 0.7 )
	( 54.5 )	( 28.4 )	( 4.7 )	( 54.5 )	( 28.4 )	( 4.7 )
Tax income	22 -	0.1	0.6	-	0.1	0.6
	( 54.5 )	( 28.3 )	( 4.1 )	( 54.5 )	( 28.3 )	( 4.1 )
<b>Other Comprehensive Loss - net of tax</b>	( 365.9 )	( 45.2 )	( 10.7 )	( 365.9 )	( 45.2 )	( 10.7 )
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	( P 35.20 )	P 525.3	P 559.3	( P 35.20 )	P 525.3	P 559.3

*See Notes to Financial Statements.*

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**  
*(Amounts in Millions of Philippine Pesos)*

Group												
Notes	Net Unrealized Fair Value											
	Gains (Losses) on											
	Capital Stock	Additional Paid-in Capital	Treasury Shares, At Cost	Net Accumulated Actuarial Losses	Financial Assets at Other Comprehensive Income	Available-for- Sale Financial Assets	Accumulated Share in Other Comprehensive Income of Associate	Reserves	Retained Earnings Free	Total	Net Equity	
Balance at January 1, 2018	P	2,225.2	P 571.1	(P 81.8)	(P 59.7)	P -	P 169.0	P -	P -	P 2,618.5	P 2,618.5	P 5,442.3
As previously reported												
Effects of adoption of PFRS 9	2	-	-	-	-	170.2	(169.0)	-	142.6	8.3	150.9	152.1
As restated	P	2,225.2	P 571.1	(P 81.8)	(P 59.7)	170.2	-	-	142.6	2,626.8	2,769.4	5,594.4
Total comprehensive income (loss)	-	-	-	(1.1)	(365.2)	-	0.4	-	-	330.7	(35.2)	-
Cash dividends	17	-	-	-	-	-	-	-	(216.2)	(216.2)	(216.2)	-
Appropriation	17	-	-	-	-	-	-	4.4	(4.4)	-	-	-
Balance at December 31, 2018		<u>P 2,225.2</u>	<u>P 571.1</u>	<u>(P 81.8)</u>	<u>(P 60.8)</u>	<u>(P 195.0)</u>	<u>P -</u>	<u>P 0.4</u>	<u>P 147.0</u>	<u>P 2,736.9</u>	<u>P 2,883.9</u>	<u>P 5,343.0</u>
Balance at January 1, 2017	P	2,225.2	P 571.1	(P 81.8)	(P 42.8)	P -	P 197.3	P -	P -	P 2,480.5	P 2,480.5	P 5,349.5
Total comprehensive income (loss)	-	-	-	(16.9)	-	(28.3)	-	-	-	570.5	525.3	-
Cash dividends	17	-	-	-	-	-	-	-	(432.5)	(432.5)	(432.5)	-
Balance at December 31, 2017		<u>P 2,225.2</u>	<u>P 571.1</u>	<u>(P 81.8)</u>	<u>(P 59.7)</u>	<u>P -</u>	<u>P 169.0</u>	<u>P -</u>	<u>P -</u>	<u>P 2,618.5</u>	<u>P 2,618.5</u>	<u>P 5,442.3</u>
Balance at January 1, 2016	P	2,225.2	P 571.1	(P 81.8)	(P 36.2)	P -	P 201.4	P -	P -	P 2,343.0	P 2,343.0	P 5,222.7
Total comprehensive income (loss)	-	-	-	(6.6)	-	(4.1)	-	-	-	570.0	559.3	-
Cash dividends	17	-	-	-	-	-	-	-	(432.5)	(432.5)	(432.5)	-
Balance at December 31, 2016		<u>P 2,225.2</u>	<u>P 571.1</u>	<u>(P 81.8)</u>	<u>(P 42.8)</u>	<u>P -</u>	<u>P 197.3</u>	<u>P -</u>	<u>P -</u>	<u>P 2,480.5</u>	<u>P 2,480.5</u>	<u>P 5,349.5</u>

See Notes to Financial Statements.



**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**  
*(Amounts in Millions of Philippine Pesos)*

Parent Company											
Notes	Capital Stock	Additional Paid-in Capital	Treasury Shares, At Cost	Net Accumulated Actuarial Losses	Net Unrealized Fair Value Gains (Losses) on		Accumulated Share in Other Comprehensive Income of Associate	Reserves	Retained Earnings		Net Equity
					Financial Assets at Other Comprehensive Income	Available-for- Sale Financial Assets			Free	Total	
Balance at January 1, 2018											
As previously reported	P 2,225.2	P 571.1	(P 81.8)	(P 59.7)	P -	P 169.0	P -	P -	P 2,618.5	P 2,618.5	P 5,442.3
Effects of adoption of PFRS 9	-	-	-	-	170.2	(169.0)	-	142.6	8.3	150.9	152.1
As restated	<u>2,225.2</u>	<u>571.1</u>	<u>( 81.8)</u>	<u>( 59.7)</u>	<u>170.2</u>	<u>-</u>	<u>-</u>	<u>142.6</u>	<u>2,626.8</u>	<u>2,769.4</u>	<u>5,594.4</u>
Total comprehensive income (loss)	-	-	-	( 1.1)	( 365.2)	-	0.4	-	330.7	( 35.2)	( 35.2)
Cash dividends	-	-	-	-	-	-	-	-	( 216.2)	( 216.2)	( 216.2)
Appropriation	-	-	-	-	-	-	-	4.4	( 4.4)	-	-
Balance at December 31, 2018	<u>P 2,225.2</u>	<u>P 571.1</u>	<u>( P 81.8)</u>	<u>( P 60.8)</u>	<u>( P 195.0)</u>	<u>P -</u>	<u>P 0.4</u>	<u>P 147.0</u>	<u>P 2,736.9</u>	<u>P 2,883.9</u>	<u>P 5,343.0</u>
Balance at January 1, 2017	P 2,225.2	P 571.1	(P 81.8)	(P 42.8)	P -	P 197.3	P -	P -	P 2,480.5	P 2,480.5	P 5,349.5
Total comprehensive income (loss)	-	-	-	( 16.9)	-	( 28.3)	-	-	570.5	570.5	525.3
Cash dividends	-	-	-	-	-	-	-	-	( 432.5)	( 432.5)	( 432.5)
Balance at December 31, 2017	<u>P 2,225.2</u>	<u>P 571.1</u>	<u>( P 81.8)</u>	<u>( P 59.7)</u>	<u>P -</u>	<u>P 169.0</u>	<u>P -</u>	<u>P -</u>	<u>P 2,618.5</u>	<u>P 2,618.5</u>	<u>P 5,442.3</u>
Balance at January 1, 2016	P 2,225.2	P 571.1	(P 81.8)	(P 36.2)	P -	P 201.4	P -	P -	P 2,343.0	P 2,343.0	P 5,222.7
Total comprehensive income (loss)	-	-	-	( 6.6)	-	( 4.1)	-	-	570.0	570.0	559.3
Cash dividends	-	-	-	-	-	-	-	-	( 432.5)	( 432.5)	( 432.5)
Balance at December 31, 2016	<u>P 2,225.2</u>	<u>P 571.1</u>	<u>( P 81.8)</u>	<u>( P 42.8)</u>	<u>P -</u>	<u>P 197.3</u>	<u>P -</u>	<u>P -</u>	<u>P 2,480.5</u>	<u>P 2,480.5</u>	<u>P 5,349.5</u>

*See Notes to Financial Statements.*

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**  
*(Amounts in Millions of Philippine Pesos)*

		<b>Group</b>			<b>Parent Company</b>		
	<b>Notes</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Profit before tax		<b>P 420.3</b>	P 719.3	P 750.7	<b>P 420.1</b>	P 710.0	P 715.8
Adjustments for:							
Interest received		<b>2,000.8</b>	1,911.5	1,763.0	<b>2,000.4</b>	1,911.5	1,762.7
Interest and discounts	7, 8, 9, 20	<b>( 1,967.1 )</b>	( 1,918.3 )	( 1,760.7 )	<b>( 1,966.7 )</b>	( 1,917.9 )	( 1,760.4 )
Interest and financing charges	14	<b>1,170.2</b>	850.3	673.5	<b>1,074.8</b>	784.0	617.7
Interest and financing charges paid		<b>( 1,167.5 )</b>	( 850.8 )	( 674.8 )	<b>( 1,076.3 )</b>	( 784.5 )	( 619.0 )
Depreciation and amortization	10, 11, 12	<b>881.5</b>	836.2	738.0	<b>20.1</b>	21.7	22.9
Dividend income	8, 18	<b>( 206.0 )</b>	( 215.2 )	( 150.3 )	<b>( 206.0 )</b>	( 215.2 )	( 150.3 )
Gain on sale of property and equipment and investment properties	18	<b>( 42.2 )</b>	( 65.1 )	( 20.2 )	<b>( 17.4 )</b>	( 59.1 )	( 9.5 )
Equity share in net earnings of a subsidiary and an associate	12	<b>39.0</b>	13.5	19.9	<b>49.5</b>	( 6.8 )	( 81.3 )
Reversal of impairment losses	13	<b>( 10.4 )</b>	-	-	<b>( 10.4 )</b>	-	-
Day-one gain - net	18	<b>( 13.2 )</b>	( 4.8 )	( 2.5 )	<b>( 4.5 )</b>	( 6.1 )	( 0.1 )
Impairment and credit losses	8, 9, 11, 12	<b>1.0</b>	63.5	50.0	<b>0.8</b>	63.5	50.0
Gain on sale of available-for-sale (AFS) financial assets	8	<b>-</b>	-	( 1.5 )	<b>-</b>	-	( 1.5 )
Operating profit before changes in operating assets and liabilities		<b>1,106.4</b>	1,340.1	1,385.1	<b>284.4</b>	513.3	547.0
Increase (decrease) in loans and other receivables		<b>95.2</b>	( 2,992.7 )	( 3,951.2 )	<b>142.3</b>	( 2,664.0 )	( 3,879.2 )
Decrease (increase) in other assets		<b>( 49.7 )</b>	( 8.8 )	( 354.8 )	<b>( 45.9 )</b>	( 36.1 )	( 67.2 )
Increase (decrease) in accounts payable and other liabilities		<b>( 294.7 )</b>	222.7	280.5	<b>( 203.0 )</b>	256.2	136.0
Increase in lease deposits		<b>654.2</b>	413.2	599.9	<b>630.2</b>	398.6	594.6
Cash generated from (used) in operations		<b>1,511.4</b>	( 1,025.5 )	( 2,040.5 )	<b>808.0</b>	( 1,532.0 )	( 2,668.8 )
Cash paid for income taxes		<b>( 112.0 )</b>	( 163.2 )	( 159.2 )	<b>( 112.0 )</b>	( 163.2 )	( 159.2 )
Net Cash From (Used) in Operating Activities		<b>1,399.4</b>	( 1,188.7 )	( 2,199.7 )	<b>696.0</b>	( 1,695.2 )	( 2,828.0 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Acquisitions of property and equipment	10	<b>( 895.1 )</b>	( 782.6 )	( 937.0 )	<b>( 6.2 )</b>	( 6.1 )	( 2.0 )
Proceeds from redemption of financial assets at fair value through other comprehensive income	8	<b>680.0</b>	251.2	15.4	<b>680.0</b>	251.2	15.4
Receipt of cash dividends	8, 21	<b>194.4</b>	209.7	126.6	<b>229.4</b>	269.7	126.6
Proceeds from disposal of property and equipment and investment properties	10, 11	<b>169.6</b>	224.6	82.4	<b>37.8</b>	135.0	20.6
Addition in investment properties	11	<b>( 14.7 )</b>	( 4.7 )	-	<b>( 14.7 )</b>	( 4.7 )	( 3.7 )
Acquisition of AFS financial assets	8	<b>-</b>	( 1,400.0 )	-	<b>-</b>	( 1,400.0 )	-
Acquisition of equity investments	12	<b>-</b>	-	-	<b>-</b>	-	( 300.0 )
Net Cash From (Used) in Investing Activities		<b>134.2</b>	( 1,501.8 )	( 712.6 )	<b>926.3</b>	( 754.9 )	( 143.1 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>							
Payments of bills payable	14	<b>( 174,115.4 )</b>	( 163,410.9 )	-	<b>( 161,900.3 )</b>	( 156,127.7 )	-
Availments of bills payable	14	<b>172,614.9</b>	166,621.1	3,383.0	<b>160,345.9</b>	159,093.9	3,395.2
Payments of cash dividends	17	<b>( 216.2 )</b>	( 432.5 )	( 432.5 )	<b>( 216.2 )</b>	( 432.5 )	( 432.5 )
Net Cash From (Used) in Financing Activities		<b>( 1,716.7 )</b>	2,777.7	2,950.5	<b>( 1,770.6 )</b>	2,533.7	2,962.7
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>( 183.1 )</b>	87.2	38.2	<b>( 148.3 )</b>	83.6	( 8.4 )
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>457.7</b>	370.5	332.3	<b>376.8</b>	293.2	301.6
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	7	<b>P 274.6</b>	P 457.7	P 370.5	<b>P 228.5</b>	P 376.8	P 293.2

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

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

*See Notes to Financial Statements.*



**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018, 2017 AND 2016**  
*(Amounts in Millions of Philippine Pesos, Except Per Share Data,  
Exchange Rates and as Indicated)*

**1. CORPORATE INFORMATION**

***1.1 Incorporation and Operations***

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

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

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

The Parent Company's principal office is located at 39<sup>th</sup> Floor, BDO Corporate Center Ortigas, 12 ADB Avenue, Ortigas Center, Mandaluyong City. As of December 31, 2018, BDO Leasing has five branches located in the cities of Cebu, Davao, Cagayan de Oro and Iloilo and in the province of Pampanga. The registered address of BDO Unibank is located at BDO Corporate Center, 7899 Makati Avenue, Makati City.

***1.2 Approval of Financial Statements***

The accompanying financial statements of BDO Leasing and Subsidiary (the Group) and of the Parent Company as of and for the year ended December 31, 2018 (including the comparative financial statements as of December 31, 2017 and for the years ended December 31, 2017 and 2016) were authorized for issue by the Parent Company's Board of Directors (BOD) on February 20, 2019.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

In 2018, the Group and the Parent Company adopted PFRS 9, *Financial Instruments*, which was applied using the transitional relief allowed by the standard. This allows the Group and the Parent Company not to restate its prior periods' financial statements. Differences arising from the adoption of PFRS 9 in relation to classification and measurement and impairment of financial assets are recognized in the opening balance of Retained Earnings (or other component of equity, as appropriate) in the current year [see Note 2.2(a)(ii)].

Further, the Group and the Parent Company adopted PFRS 15, *Revenue from Contracts with Customers*, which was applied using the modified retrospective approach. However, such adoption did not result in material retrospective restatements to the balance of Retained Earnings as at January 1, 2018 [see Note 2.2(a)(iii)].

Accordingly, the adoption of these two new accounting standards did not require the Group and the Parent Company to present its third statement of financial position.

The table below shows the impact of the adoption of PFRS 9 to the total equity of the Group and the Parent Company as at January 1, 2018.

Measurement Category	Effects on				
	Retained Earnings		Net Unrealized Fair Value Gains on		Total Equity
	Free	Reserves	Financial Assets At Fair Value Through Other Comprehensive Income (FVOCI)	Available-for-Sale (AFS) Financial Assets	
Balances at December 31, 2017 under PAS 39	P 2,618.5	P -	P -	P 169.0	P 5,442.3
Impact of PFRS 9 [see Note 2.2(a)(ii)]					
Reversal of allowance for impairment on loans and other receivables	144.8	-	-	-	144.8
Appropriation of retained earnings for general loan loss provision per Bangko Sentral ng Pilipinas (BSP) requirement	( 142.6 )	142.6	-	-	-
Share on the impact of adoption of PFRS 9 of associate	7.3	-	-	-	7.3
Recognition of allowance for impairment on debt securities classified as financial assets at FVOCI	( 1.2 )	-	1.2	-	-
Effect of reclassification of AFS financial assets to FVOCI	-	-	169.0	( 169.0 )	-
Total impact of adoption of PFRS 9	8.3	142.6	170.2	( 169.0 )	152.1
Balances at January 1, 2018 under PFRS 9 (2014)	P 2,626.8	P 142.6	P 170.2	P -	P 5,594.4

(c) *Functional and Presentation Currency*

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

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

## 2.2 Adoption of New and Amended PFRS

(a) *Effective in 2018 that are Relevant to the Group*

The Group adopted for the first time the following new PFRS, amendments, interpretation and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2018:

PAS 40 (Amendment)	:	Investment Property – Reclassification to and from Investment Property
PFRS 9	:	Financial Instruments
PFRS 15	:	Revenue from Contracts with Customers; Clarifications to PFRS 15



International Financial  
Reporting Interpretations  
Committee (IFRIC) 22

: Foreign Currency Transactions and  
Advance Consideration

Annual Improvements to  
PFRS (2014-2016 Cycle)

PAS 28 (Amendments) : Investment in Associates – Clarification on  
Fair Value Through Profit or Loss  
Classification

Discussed below are the relevant information about these standards, interpretation and improvements.

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

The Group's new accounting policies relative to the adoption of PFRS 9 is fully disclosed in Note 2.5.

The impact of the adoption of this new accounting standard to the Group's and the Parent Company's financial statements are as follows:

*a. Investment Securities Reclassified to Financial Asset at FVOCI from AFS Financial Assets*

The Group and the Parent Company reclassified to Financial Assets at FVOCI its equity and debt securities amounting to P2,575.0 and P2,067.0, respectively, as of January 1, 2018, which were previously classified as AFS financial assets. The related Net Unrealized Fair Value Gains on AFS Financial Assets amounting to P169.0 was accordingly reclassified to Net Unrealized Fair Value Gains on Financial Assets at FVOCI [see Note 2.1(b)].

The Group and the Parent Company elected to irrevocably designate its equity securities at FVOCI as the assets are now held by the Group for long-term investments and are neither held-for-trading nor designated as at FVTPL. On the other hand, the Group's debt securities were determined that the investment objective of the business model is to hold these investments to collect the contractual cash flows, and sell but are held for long-term strategic investment and are not expected to be traded in the short-to-medium term. In addition, the Group determined the ECL for these securities based on the ECL model developed by the Group [see Note 2.2(a)(ii)c].

*b. Credit Losses on Loans and Receivables*

The application of the ECL methodology based on the stages of impairment assessment for loans and other receivables resulted in the reversal of allowance for impairment amounting P144.8, with the adjustment credited to the opening balance of Retained Earnings Free account [see Note 2.1(b)]. Moreover, as prescribed by the BSP, the Group appropriated P142.6 for general loan loss provisions (GLLP). Such appropriation is presented under Retained Earnings Reserves account [see Notes 2.1(b) and 17.5].

*c. Credit Losses on Investment in Debt Securities*

All of the Group's investment in debt securities reclassified as part of Financial Assets at FVOCI as at January 1, 2018 are considered to have low credit risk, and the loss allowance recognized was therefore limited to 12-month expected credit loss. Management considers 'low credit risk' for listed bonds to be an investment grade credit rating with at least one reputable rating agency. Other instruments are considered to have low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term. Nevertheless, due to application of ECL methodology, an allowance for impairment was recognized on debt securities at FVOCI as at January 1, 2018 amounting to P1.2 and was adjusted against the opening balance of Net Unrealized Fair Value Gains on Financial Assets at FVOCI [see Note 2.1(b)].

d. *Adoption of PFRS 9 of an Associate*

The Group recognized its share amounting to P7.3 for the effect of PFRS 9 adoption by an associate [see Note 2.1(b)].

The table below summarizes the effects of the adoption of PFRS 9 (2014) in the carrying amounts and presentation of the categories of the affected financial assets accounts in the statement of financial position as at January 1, 2018. The adoption of PFRS 9 has no significant impact on the Group's financial liabilities.

<u>Measurement Category</u>	<u>Notes</u>	<u>Carrying Value PAS 39</u>			<u>Carrying Value PFRS 9</u>		
		<u>December 31, 2017</u>	<u>Reclassification</u>	<u>Remeasurement</u>	<u>January 1, 2018</u>		
Investment securities:							
AFS financial assets	a	P 4,642.0	(P 4,642.0)	P -	P -		
Financial assets at FVOCI	a	-	4,642.0	-			4,642.0
Financial assets at amortized cost –							
Loans and other receivables							
Gross amount		35,030.8	-	-			35,030.8
Allowance for impairment	b	( 706.1)	-	144.8	( 561.3)		
<b>Total</b>		<b>P 38,966.7</b>	<b>P -</b>	<b>P 144.8</b>	<b>P 39,111.5</b>		

- (iii) PFRS 15, *Revenue from Contract with Customers*, together with the *Clarifications to PFRS 15* (herein referred to as PFRS 15). This standard replaces PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Group's significant sources of revenue pertain to its lending and rental activities which generate interest income, rent revenue and service fees. Except for certain service fees, significant amount of the Group's revenues are out of scope of PFRS 15. Recognition and measurement of revenue streams within the scope of PFRS 15 did not vary from PAS 18.

The Group's adoption of PFRS 15 has resulted in changes in its accounting policies (see Note 2.14). The adoption of the new standard has no material impact on the Group's financial statements.

- (iv) IFRIC 22, *Foreign Currency Transactions and Advance Consideration – Interpretation on Foreign Currency Transactions and Advance Consideration*. The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The application of this interpretation has no impact on the Group's financial statements.



- (v) Annual Improvements to PFRS 2014-2016 Cycle. Among the improvements, PAS 28 (Amendments), *Investment in Associates – Clarification on Fair Value through Profit or Loss Classification*, is relevant to the Group but had no material impact on the Group's financial statements as these amendments merely clarify existing requirements. The amendments clarify that the option for venture capital organization, mutual funds and other similar entities to elect the fair value through profit or loss classification in measuring investments in associates and joint ventures shall be made at initial recognition, separately for each associate or joint venture.

(b) *Effective in 2018 that are not Relevant to the Group*

The following amendments to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2018 but are not relevant to the Group's financial statements:

PFRS 2 (Amendments)	:	Share-based Payment – Classification and Measurement of Share-based Payment Transactions
PFRS 4 (Amendments)	:	Insurance Contracts – Applying PFRS 9 with PFRS 4
Annual Improvements to PFRS (2014-2016 Cycle)		
PFRS 1 (Amendments)	:	First-time Adoption of Philippine Financial Reporting Standards – Deletion of Short-Term Exemptions

(c) *Effective Subsequent to 2018 but not Adopted Early*

There are new PFRS, interpretation, amendments and annual improvements to existing standards effective for annual periods subsequent to 2018, which are adopted by the FRSC. Management will adopt the relevant pronouncements presented in the succeeding pages in accordance with their transitional provisions.

- (i) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement* (effective January 1, 2019). The amendments require the use of updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability (asset). Management is currently assessing the impact of this amendment on the Group's financial statements.
- (ii) PAS 28 (Amendments), *Investment in Associates – Long-term Interest in Associates and Joint Venture* (effective from January 1, 2019). The amendments clarify that the scope exclusion in PFRS 9 applies only to ownership interests accounted for using the equity method. Thus, the amendments further clarify that long-term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9, which shall also include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. Management is currently assessing the impact of this amendment on the Group's financial statements.

- (iii) PFRS 9 (Amendments), Financial Instruments – Prepayment Features with Negative Compensation (effective from January 1, 2019). The amendments clarify that prepayment features with negative compensation attached to financial instruments may still qualify under the “solely payments of principal and interests” (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVOCI. Management initially assessed that this amendment will not affect the Group’s financial statements since it has no financial instruments having prepayment features with negative compensation.
- (iv) PFRS 16, Leases (effective from January 1, 2019). The new standard will eventually replace PAS 17, Leases, and its related interpretation IFRIC 4, Determining Whether an Arrangement Contains a Lease. For lessees, it requires to account for leases “on-balance sheet” by recognizing a “right-of-use” asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the “right-of-use” asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee’s benefit).

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

The management plans to adopt the modified retrospective application of PFRS 16 where the cumulative effect of initially applying the standard will be recognized as an adjustment to the opening balance of Retained Earnings account at the date of initial application. The Group will elect to apply the standard to contracts that were previously identified as leases applying PAS 17 and IFRIC 4 at the date of initial application. Management is currently assessing the financial impact of this new standard on the Group’s financial statements.

- (v) IFRIC 23, *Uncertainty Over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Group to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Group has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. Management is currently assessing the impact of this interpretation on the Group's financial statements.
- (vi) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets Between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction. The Group is currently assessing the impact of these amendments in its financial statements.
- (vii) Annual Improvements to PFRS 2015-2017 Cycle (effective from January 1, 2019). Among the improvements, the following amendments are relevant to the Group but had no material impact on the Group's financial statements as these amendments merely clarify existing requirements:
- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.
  - PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.
  - PFRS 3 (Amendments), *Business Combinations*, and PFRS 11 (Amendments), *Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation*. The amendments clarify that previously held interest in a joint operation shall be remeasured when the Group obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Group obtains joint control of the business.



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

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

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

#### *(a) Investment in a Subsidiary*

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

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

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

Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

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

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

(b) *Investment in an Associate*

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

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

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

Impairment loss is provided when there is objective evidence that the investment in an associate will not be recovered (see Note 2.17).

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

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

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

## ***2.4 Segment Reporting***

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

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

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

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

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

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

## **2.5 Financial Assets and Financial Liabilities**

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental or directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

### *(a) Classification, Measurement and Reclassification of Financial Assets in Accordance with PFRS 9*

Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described below and in the succeeding pages.

#### *(i) Financial Assets at Amortized Cost*

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Group's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and,
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI on the principal amount outstanding.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

Where the business model is to hold assets to collect contractual cash flows, the Group assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement [(see Note 3.1(d))]. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

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

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the statement of income as part of Interest and Discounts.

(ii) *Financial Assets at Fair Value Through Other Comprehensive Income*

The Group accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective is to hold to collect the associated cash flows and sell ("hold to collect and sell"); and,
- the contractual terms of the financial assets give rise to cash flows that are SPPI on the principal amount outstanding.

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Group for trading or as mandatorily required to be classified as FVTPL. The Group has designated all equity instruments as at FVOCI on initial application of PFRS 9.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value, including the foreign exchange component, are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported as Net Unrealized Fair Value Gains (Losses) on Financial Assets at FVOCI account in equity. When the asset is disposed of, the cumulative gain or loss previously recognized in the Net Unrealized Fair Value Gains (Losses) on Financial Assets at FVOCI account is not reclassified to profit or loss but is reclassified directly to Retained Earnings account, except for those debt securities classified as FVOCI wherein cumulative fair value changes are recycled back to profit or loss.



Any dividends earned on holding equity instruments are recognized in profit or loss as part of Other Income account, when the Group's right to receive dividends is established, it is probable that the economic benefits associated with the dividend will flow to the Group, and, the amount of the dividend can be measured reliably, unless the dividends clearly represent recovery of a part of the cost of the investment.

*(iii) Financial Assets at Fair Value Through Profit or Loss*

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at FVTPL, if any. Further, irrespective of business model, financial assets whose contractual cash flows are not SPPI are accounted for at FVTPL. Also, equity securities are classified as financial assets at FVTPL, unless the Group designates an equity investment that is not held for trading as at FVOCI at initial recognition.

Financial assets at FVTPL are measured at fair value with gains or losses recognized in the statements of profit or loss, if any. The fair values of these financial assets are determined by reference to active market transactions or using a valuation technique where no active market exists.

The Group can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Group is required to reclassify financial assets: (i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the Group's business model will take effect only at the beginning of the next reporting period following the change in the business model.

*(b) Classification, Measurement and Reclassification of Financial Assets in Accordance with PAS 39*

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

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

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

(i) *Loans and Other Receivables*

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

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

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

(ii) *AFS Financial Assets*

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

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

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

(c) *Effective Interest Rate Method and Interest Income*

Under both PFRS 9 and PAS 39, Interest income is recorded using the effective interest rate (EIR) method for all financial instrument measured at amortized cost. Interest income on interest bearing financial assets measured at FVOCI under PFRS 9, similar to interest bearing financial assets classified as AFS under PAS 39, are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of EIR. The Group recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive (negative) adjustment to the carrying amount of the asset in the balance sheet with an increase (reduction) in Interest income. The adjustment is subsequently amortized through interest and similar income in the statement of income.

The Group calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

For financial assets that have become credit-impaired subsequent to initial recognition [see Note 2.5(d)], interest income is calculated by applying the effective interest rate to the net carrying amount of the financial assets (after deduction of the loss allowance). If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying a credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

(d) *Impairment of Financial Assets Under PFRS 9*

From January 1, 2018, the Group assesses its ECL on a forward-looking basis associated with its financial assets at amortized cost and debt securities measured at FVOCI. Recognition of credit losses is no longer dependent on Group's identification of a credit loss event. Instead, the Group considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following financial instruments for which they are measured as 12-month ECL:

- debt securities that are identified to have 'low credit risk' at the reporting date; and,
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

For these financial instruments, the allowance for credit losses is based on 12-month ECL associated with the probability of default of a financial instrument in the next 12 months (referred to as 'Stage 1' financial instruments). Unless there has been a significant increase in credit risk subsequent to the initial recognition of the financial asset, a lifetime ECL (which are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial asset) will be recognized (referred to as 'Stage 2' financial instruments). 'Stage 2' financial instruments also include those loan accounts and facilities where the credit risk has improved and have been reclassified from 'Stage 3'. A lifetime ECL shall be recognized for 'Stage 3' financial instruments, which include financial instruments that are subsequently credit-impaired, as well as purchased or originated credit impaired (POCI) assets.

The Group's definition of credit risk and information on how credit risk is mitigated by the Group are disclosed in Note 5.3.

*Measurement of ECL*

The key elements used in the calculation of ECL are as follows:

- *Probability of default (PD)* – it is an estimate of likelihood of a borrower defaulting on its financial obligation (see Note 5.3) over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation.
- *Loss given default (LGD)* – it is an estimate of loss arising in case where a default occurs at a given time (either over the next 12 months or 12-month LGD, or over the remaining lifetime or lifetime LGD). It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Group would expect to receive, including the realization of any collateral. It is presented as a percentage loss per unit of exposure at the time of default.
- *Exposure at default (EAD)* – it represents the gross carrying amount of the financial instruments subject to the impairment calculation; hence, this is the amount that the Group expects to be owed at the time of default over the next 12 months (12-month EAD) or over the remaining lifetime (lifetime EAD). In case of a loan commitment, the Group shall include the undrawn balance (up to the current contractual limit) at the time of default should it occur.

The measurement of the ECL reflects: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and, (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

The Group's detailed ECL measurement, as determined by the management, is disclosed in Note 5.3.

(e) *Impairment of Financial Assets Under PAS 39*

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

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

*(i) Carried at amortized cost*

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

(iii) *Carried at cost*

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

(f) *Derecognition of Financial Assets*

(i) *Modification of loans*

When the Group derecognizes a financial asset through renegotiation or modification of contractual cash flows of loans to customers, the Group assesses whether or not the new terms are substantially different to the original terms. The Group considers, among others:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- Whether any substantial new terms are introduced that will affect the risk profile of the loan;
- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate;
- Change in the currency the loan is denominated in; and/or,
- Insertion of collateral, other security or credit enhancements that will significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognizes the financial asset and recognizes a “new” asset at fair value, and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are as gain or loss on derecognition of financial assets in profit or loss. As to the impact on ECL measurement, the expected fair value of the “new” asset is treated as the final cash flow from the existing financial asset at the date of derecognition. Such amount is included in the calculation of cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows of the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets). As to the impact on ECL measurement, the derecognition of the existing financial asset will result in the expected cash flows arising from the modified financial asset to be included in the calculation of cash shortfalls from the existing financial asset.

*(ii) Derecognition of financial assets other than modification*

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

*(g) Classification and Measurement of Financial Liabilities*

As the accounting for financial liabilities remains largely the same under PFRS 9 compared to PAS 39, the Group's financial liabilities were not impacted by the adoption of PFRS 9. However, for completeness, the accounting policy is disclosed below and in the succeeding page.

Financial liabilities include bills payable, accounts payable and other liabilities (except tax-related payables) and lease deposits.

Financial liabilities are recognized when the Group becomes a party to the contractual terms of the instrument. All interest-related charges are included as part of Interest and Financing Charges under Operating Costs and Expenses in the statement of income.

- *Bills payable* are raised for support of long-term and short-term funding of operations. They are recognized at proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.
- *Accounts payable and other liabilities* are initially recognized at their fair values and subsequently measured at amortized cost less settlement payments.
- *Lease deposits* are initially recognized at fair value. The excess of the principal amount of the deposits over its present value at initial recognition is immediately recognized and is included as part of Day-one gains under Other Income account in the statement of income. Meanwhile, interest expense on the amortization of lease deposits using the effective interest method is included as part of Interest and Financing Charges under Operating Costs and Expenses in the statement of income.
- *Dividend distributions to shareholders* are recognized as financial liabilities upon declaration by the Group.

(b) *Derecognition of Financial Liabilities*

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

## **2.6 Property and Equipment**

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

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.17).

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

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

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

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

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

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

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

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

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



## **2.8 Investment Properties**

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

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

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

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

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

## **2.9 Other Assets**

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

Presented as part of other assets are intangible assets pertaining to acquired computer software licenses, which are capitalized on the basis of the costs incurred to acquire and install the specific software. Capitalized costs are amortized on a straight-line basis over the estimated useful life of five years as the lives of these intangible assets are considered finite. In addition, intangible assets are subject to impairment testing as described in Note 2.17. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred.

## **2.10 Offsetting Financial Instruments**

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

### ***2.11 Provisions and Contingencies***

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

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

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

### ***2.12 Residual Value of Leased Assets***

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

### ***2.13 Equity***

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

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

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

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

Net unrealized fair value gains and losses on financial assets at FVOCI (previously as AFS financial assets) pertain to cumulative mark-to-market valuation.

Accumulated share in other comprehensive income of associate pertains to changes resulting from the Group's share in other comprehensive income of associate or items recognized directly in the associates' equity.

Retained earnings reserves pertain to the appropriation of the Retained Earnings – Free account, brought about by cases when the allowance for impairment on ‘Stage 1’ loan accounts computed under the requirements of PFRS 9 is less than the 1% GLLP required by the BSP. This is in pursuant to BSP Circular No. 1011, *Guidelines on the Adoption of PFRS 9*, which requires financial institutions to set up GLLP equivalent to 1% of all outstanding ‘Stage 1’ on the statement of financial position.

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

#### ***2.14 Other Income and Expense Recognition***

In 2017 and prior years, revenue is recognized to the extent that the revenue can be reliably measured; it is probable that future economic benefits will flow to the Group; and the expenses and costs incurred and to be incurred can be measured reliably. In 2018, revenue is recognized only when (or as) the Group satisfies a performance obligation by transferring control of the promised services to the customer. A contract with a customer that results in a recognized financial instrument in the Group’s financial statements may be partially within the scope of PFRS 9 and partially within the scope of PFRS 15. In such case, the Group first applies PFRS 9 to separate and measure the part of the contract that is in-scope of PFRS 9, and then applies PFRS 15 to the residual part of the contract. Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on accrual basis.

The Group also earns service fees related to the Group’s factoring receivables which are supported by contracts and approved by the parties involved. These revenues are accounted for by the Group in accordance with PFRS 15.

For revenues arising from various financing services which are to be accounted for under PFRS 15, the following provides information about the nature and timing of satisfaction of performance obligations in contracts with customers and the related revenue recognition policies:

- (a) *Service fees* – Service fees related to the factoring of receivables are recognized as revenue at the point when services are rendered, i.e., when performance obligation is satisfied. This account is included under Other Income account in the statement of income.
- (b) *Income from assets sold or exchanged* – Income from assets sold or exchanged is recognized when the control and title to the properties is transferred to the buyer or when the collectability of the entire sales price is reasonably assured. This account is included under Other Income account in the statement of income.

## **2.15 Leases**

The Group accounts for its leases as follows:

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

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

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

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

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

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

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

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

## **2.16 Foreign Currency Transactions and Translation**

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

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

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

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

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

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

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

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

### ***2.18 Employee Benefits***

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

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

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



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

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

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

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

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

(c) *Termination Benefits*

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

(d) *Compensated Absences*

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

(e) *Employee Stock Option Plan*

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

Liability recognized on the stock option plan for the amount charged by the BDO Unibank Group attributable to the qualified officers of the Group is included in Accrued taxes and other expenses under Accounts Payable and Other Liabilities account in the statement of financial position and the related expense is presented in Employee Benefits account under Operating Costs and Expenses in the statement of income (see Notes 15 and 20).

**2.19 *Borrowing Costs***

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

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

## **2.20 Income Taxes**

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

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

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

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

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

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

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

## **2.21 Earnings Per Share**

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

## ***2.22 Related Party Relationships and Transactions***

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

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

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

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

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

# **3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

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

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

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

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

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

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

(b) *Application of ECL to Financial Assets at FVOCI (2018)*

The Group uses a provision matrix to calculate ECL for all debt instruments carried at FVOCI. The allowance for impairment is based on the ECLs associated with the PD of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized.

The Group has established a policy to perform an assessment, at the end of each reporting period, whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

(c) *Evaluation of Business Model Applied in Managing Financial Instruments (2018)*

Upon adoption of PFRS 9, the Group developed business models which reflect how it manages its portfolio of financial instruments. The Group's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Group) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument under PFRS 9, the Group evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Group (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Group's investment and trading strategies.

(d) *Testing the Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model (2018)*

In determining the classification of financial assets under PFRS 9, the Group assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Group assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Group considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

In addition, PFRS 9 emphasizes that if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, if any, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgement, the Group considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessary inconsistent with a held-to-collect business model if the Group can explain the reasons for those sales and why those sales do not reflect a change in the Group's objective for the business model.

(e) *Impairment of AFS Financial Assets (2017)*

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

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

(f) *Distinction Between Investment Properties and Owner-managed Properties*

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

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

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

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

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



(b) *Recognition of Provisions and Contingencies*

Judgement is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.11 and disclosures on relevant provisions are presented in Note 25.

**3.2 Key Sources of Estimation Uncertainty**

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

(a) *Estimation of Allowance for ECL (2018)*

The measurement of the allowance for ECL on financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 5.3.

The carrying value of financial assets at FVOCI and Loans and other receivables, and the analysis of the allowance for impairment on such financial assets, are shown in Notes 8, 9 and 13, respectively.

(b) *Determination of Fair Value Measurement for Financial Assets at FVOCI (2018)*

The Group carries certain financial assets at fair value which requires the extensive use of accounting estimates and judgement. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another financial instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument.

The amount of changes in fair value would differ if the Group had utilized different valuation methods and assumptions. Any change in fair value of the financial assets and financial liabilities would affect other comprehensive income.

The carrying values of the Group's financial assets at FVOCI and the amounts of fair value changes recognized are disclosed in Notes 6 and 8, respectively.

(c) *Impairment of Loans and Other Receivables (2017)*

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

The carrying value of loans and other receivables and the analysis of allowance for impairment on such financial assets are shown in Notes 9 and 13, respectively.

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

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

The carrying amounts of property and equipment, investment properties and computer software are presented in Notes 10, 11 and 12, respectively. Based on management's assessment as of December 31, 2018 and 2017, there is no change in estimated useful lives of property and equipment, investment properties and computer software during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) *Impairment of Non-Financial Assets*

The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.17. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Impairment losses recognized on investment properties and other assets are presented in Notes 11, 12 and 13. No impairment loss is recognized for property and equipment (see Note 10).

(f) *Determining Fair Value Measurement for AFS Financial Assets (2017)*

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

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

(g) *Fair Value Measurement for Investment Properties*

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

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

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

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management has assessed that deferred tax assets recognized as at December 31, 2018 and 2017 may be recoverable.

The carrying value of the deferred tax assets (netted against deferred tax liabilities) as at December 31, 2018 and 2017 is disclosed in Note 22.

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

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

The amounts of retirement benefit obligation and expense and an analysis of the movements in the estimated present value of retirement benefit obligation, as well as significant assumptions used in estimating such obligation are presented in Note 20.2.

## 4. SEGMENT REPORTING

### 4.1 *Business Segments*

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

The products under the leasing segment are the following:

- Operating leases; and,
- Finance leases.

The products under the financing segment are the following:

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

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

## 4.2 Segment Assets and Liabilities

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

## 4.3 Intersegment Transactions

Intersegment transactions in 2018 and 2017 pertain to rent income, management fee, as well as dividends earned by the Parent Company from BDO Rental.

## 4.4 Analysis of Segment Information

Segment information and reconciliation can be analyzed as follows:

	<u>Leasing</u>	<u>Financing</u>	<u>Segment Total</u>	<u>Others</u>	<u>Eliminations</u>	<u>Group</u>
<b>For the Year Ended</b>						
<b>December 31, 2018</b>						
<b>Statement of Income</b>						
Segment revenues						
External	P 1,833.5	P 998.4	P 2,831.9	P 383.6	P -	P 3,215.5
Inter-segment	-	-	-	35.4	( 35.4 )	-
	<u>1,833.5</u>	<u>998.4</u>	<u>2,831.9</u>	<u>419.0</u>	<u>( 35.4 )</u>	<u>3,215.5</u>
Segment expenses						
External	1,593.8	867.9	2,461.7	333.5	-	2,795.2
Inter-segment	-	-	-	0.4	( 0.4 )	-
	<u>1,593.8</u>	<u>867.9</u>	<u>2,461.7</u>	<u>333.9</u>	<u>( 0.4 )</u>	<u>2,795.2</u>
Segment results	<u>P 239.7</u>	<u>P 130.5</u>	<u>P 370.2</u>	<u>P 85.1</u>	<u>( P 35.0 )</u>	420.3
Tax expense						89.6
Net profit						<u>P 330.7</u>
<b>December 31, 2018</b>						
<b>Statement of Financial Position</b>						
Segment assets	P 22,254.8	P 14,024.5	P 36,279.3	P -	P -	P 36,279.3
Unallocated assets						5,260.9
Total assets						<u>P 41,540.2</u>
Segment liabilities	<u>20,816.9</u>	<u>14,793.3</u>	<u>35,610.1</u>	<u>-</u>	<u>-</u>	P 35,610.1
Unallocated liabilities						587.1
Total liabilities						<u>P 36,197.2</u>
Other segment information :						
Capital expenditures	<u>P 888.9</u>	<u>P -</u>	<u>P 888.9</u>	<u>P 6.2</u>	<u>P -</u>	<u>P 895.1</u>
Depreciation and amortization	<u>P 861.4</u>	<u>P -</u>	<u>P 861.4</u>	<u>P 20.1</u>	<u>P -</u>	<u>P 881.5</u>
Impairment and credit losses	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P 1.0</u>	<u>P -</u>	<u>P 1.0</u>

	<u>Leasing</u>	<u>Financing</u>	<u>Segment Total</u>	<u>Others</u>	<u>Eliminations</u>	<u>Group</u>
<u>For the Year Ended</u>						
<u>December 31, 2017</u>						
Statement of Income						
Segment revenues						
External	P 1,775.7	P 979.3	P 2,755.0	P 401.5	P -	P 3,156.5
Inter-segment	<u>-</u>	<u>-</u>	<u>-</u>	<u>120.4</u>	<u>( 120.4 )</u>	<u>-</u>
	<u>1,775.7</u>	<u>979.3</u>	<u>2,755.0</u>	<u>521.9</u>	<u>( 120.4 )</u>	<u>3,156.5</u>
Segment expenses						
External	1,367.5	815.2	2,182.7	254.5	-	2,437.2
Inter-segment	<u>-</u>	<u>-</u>	<u>-</u>	<u>0.4</u>	<u>( 0.4 )</u>	<u>-</u>
	<u>1,367.5</u>	<u>815.2</u>	<u>2,182.7</u>	<u>254.9</u>	<u>( 0.4 )</u>	<u>2,437.2</u>
Segment results	<u>P 408.2</u>	<u>P 164.1</u>	<u>P 572.3</u>	<u>P 267.0</u>	<u>( P 120.0 )</u>	719.3
Tax expense						<u>148.8</u>
Net profit						<u>P 570.5</u>
<u>December 31, 2017</u>						
Statement of Financial Position						
Segment assets	P 20,498.1	P 15,606.7	P 36,104.8	P 5,897.5	( P 531.2 )	P 41,471.1
Unallocated assets						<u>1,370.5</u>
Total assets						<u>P 42,841.6</u>
Segment liabilities	<u>19,400.4</u>	<u>17,066.5</u>	<u>36,466.9</u>	<u>-</u>	<u>-</u>	P 36,466.9
Unallocated liabilities						<u>932.4</u>
Total liabilities						<u>P 37,399.3</u>
Other segment information :						
Capital expenditures	<u>P 776.5</u>	<u>P -</u>	<u>P 776.5</u>	<u>P 6.1</u>	<u>P -</u>	<u>P 782.6</u>
Depreciation and amortization	<u>P 814.5</u>	<u>P -</u>	<u>P 814.5</u>	<u>P 21.7</u>	<u>P -</u>	<u>P 836.2</u>
Impairment and credit losses	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P 63.5</u>	<u>P -</u>	<u>P 63.5</u>

For the Year Ended  
December 31, 2016

Statement of Income						
Segment revenues						
External	P 1,720.3	P 914.3	P 2,634.6	P 219.7	P -	P 2,854.3
Inter-segment	<u>-</u>	<u>-</u>	<u>-</u>	<u>60.7</u>	<u>( 60.7 )</u>	<u>-</u>
	<u>1,720.3</u>	<u>914.3</u>	<u>2,634.6</u>	<u>280.4</u>	<u>( 60.7 )</u>	<u>2,854.3</u>
Segment expenses						
External	1,267.8	673.9	1,941.7	161.9	-	2,103.6
Inter-segment	<u>-</u>	<u>-</u>	<u>-</u>	<u>0.7</u>	<u>( 0.7 )</u>	<u>-</u>
	<u>1,267.8</u>	<u>673.9</u>	<u>1,941.7</u>	<u>162.6</u>	<u>( 0.7 )</u>	<u>2,103.6</u>
Segment results	<u>P 452.5</u>	<u>P 240.4</u>	<u>P 692.9</u>	<u>P 117.80</u>	<u>( P 60.0 )</u>	750.7
Tax expense						<u>180.7</u>
Net profit						<u>P 570.0</u>

Segment expenses are allocated on the basis of gross income.

Net segment assets are comprised of the following:

		<b>2018</b>	
		<b><u>Leasing</u></b>	<b><u>Financing</u></b>
Receivables	P	15,351.4	P 14,299.2
Residual value of leased assets		6,582.4	-
Unearned income	(	1,618.6)	( 29.2)
Client's equity		-	( 31.6)
		<u>20,315.2</u>	<u>14,238.4</u>
Equipment under lease		<u>2,246.1</u>	<u>-</u>
		22,561.3	14,238.4
Allowance for impairment	(	306.5)	( 213.9)
		<b><u>P 22,254.8</u></b>	<b><u>P 14,024.5</u></b>
		<b>2017</b>	
		<b><u>Leasing</u></b>	<b><u>Financing</u></b>
Receivables	P	13,951.7	P 16,022.8
Residual value of leased assets		5,974.4	-
Unearned income	(	1,361.1)	( 19.4)
Client's equity		-	( 33.3)
		<u>18,565.0</u>	<u>15,970.1</u>
Equipment under lease		<u>2,249.5</u>	<u>-</u>
		20,814.5	15,970.1
Allowance for impairment	(	316.4)	( 363.4)
		<b><u>P 20,498.1</u></b>	<b><u>P 15,606.7</u></b>

The Group's bills payable, including payable to BDO Unibank, amounting to P28,977.8 and P30,478.3 as of December 31, 2018 and 2017, respectively, is allocated between the leasing and financing segments based on the carrying amounts of receivables of these segments. Deposits on lease amounting to P6,632.3 and P5,988.6 as of December 31, 2018 and 2017, respectively, are included in the leasing segment.

## 5. RISK MANAGEMENT

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

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

### 5.1 Foreign Exchange Risk

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

The Group's foreign-currency denominated financial assets and financial liabilities translated into Philippine pesos at the closing rate at December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	<b>P 5.0</b>	P 7.0
Loans and other receivables	<b>722.5</b>	746.6
Bills payable	<b>( 565.6)</b>	( 600.7)
Lease deposits	<b>( 131.2)</b>	( 136.8)
	<b><u>P 30.7</u></b>	<b><u>P 16.1</u></b>

At December 31, 2018 and 2017, the currency exchange rates used to translate U.S. dollar denominated financial assets and financial liabilities to the Philippine pesos is approximately P52.58 and P49.9, respectively.

The following table illustrates the sensitivity of the net result for the year and equity with regard to the Group's financial assets and financial liabilities and the U.S. dollar – Philippine peso exchange rate. It assumes a +/-11.8% change and +/-10.8% change of the Philippine peso/U.S. dollar exchange rate at December 31, 2018 and 2017, respectively. These percentages have been determined based on the average market volatility in exchange rates in the previous 12 months at a 99% confidence level. The sensitivity analysis is based on the Group's foreign currency financial instruments held at the end of each reporting period.

	<u>2018</u>		<u>2017</u>	
	<u>Depreciation of Peso</u>	<u>Appreciation of Peso</u>	<u>Depreciation of Peso</u>	<u>Appreciation of Peso</u>
Profit before tax	<b>P 3.6</b>	<b>(P 3.6)</b>	P 1.7	(P 1.7)
Equity	<b>2.5</b>	<b>( 2.5)</b>	1.2	( 1.2)

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

### 5.2 Interest Rate Risk

At December 31, 2018 and 2017, the Group is exposed to changes in market interest rates through its bills payable and a portion of BDO Leasing's loans and other receivables, which are subject to periodic interest rate repricing. All other financial assets and financial liabilities have fixed rates.



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

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

The following table illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates for bills payable of +/-1.5% at December 31, 2018 and +/-0.6% at December 31, 2017 and variable rate loans and other receivables of +/-2.9% at December 31, 2018 and +/-2.4% at December 31, 2017. These changes are considered to be reasonably possible based on observation of current market conditions for the past 12 months at a 99% confidence level. The calculations are based on the Group's and Parent Company's financial instruments held at the end of each reporting period. All other variables are held constant.

	<u>Increase in Interest Rate</u>	<u>Decrease in Interest Rate</u>
<b><u>2018:</u></b>		
Loans and other receivables	+2.9%	-2.9%
Bills payable	+1.5%	-1.5%
<b><u>Group/Parent Company</u></b>		
Increase (decrease) in:		
Profit before tax	P 11.1	( P 11.1 )
Equity	7.7	( 7.7 )
<b><u>2017:</u></b>		
Loans and other receivables	+2.4%	-2.4%
Bills payable	+0.6%	-0.6%
<b><u>Group/Parent Company</u></b>		
Increase (decrease) in:		
Profit before tax	P 0.3	( P 0.3 )
Equity	0.2	( 0.2 )

### **5.3 Credit Risk**

Credit risk is the risk that the counterparty in a transaction may default and arises from lending, treasury, and other activities undertaken by the Group. Risk Management Unit (RMU) undertakes several functions with respect to credit risk management including credit analysis, risk ratings for corporate accounts, and development and performance monitoring of credit risk rating and scoring models for both corporate and consumer loans. It also ensures that Group's credit policies and procedures are adequate to meet the demands of the business.

RMU also subjects the loan portfolio to a regular portfolio quality review, credit portfolio stress testing, and rapid portfolio reviews based on specific and potential events that may affect borrowers in particular geographic locations or industries.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a regular basis and subject to an annual or more frequent review. Approval for credit limits are secured from the Credit Committee.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also managed in part by obtaining collateral or corporate and personal guarantees.

### ***5.3.1 Exposure to Credit Risk***

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

The Group's definition of its loan classification and corresponding credit risk ratings are as follows:

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

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

#### ***(a) Unclassified***

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

#### ***(b) Watchlisted***

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

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

(c) *Adversely Classified*

(i) *Loans Especially Mentioned (LEM)*

It is an adverse classification of loans/accounts that have potential weaknesses and deserves management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to the Group.

(ii) *Substandard*

Accounts classified as "Substandard" are individual credits or portions thereof, that have well-defined weakness/(es) that may jeopardize repayment/liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower.

(iii) *Doubtful*

Accounts classified as "Doubtful" are individual credits or portions thereof which exhibit more severe weaknesses than those classified as "Substandard" whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable, however, the exact amount remains undeterminable as yet. Classification as "Loss" is deferred because of specific pending factors, which may strengthen the assets.

(iv) *Loss*

Accounts classified as "Loss" are individual credits or portions thereof, which are considered uncollectible or worthless, and of such little value that their continuance as bankable assets are not warranted although the loans may have some recovery or salvage value.

This shall be viewed as a transitional category for loans and other credit accommodations, which have been identified as requiring write-off during the current reporting period even though partial recovery may be obtained in the future.

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

### 5.3.2 Credit Quality Analysis

The following table sets out information about the credit quality of Loans and Other Receivables, debt investment securities at FVOCI (2018) and AFS debt securities (2017). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. In 2018, the Group and the Parent Company has no financial instruments that are POCI assets.

The following table shows the exposure to credit risk as of December 31, 2018 and 2017 for each internal risk grade and the related allowance for impairment:

#### Group

		2018				2017	
		Stage 1	Stage 2	Stage 3	Total	Total	
<b>Receivables from customers - corporate</b>							
Grades AAA to B : Current	P	24,881.0	P 0.4	P 33.1	P 24,914.5	P 27,078.6	
Grade B : Watchlisted		539.9	33.4	22.1	595.4	252.8	
Grade C : LEM		-	21.7	33.0	54.7	376.8	
Grade D : Substandard		-	0.4	207.1	207.5	217.6	
Grade E : Doubtful		-	-	283.9	283.9	173.8	
Grade F : Loss		-	-	312.4	312.4	193.6	
		25,420.9	55.9	891.6	26,368.4	28,293.2	
Expected credit loss allowance	(	111.3)	(1.8)	(333.4)	(446.5)	(541.6)	
Carrying amount	P	25,309.6	P 54.1	P 558.2	P 25,921.9	P 27,751.6	
<b>Receivables from customers - consumer</b>							
Grades AAA to B : Current	P	7,937.5	P -	P 36.9	P 7,974.4	P 5,998.3	
Grade B : Watchlisted		-	-	-	-	-	
Grade C : LEM		-	70.7	11.1	81.8	-	
Grade D : Substandard		-	-	33.2	33.2	214.5	
Grade E : Doubtful		-	-	42.8	42.8	72.1	
Grade F : Loss		-	-	116.9	116.9	54.6	
		7,937.5	70.7	240.9	8,249.1	6,339.5	
Expected credit loss allowance	(	23.7)	(3.2)	(47.0)	(73.9)	(138.2)	
Carrying amount	P	7,913.8	P 67.5	P 193.9	P 8,175.2	P 6,201.3	
<b>Other receivables</b>							
Grades AAA to B : Current	P	243.0	P -	P -	P 243.0	P 359.5	
Grade B : Watchlisted		-	-	-	-	-	
Grade C : LEM		-	-	-	-	-	
Grade D : Substandard		-	12.4	4.6	17.0	7.4	
Grade E : Doubtful		-	-	2.3	2.3	3.9	
Grade F : Loss		-	-	23.6	23.6	27.3	
		243.0	12.4	30.5	285.9	398.1	
Expected credit loss allowance	(	0.7)	(0.3)	(29.4)	(30.4)	(26.3)	
Carrying amount	P	242.3	P 12.1	P 1.1	P 255.5	P 371.8	
<b>Debt investment securities at FVOCI (2018) / AFS debt securities (2017)</b>							
Grades AAA to B : Current	P	1,119.8	P -	P -	P 1,119.8	P 1,175.0	

#### Parent Company

		2018				2017	
		Stage 1	Stage 2	Stage 3	Total	Total	
<b>Receivables from customers - corporate</b>							
Grades AAA to B : Current	P	24,881.0	P 0.4	P 33.1	P 24,914.5	P 27,078.6	
Grade B : Watchlisted		539.9	33.4	22.1	595.4	252.8	
Grade C : LEM		-	21.7	33.0	54.7	376.8	
Grade D : Substandard		-	0.4	207.1	207.5	217.6	
Grade E : Doubtful		-	-	283.9	283.9	173.8	
Grade F : Loss		-	-	312.4	312.4	193.6	
		25,420.9	55.9	891.6	26,368.4	28,293.2	
Expected credit loss allowance	(	111.3)	(1.8)	(333.4)	(446.5)	(541.6)	
Carrying amount	P	25,309.6	P 54.1	P 558.2	P 25,921.9	P 27,751.6	

## Parent Company

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
<b>Receivables from customers - consumer</b>					
Grades AAA to B : Current	P 7,937.5	P -	P 36.9	P 7,974.4	P 5,998.3
Grade B : Watchlisted	-	-	-	-	-
Grade C : LEM	-	70.7	11.1	81.8	-
Grade D : Substandard	-	-	33.2	33.2	214.5
Grade E : Doubtful	-	-	42.8	42.8	72.1
Grade F : Loss	-	-	116.9	116.9	54.6
	7,937.5	70.7	240.9	8,249.1	6,339.5
Expected credit loss allowance	( 23.7)	( 3.2)	( 47.0)	( 73.9)	( 138.2)
Carrying amount	P 7,913.8	P 67.5	P 193.9	P 8,175.2	P 6,201.3
<b>Other receivables</b>					
Grades AAA to B : Current	P 80.8	P -	P -	P 80.8	P 241.3
Grade B : Watchlisted	-	-	-	-	-
Grade C : LEM	-	-	-	-	-
Grade D : Substandard	-	9.4	4.6	14.0	7.4
Grade E : Doubtful	-	-	2.3	2.3	3.9
Grade F : Loss	-	-	23.5	23.5	27.4
	80.8	9.4	30.4	120.6	280.0
Expected credit loss allowance	( 0.7)	( 0.3)	( 29.2)	( 30.2)	( 26.3)
Carrying amount	P 80.1	P 9.1	P 1.2	P 90.4	P 253.7
<b>Debt investment securities at FVOCI</b>					
<b>(2018)/AFS debt securities (2017)</b>					
Grades AAA to B : Current	P 1,119.8	P -	P -	P 1,119.8	P 1,175.0

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable institutions with high quality external credit ratings.

### 5.3.3 Concentrations of Credit Risk

The Group and the Parent Company monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk (net of allowance) at the reporting date is shown below.

	2018			2017		
	Cash and Cash Equivalents	Loans and Other Receivables	Financial Assets at FVOCI*	Cash and Cash Equivalents	Loans and Other Receivables	AFS Financial Assets*
<b>Group</b>						
Concentration by sector:						
Financial intermediaries	P 274.6	P 842.2	P -	P 457.7	P 2,653.6	P -
Manufacturing	-	3,587.3	-	-	3,228.3	-
Transportation, communication and energy	-	5,700.0	-	-	4,528.5	-
Wholesale and retail trade and personal activities	-	5,263.5	-	-	4,559.8	-
Real estate, renting and business activities	-	5,710.6	1,119.8	-	5,483.7	1,175.0
Agriculture, fishing and forestry	-	183.3	-	-	242.9	-
Other community, social and personal activities	-	13,065.7	-	-	13,627.9	-
	P 274.6	P 34,352.6	P 1,119.8	P 457.7	P 34,324.7	P 1,175.0
<b>Parent Company</b>						
Concentration by sector:						
Financial intermediaries	P 228.5	P 842.2	P -	P 376.8	P 2,653.6	P -
Manufacturing	-	3,587.3	-	-	3,228.3	-
Transportation, communication and energy	-	5,700.0	-	-	4,528.5	-
Wholesale and retail trade and personal activities	-	5,263.5	-	-	4,559.8	-
Real estate, renting and business activities	-	5,710.6	1,119.8	-	5,483.7	1,175.0
Agriculture, fishing and forestry	-	183.3	-	-	242.9	-
Other community, social and personal activities	-	12,900.6	-	-	13,509.8	-
	P 228.5	P 34,187.5	P 1,119.8	P 376.8	P 34,206.6	P 1,175.0

\*Financial Assets at FVOCI (2018)/AFS Financial Assets (2017) do not include equity securities.

### 5.3.4 Collateral Held as Security and Other Credit Enhancements

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

Estimate of the fair value of collateral and other security enhancements held against the following credit exposures as of December 31 follows:

	<u>2018</u>	<u>2017</u>
Receivable from customers – corporate		
Real property	<b>P 5,742.6</b>	P 7,914.5
Personal property	<u><b>40,755.5</b></u>	<u>47,554.2</u>
	<u><b>P 46,498.1</b></u>	<u>P 55,468.7</u>
Receivable from customers – consumer		
Real property	<b>P 13,511.0</b>	P 10,064.8
Personal property	<u><b>539.6</b></u>	<u>480.7</u>
	<u><b>P 14,050.6</b></u>	<u>P 10,545.5</u>
Other receivables		
Real property	<u><b>P 113.6</b></u>	<u>P 103.9</u>

As of December 31, 2018 and 2017, no collateral is held for cash and cash equivalents and financial assets at FVOCI.

The Group's manner of disposing the collateral for impaired loans and receivables is normally through sale of these assets after foreclosure proceedings have taken place. Aside from the foregoing, there are no other credit enhancements on the Group's financial assets held as of December 31, 2018 and 2017.

#### (a) Receivable from Customers – Corporate

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Group generally requests that corporate borrowers provide it. The Group may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

While the Group is focused on corporate customers' creditworthiness, it continuously and regularly updates the valuation of collateral held against all loans to corporate customers. Most frequent updating, however, is required when the loan is put on a watch list and the loan is monitored more closely. The same applies to credit-impaired loans, as the Group obtains appraisals of collateral to provide input into determining the management credit risk actions.

At December 31, 2018 and 2017, the net carrying amount of credit-impaired (loans under Stages 2 and 3) receivables from corporate customers amounted to P612.3 and P485.2, respectively, and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to P656.0 and P1,423.1, respectively. For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

*(b) Receivable from Customers – Consumer*

The general creditworthiness of an individual customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Group generally requests that individual borrowers provide it. The Group may take collateral in the form of a first charge over real estate, floating charges over all individual assets and other liens and guarantees.

While the Group is focused on individual customers' creditworthiness, it continuously and regularly updates the valuation of collateral held against all loans to individual customers. Most frequent updating, however, is required when the loan is put on a watch list and the loan is monitored more closely. The same applies to credit-impaired loans, as the Group obtains appraisals of collateral to provide input into determining the management credit risk actions.

At December 31, 2018 and 2017, the net carrying amount of credit-impaired (loans under Stage 2 and 3) receivables to individual customers amounted to P261.4 and P282.7, respectively, and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to P495.7 and P397.0, respectively. For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

*(c) Other Receivables*

The general creditworthiness of an individual customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Group generally requests that individual borrowers provide it. The Group may take collateral in the form of a first charge over real estate, floating charges over all individual assets and other liens and guarantees.

While the Group is focused on individual customers' creditworthiness, it continuously and regularly updates the valuation of collateral held against all loans to individual customers. Most frequent updating, however, is required when the loan is put on a watch list and the loan is monitored more closely. The same applies to credit-impaired loans, as the Group obtains appraisals of collateral to provide input into determining the management credit risk actions.

At December 31, 2018 and 2017, the net carrying amount of credit-impaired receivables to individual customers amounted to P1.6 and P9.2, respectively, and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to P4.5 and P4.3, respectively. For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.



### ***5.3.5 Amounts Arising from Expected Credit Losses***

At each reporting date, the Group assesses whether Loans and Other Receivables and debt investment securities at FVOCI are credit-impaired (referred to as Stages 2 and 3 financial assets). A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using PD, LGD and EAD.

#### ***(a) Significant Increase in Credit Risk***

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information (FLI).

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime PD as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Group uses the following criteria in determining whether there has been a significant increase in credit risk: (i) quantitative test based on movement in PD; and (ii) qualitative indicators, such as substantial decline in sales or intermittent delays in payment;

#### ***(i) Credit risk grading***

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

The credit grades are defined and calibrated such that the risk of default increases exponentially at each higher risk grade so, for example, the difference PD between an AAA and AA rating grade is lower than the difference in the PD between a B and B-rating grade.

*(ii) Generating the term structure of PD*

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information from external credit reference agencies is also used.

The Group employs statistical models to analyze the data collected and generate the term structure of PD estimates.

*(iii) Determining whether credit risk has significantly increased*

The Group assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower. What is considered significant varies across financial assets of the Group.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Group's risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as substantial decline in sales and intermittent delays in payments.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

*(b) Definition of Default*

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Group; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Group considers indicators that are qualitative (e.g. breaches of covenant) and, quantitative (overdue or non-payment).

Inputs into the assessment of whether a financial instrument is in default as well as their significance may vary over time to reflect changes in circumstances.

*(c) Forward-looking Information*

The Group incorporates FLI into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The relevant macro-economic variables for selection generally include, but are not limited to, gross domestic product growth, unemployment rate, foreign exchange, stock market index, oil prices and interest rates.

Predicted relationships between the key macro-economic indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 10 to 15 years.

The significance of the selected macro-economic variables as predictors of default may change over time as historical information is added. As such, the generated macroeconomic models are updated at least on an annual basis.

Management has also considered other FLIs not incorporated within the above economic scenarios, such as any regulatory, legislative, or political changes, but are not deemed to have a significant impact on the calculation of ECL. Management reviews and monitors the appropriateness of FLIs at least annually.

*(d) Modified Financial Assets*

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of its remaining lifetime PD at the reporting date based on the modified terms with the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognized and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Group renegotiates loans to customers in financial difficulties (referred to as 'restructuring') to maximize collection opportunities and minimize the risk of default. Under the Group's restructuring policy, loan restructuring is granted on a selective basis if the debtor is currently in default on its debt; or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Consumer and corporate loans and are subject to restructuring. The Group's Credit Committee regularly reviews reports on restructured activities.

For financial assets modified as part of the Group's restructuring policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, restructuring is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

*(e) Measurement of ECL*

The key inputs into the measurement of ECL are the term structure of PD, LGD and EAD.

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed in Note 5.3.5(a)(ii) under the heading "Generating the term structure of PD".

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortization. The EAD of a financial asset is its gross carrying amount at the time of default. EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Group considers a longer period.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk gradings;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Group has limited historical data, external benchmark information (e.g. PD from external credit rating agencies, Basel LGD) is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL include exposures to foreign borrowers and low default borrower segments.

(f) *Loss Allowance*

The following tables show the reconciliation from the opening to the closing balance of the loss allowance by class of financial instrument. Comparative amounts for 2017 represent the allowance account for credit losses and reflect the measurement basis under PAS 39.

**Group**

	2018				2017	
	Stage 1	Stage 2	Stage 3	Total	Total	
<b>Receivables from customers – corporate</b>						
Balance at January 1	P 129.0	P 22.7	P 324.8	P 476.5	P 537.3	
Transfers to:						
Stage 1	-	-	-	-	-	
Stage 2	( 0.4 )	0.4	-	-	-	
Stage 3	( 0.7 )	( 0.5 )	1.2	-	-	
Net remeasurement of loss allowance	( 27.0 )	( 14.2 )	35.0	( 6.2 )	17.8	
New financial assets originated	46.0	-	0.6	46.6	13.5	
Derecognition of financial assets	( 35.6 )	( 6.6 )	( 27.9 )	( 70.1 )	( 26.7 )	
Write-offs	-	-	( 0.3 )	( 0.3 )	( 0.3 )	
Balance at December 31	<u>P 111.3</u>	<u>P 1.8</u>	<u>P 333.4</u>	<u>P 446.5</u>	<u>P 541.6</u>	
<b>Receivables from customers – consumer</b>						
Balance at January 1	P 15.2	P 1.9	P 41.4	P 58.5	P 85.7	
Transfers to:						
Stage 1	9.0	( 1.5 )	( 7.5 )	-	-	
Stage 2	5.5	( 7.2 )	1.7	-	-	
Stage 3	( 0.5 )	( 0.3 )	0.8	-	-	
Net remeasurement of loss allowance	( 9.3 )	3.4	14.5	8.6	46.3	
New financial assets originated	4.9	6.9	3.4	15.2	11.2	
Derecognition of financial assets	( 1.1 )	-	( 7.3 )	( 8.4 )	( 5.0 )	
Balance at December 31	<u>P 23.7</u>	<u>P 3.2</u>	<u>P 47.0</u>	<u>P 73.9</u>	<u>P 138.2</u>	

	2018				2017	
	Stage 1	Stage 2	Stage 3	Total	Total	
<b>Other receivables</b>						
Balance at January 1	P 0.4	P 0.2	P 25.7	P 26.3	P 5.0	
Transfers to:						
Stage 1	( 0.1)	-	0.1	-	-	
Stage 2	-	( 0.2)	0.2	-	-	
Stage 3	-	-	-	-	-	
Net remeasurement of loss allowance	-	-	3.0	3.0	21.3	
New financial assets originated	0.8	0.3	8.0	9.1	-	
Derecognition of financial assets	( 0.4)	-	( 7.6)	( 8.0)	-	
Balance at December 31	<u>P 0.7</u>	<u>P 0.3</u>	<u>P 29.4</u>	<u>P 30.4</u>	<u>P 26.3</u>	

**Parent Company**

	2018				2017	
	Stage 1	Stage 2	Stage 3	Total	Total	
<b>Receivables from customers – corporate</b>						
Balance at January 1 [see Note 2.2(d)]	P 129.0	P 22.7	P 324.8	P 476.5	P 537.3	
Transfers to:						
Stage 1	-	-	-	-	-	
Stage 2	( 0.4)	0.4	-	-	-	
Stage 3	( 0.7)	( 0.5)	1.2	-	-	
Net remeasurement of loss allowance	( 27.0)	( 14.2)	35.0	( 6.2)	17.8	
New financial assets originated	46.0	-	0.6	46.6	13.5	
Derecognition of financial assets	( 35.6)	( 6.6)	( 27.9)	( 70.1)	( 26.7)	
Write-offs	-	-	( 0.3)	( 0.3)	( 0.3)	
Balance at December 31	<u>P 111.3</u>	<u>P 1.8</u>	<u>P 333.4</u>	<u>P 446.5</u>	<u>P 541.6</u>	

<b>Receivables from customers – consumer</b>						
Balance at January 1 [see Note 2.2(d)]	P 15.2	P 1.9	P 41.4	P 58.5	P 85.7	
Transfers to:						
Stage 1	9.0	( 1.5)	( 7.5)	-	-	
Stage 2	5.5	( 7.2)	1.7	-	-	
Stage 3	( 0.5)	( 0.3)	0.8	-	-	
Net remeasurement of loss allowance	( 9.3)	3.4	14.5	8.6	46.3	
New financial assets originated	4.9	6.9	3.4	15.2	11.2	
Derecognition of financial assets	( 1.1)	-	( 7.3)	( 8.4)	( 5.0)	
Balance at December 31	<u>P 23.7</u>	<u>P 3.2</u>	<u>P 47.0</u>	<u>P 73.9</u>	<u>P 138.2</u>	

<b>Other receivables</b>						
Balance at January 1 [see Note 2.2(d)]	P 0.4	P 0.2	P 25.7	P 26.3	P 5.0	
Transfers to:						
Stage 1	( 0.1)	-	0.1	-	-	
Stage 2	-	( 0.2)	0.2	-	-	
Stage 3	-	-	-	-	-	
Net remeasurement of loss allowance	-	-	3.0	3.0	21.3	
New financial assets originated	0.8	0.3	7.8	8.9	-	
Derecognition of financial assets	( 0.4)	-	( 7.6)	( 8.0)	-	
Balance at December 31	<u>P 0.7</u>	<u>P 0.3</u>	<u>P 29.2</u>	<u>P 30.2</u>	<u>P 26.3</u>	

### 5.3.6 Impaired Financial Assets – Comparative Information Under PAS 39

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

	2017	
	Group	Parent
<b>Individually impaired:</b>		
Grade C: EM	P 376.8	P 376.8
Grade D: Substandard	217.6	217.6
Grade E: Doubtful	173.8	173.8
Grade F: Loss	<u>196.0</u>	<u>196.0</u>
Gross amount	<u>964.2</u>	<u>964.2</u>
<b>Collectively Impaired –</b>		
Unclassified	<u>6,737.1</u>	<u>6,619.0</u>
<b>Past due but not impaired:</b>		
Aging of past due		
Below 30 days	77.8	77.8
30-60 days	7.9	7.9
61-90 days	30.1	30.1
91-180 days	23.4	23.4
More than 180 days	-	-
Gross amount	<u>139.2</u>	<u>139.2</u>
<b>Neither past due nor impaired</b>		
Grade B: Watchlisted	253.0	253.0
Unclassified	<u>26,937.3</u>	<u>26,937.3</u>
Gross amount	<u>27,190.3</u>	<u>27,190.3</u>
Total gross amount	35,030.8	34,912.7
Allowance for impairment	( <u>706.1</u> )	( <u>706.1</u> )
Carrying amount	<u>P 34,324.7</u>	<u>P 34,206.6</u>

### 5.4 Liquidity Risk

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

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

The Group believes that it currently has adequate debt funding from banks, other financial institutions, and through the issuance of Short-Term Commercial Papers (STCPs). The P15.0 billion STCP licenses have been renewed in 2017. In 2018, the Group renewed the P15.0 billion STCP licenses.

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



Presented below and in the succeeding page are the financial assets and financial liabilities as of December 31, 2018 and 2017 analyzed according to when these are expected to be recovered or settled.

	Group				
	One to Three Months	Three Months to One Year	One to Three Years	More Than Three Years	Total
<b>2018</b>					
Financial assets					
Cash and cash equivalents	P 274.6	P -	P -	P -	P 274.6
Financial assets at FVOCI	-	-	1,107.3	2,484.6	3,591.9
Loans and other receivables	<u>1,843.3</u>	<u>3,317.6</u>	<u>13,128.5</u>	<u>16,063.2</u>	<u>34,352.6</u>
	<u>P 2,117.9</u>	<u>P 3,317.6</u>	<u>P 14,235.8</u>	<u>P 18,547.8</u>	<u>P 38,219.1</u>
Financial liabilities					
Bills payable	P 23,396.3	P 3,765.6	P 1,815.9	P -	P 28,977.8
Accounts payable and other liabilities	539.8	-	-	-	539.8
Lease deposits	<u>620.2</u>	<u>1,058.1</u>	<u>3,210.2</u>	<u>1,743.8</u>	<u>6,632.3</u>
	<u>P 24,556.3</u>	<u>P 4,823.7</u>	<u>P 5,026.1</u>	<u>P 1,743.8</u>	<u>P 36,149.9</u>
	Parent Company				
	One to Three Months	Three Months to One Year	One to Three Years	More Than Three Years	Total
Financial assets					
Cash and cash equivalents	P 228.5	P -	P -	P -	P 228.5
Financial assets at FVOCI	-	-	1,107.3	2,484.6	3,591.9
Loans and other receivables	<u>1,832.6</u>	<u>3,163.1</u>	<u>13,128.5</u>	<u>16,063.3</u>	<u>34,187.5</u>
	<u>P 2,061.1</u>	<u>P 3,163.1</u>	<u>P 14,235.8</u>	<u>P 18,547.9</u>	<u>P 38,007.9</u>
Financial liabilities					
Bills payable	P 21,142.4	P 3,765.6	P 1,815.9	P -	P 26,723.9
Accounts payable and other liabilities	427.4	-	-	-	427.4
Lease deposits	<u>603.3</u>	<u>1,052.9</u>	<u>3,179.2</u>	<u>1,707.0</u>	<u>6,542.4</u>
	<u>P 22,173.1</u>	<u>P 4,818.5</u>	<u>P 4,995.1</u>	<u>P 1,707.0</u>	<u>P 33,693.7</u>
	Group				
	One to Three Months	Three Months to One Year	One to Three Years	More Than Three Years	Total
<b>2017</b>					
Financial assets					
Cash and cash equivalents	P 457.7	P -	P -	P -	P 457.7
Available-for-sale financial assets	2,079.4	-	-	2,562.6	4,642.0
Loans and other receivables	<u>4,478.2</u>	<u>8,145.4</u>	<u>13,544.9</u>	<u>8,156.2</u>	<u>34,324.7</u>
	<u>P 7,015.3</u>	<u>P 8,145.4</u>	<u>P 13,544.9</u>	<u>P 10,718.8</u>	<u>P 39,424.4</u>
Financial liabilities					
Bills payable	P 28,544.7	P 1,531.1	P 402.5	P -	P 30,478.3
Accounts payable and other liabilities	790.3	-	-	-	790.3
Lease deposits	<u>542.9</u>	<u>1,311.7</u>	<u>2,747.3</u>	<u>1,386.7</u>	<u>5,988.6</u>
	<u>P 29,877.9</u>	<u>P 2,842.8</u>	<u>P 3,149.8</u>	<u>P 1,386.7</u>	<u>P 37,257.2</u>

	Parent Company				
	One to Three Months	Three Months to One Year	One to Three Years	More Than Three Years	Total
<u>2017</u>					
Financial assets					
Cash and cash equivalents	P 376.8	P -	P -	P -	P 376.8
Available-for-sale financial assets	2,079.4	-	-	2,562.6	4,642.0
Loans and other receivables	<u>4,360.1</u>	<u>8,145.4</u>	<u>13,544.9</u>	<u>8,156.2</u>	<u>34,206.6</u>
	<u>P 6,816.3</u>	<u>P 8,145.4</u>	<u>P 13,544.9</u>	<u>P 10,718.8</u>	<u>P 39,225.4</u>
Financial liabilities					
Bills payable	P 26,485.5	P 1,390.3	P 402.5	P -	P 28,278.3
Accounts payable and other liabilities	586.5	-	-	-	586.5
Lease deposits	<u>535.1</u>	<u>1,294.5</u>	<u>2,719.3</u>	<u>1,369.2</u>	<u>5,918.1</u>
	<u>P 27,607.1</u>	<u>P 2,684.8</u>	<u>P 3,121.8</u>	<u>P 1,369.2</u>	<u>P 34,782.9</u>

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

### 5.5 Price Risk

The Group is exposed to the changes in the market values of financial assets at FVOCI (2018)/AFS financial assets (2017) held as of December 31, 2018 and 2017. The Group manages its risk by identifying, analyzing and measuring relevant or likely market price risks. To manage its price risk arising from its financial assets at FVOCI (2018)/AFS financial assets (2017), the Group does not concentrate its investment in any single counterparty.

If the prices of financial assets at FVOCI (2018)/AFS financial assets (2017) changed by +/-2.3% at December 31, 2018 and +/-2.0% at December 31, 2017, then other comprehensive income would have increased/decreased by P54.3 in 2018 and by P64.8 in 2017. The analysis is based on the assumption on the change of the correlated equity indices, with all other variables held constant.

## 6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 6.1 Carrying Amounts and Fair Values by Category

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

	<u>Group</u>		<u>Parent</u>	
	<u>Carrying Amounts</u>	<u>Fair Values</u>	<u>Carrying Amounts</u>	<u>Fair Values</u>
<b><u>2018</u></b>				
Financial Assets				
At amortized cost:				
Cash and cash equivalents	P 274.6	P 274.6	P 228.5	P 228.5
Loans and other receivables	<u>34,352.6</u>	<u>33,668.7</u>	<u>34,187.5</u>	<u>33,503.6</u>
	34,627.2	33,943.3	34,416.0	33,732.1
Financial assets at FVOCI	<u>3,591.9</u>	<u>3,591.9</u>	<u>3,591.9</u>	<u>3,591.9</u>
	<b><u>P 38,219.1</u></b>	<b><u>P 37,535.2</u></b>	<b><u>P 38,007.9</u></b>	<b><u>P 37,324.0</u></b>
Financial Liabilities				
At amortized cost:				
Bills payable	P 28,977.8	P 28,326.6	P 26,723.9	P 26,088.1
Accounts payable and other liabilities	539.8	539.8	427.4	427.4
Lease deposits	<u>6,632.3</u>	<u>5,299.9</u>	<u>6,542.4</u>	<u>5,218.7</u>
	<b><u>P 36,149.9</u></b>	<b><u>P 34,166.3</u></b>	<b><u>P 33,693.7</u></b>	<b><u>P 31,734.2</u></b>
<b><u>2017</u></b>				
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	P 457.7	P 457.7	P 376.8	P 376.8
Loans and other receivables	<u>34,324.7</u>	<u>33,524.1</u>	<u>34,206.6</u>	<u>33,406.0</u>
	34,782.4	33,981.8	34,583.4	33,782.8
AFS financial assets*	<u>3,242.0</u>	<u>3,242.0</u>	<u>3,242.0</u>	<u>3,242.0</u>
	<b><u>P 38,024.4</u></b>	<b><u>P 37,223.8</u></b>	<b><u>P 37,825.4</u></b>	<b><u>P 37,024.8</u></b>
Financial Liabilities				
At amortized cost:				
Bills payable	P 30,478.3	P 30,341.7	P 28,278.3	P 28,156.3
Accounts payable and other liabilities	790.3	790.3	586.5	586.5
Lease deposits	<u>5,988.6</u>	<u>4,869.5</u>	<u>5,918.1</u>	<u>4,805.0</u>
	<b><u>P 37,257.2</u></b>	<b><u>P 36,001.5</u></b>	<b><u>P 34,782.9</u></b>	<b><u>P 33,547.8</u></b>

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

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

(i) *Cash and Cash Equivalents*

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

(ii) *Financial Assets at FVOCI (2018)/AFS Financial Assets (2017)*

The fair value of financial assets at FVOCI/AFS financial assets is determined by direct reference to published price quoted in an active market for traded securities. On the other hand, unquoted AFS securities in 2017, are carried at cost because the fair value cannot be reliably determined either by reference to similar financial instruments or through valuation technique. In 2018, unquoted security is determined based on pricing model developed by applying benchmark pricing curves which are derived using the yield of benchmark security with similar maturities (i.e., corporate bonds or notes).

(iii) *Loans and Other Receivables*

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

(iv) *Bills Payable*

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

(v) *Accounts Payable and Other Liabilities*

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

(vi) *Lease Deposits*

Lease deposits are carried at amortized cost which represents the present value, hence, their fair values.

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

### **6.2.1 Fair Value Hierarchy**

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

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

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

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

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

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

### ***6.2.2 Financial Instrument Measured at Fair Value***

The following table shows the fair value hierarchy of the Group and Parent Company's class of financial assets measured at fair value in the statements of financial position on a recurring basis as of December 31, 2018 and 2017. For the purpose of this disclosure, the investments in unquoted equity security classified as AFS financial assets in 2017 (see Note 8) amounting to P1,400.0, in the Group and Parent Company's financial statements, is measured at cost less impairment charges because the fair value cannot be reliably measured and therefore, are not included.

	<u>Note</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>December 31, 2018</u></b>					
Financial assets at FVOCI:					
Equity securities	8	P 1,240.2	P 1,231.9	P -	P 2,472.1
Debt securities		<u>1,119.8</u>	<u>-</u>	<u>-</u>	<u>1,119.8</u>
		<u>P 2,360.0</u>	<u>P 1,231.9</u>	<u>P -</u>	<u>P 3,591.9</u>
<b><u>December 31, 2017</u></b>					
AFS financial assets:					
Equity securities – quoted	8	P 2,067.0	P -	P -	P 2,067.0
Debt securities		<u>1,175.0</u>	<u>-</u>	<u>-</u>	<u>1,175.0</u>
		<u>P 3,242.0</u>	<u>P -</u>	<u>P -</u>	<u>P 3,242.0</u>

The Group and the Parent Company has no financial liabilities measured at fair value as of December 31, 2018 and 2017.

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

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

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

			Group			
	Notes		Level 1	Level 2	Level 3	Total
<b>December 31, 2018</b>						
<i>Financial assets:</i>						
Cash and cash equivalents	7	P	274.6	P -	P -	P 274.6
Loans and other receivables	9		-	-	33,668.7	33,668.7
			<u>P 274.6</u>	<u>P -</u>	<u>P 33,668.7</u>	<u>P 33,943.3</u>
<i>Financial liabilities:</i>						
Bills payable	14	P	-	P -	P 28,326.6	P 28,326.6
Accounts payable and other liabilities	15		-	-	539.8	539.8
Lease deposits	16		-	-	5,299.9	5,299.9
			<u>P -</u>	<u>P -</u>	<u>P 34,166.3</u>	<u>P 34,166.3</u>
<b>December 31, 2017</b>						
<i>Financial assets:</i>						
Cash and cash equivalents	7	P	457.7	P -	P -	P 457.7
Loans and other receivables	9		-	-	33,524.1	33,524.1
			<u>P 457.7</u>	<u>P -</u>	<u>P 33,524.1</u>	<u>P 33,981.8</u>
<i>Financial liabilities:</i>						
Bills payable	14	P	-	P -	P 30,341.7	P 30,341.7
Accounts payable and other liabilities	15		-	-	790.3	790.3
Lease deposits	16		-	-	4,869.5	4,869.5
			<u>P -</u>	<u>P -</u>	<u>P 36,001.5</u>	<u>P 36,001.5</u>
			Parent Company			
	Notes		Level 1	Level 2	Level 3	Total
<b>December 31, 2018</b>						
<i>Financial assets:</i>						
Cash and cash equivalents	7	P	228.5	P -	P -	P 228.5
Loans and other receivables	9		-	-	33,503.6	33,503.6
			<u>P 228.5</u>	<u>P -</u>	<u>P 33,503.6</u>	<u>P 33,732.1</u>
<i>Financial liabilities:</i>						
Bills payable	14	P	-	P -	P 26,088.1	P 26,088.1
Accounts payable and other liabilities	15		-	-	427.4	427.4
Lease deposits	16		-	-	5,218.7	5,218.7
			<u>P -</u>	<u>P -</u>	<u>P 31,734.2</u>	<u>P 31,734.2</u>

			Parent Company			
	Notes		Level 1	Level 2	Level 3	Total
<u>December 31, 2017</u>						
<i>Financial assets:</i>						
Cash and cash equivalents	7	P	376.8	P -	P -	P 376.8
Loans and other receivables	9		<u>-</u>	<u>-</u>	<u>33,406.0</u>	<u>33,406.0</u>
			<u>P 376.8</u>	<u>P -</u>	<u>P 33,406.0</u>	<u>P 33,782.8</u>
<u>December 31, 2017</u>						
<i>Financial liabilities:</i>						
Bills payable	14	P	-	P -	P 28,156.3	P 28,156.3
Accounts payable and other liabilities	15		-	-	586.5	586.5
Lease deposits	16		<u>-</u>	<u>-</u>	<u>4,805.0</u>	<u>4,805.0</u>
			<u>P -</u>	<u>P -</u>	<u>P 33,547.8</u>	<u>P 33,547.8</u>

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

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

(a) *Financial Instruments in Level 1*

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The Group acquired fixed rate corporate bonds classified as financial assets at FVOCI (previously AFS financial assets) and are carried at Level 1. The fair value of the bonds is determined to be the current mid-price, which is computed as the average of ask and bid prices as appearing on Bloomberg. As of December 31, 2018 and 2017, the Group also holds preferred shares which are listed in the PSE and are designated as financial assets at FVOCI (previously classified as AFS financial assets) and are also carried at Level 1. The quoted market prices used by the Group are the closing share prices of the said preferred shares in the PSE as of the reporting period.

(b) *Financial Instruments in Level 2*

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

(c) *Financial Instruments in Level 3*

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

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

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

		Group			
		Level 1	Level 2	Level 3	Total
<b>2018</b>					
Land	P	-	P	-	P 751.2
Building and improvements		-	-	52.1	52.1
	P	-	P	-	P 803.3
<b>2017</b>					
Land	P	-	P	-	P 670.5
Building and improvements		-	-	43.8	43.8
	P	-	P	-	P 714.3
		Parent Company			
		Level 1	Level 2	Level 3	Total
<b>2018</b>					
Land	P	-	P	-	P 525.1
Building and improvements		-	-	52.1	52.1
	P	-	P	-	P 577.2
<b>2017</b>					
Land	P	-	P	-	P 435.0
Building and improvements		-	-	43.8	43.8
	P	-	P	-	P 478.8

The fair value of the investment properties of the Group and Parent Company as of December 31, 2018 and 2017, under Level 3 measurement, was determined on the basis of a valuation carried out on the respective dates by either an independent or internal appraiser having appropriate qualifications and recent experience in the valuation of properties in the relevant locations. To some extent, the valuation process was conducted by the appraisers in discussion with the management of the Group and the Parent Company with respect to determination of the inputs such as size, age, and condition of the land and buildings and the comparable prices in the corresponding property location. In estimating the fair value of the properties, management takes into account the market participant's ability to generate economic benefits by using the assets in its highest and best use. Based on management's assessment, the best use of the investment properties of the Group and the Parent Company indicated above is their current use.



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

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

*(a) Fair Value Measurement for Land*

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

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

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

There has been no change to the valuation techniques during the year for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2018 and 2017.

**6.3 Offsetting of Financial Instruments**

Currently, all financial assets and financial liabilities are settled on a gross basis; however, each party of the lease agreement will have the option to settle such amount on a net basis in the event of default of the other party. As such, the Group and the Parent Company's residual value of leased assets amounting to P6,582.4 and P5,974.4 as of December 31, 2018 and 2017, respectively (see Note 9), can be offset by the amount of lease deposits amounting to P6,542.4 and P5,918.1 as of December 31, 2018 and 2017, respectively (see Note 16).

Moreover, the Group and the Parent Company's bills payable amounting to P226.2 and P1,414.9 as of December 31, 2018 and 2017, respectively, can be offset by the amount of financial assets at FVOCI with fair value of P1,240.1 and P2,066.6 as of December 31, 2018 and 2017, respectively, and certain loans receivables with carrying value amounting to P268.5 and P1,045.7, as of December 31, 2018 and 2017, respectively (see Notes 8 and 9).

## 7. CASH AND CASH EQUIVALENTS

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

	<b>Group</b>		<b>Parent Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Cash on hand and in banks	<b>P 270.3</b>	P 453.5	<b>P 224.2</b>	P 372.6
Cash equivalents	<b>4.3</b>	4.2	<b>4.3</b>	4.2
	<b><u>P 274.6</u></b>	<u>P 457.7</u>	<b><u>P 228.5</u></b>	<u>P 376.8</u>

Cash in banks earn interest at rates based on daily bank deposit rates. Cash equivalents represent a special savings account and time deposit with average maturity of 35 to 90 days and annual interest rates ranging from 0.25% to 2.63% in 2018, 0.3% to 1.5% in 2017 and 0.3% to 1.2% in 2016.

## 8. FINANCIAL ASSETS AT FVOCI (2018)/AFS FINANCIAL ASSETS (2017)

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

	<b>2018</b>	<b>2017</b>
Equity securities:		
Smart Communication Inc.		
perpetual notes (Smart Notes)	<b>P 1,400.0</b>	P 1,400.0
San Miguel Corporation		
preferred shares (SMC Shares)	<b>1,232.1</b>	1,232.1
First Gen Corp. Series "F"		
preferred shares (First Gen Shares)	-	680.0
Other equity investments	<b>0.8</b>	0.8
	<b><u>2,632.9</u></b>	<u>3,312.9</u>
Debt securities:		
8990 Holdings Inc. fixed rate bonds		
(8990 Holdings Bonds)	<b>937.2</b>	937.2
Sta. Lucia Land Inc. fixed rate bonds		
(Sta. Lucia Bonds)	<b>200.0</b>	200.0
	<b><u>1,137.2</u></b>	<u>1,137.2</u>
	<b>3,770.1</b>	4,450.1
Accumulated unrealized fair		
value gains (losses) – net	<b>( 190.7)</b>	179.4
Accrued interest receivable	<b>12.5</b>	12.5
	<b><u>P 3,591.9</u></b>	<u>P 4,642.0</u>

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

	<u>2018</u>	<u>2017</u>
Balance at beginning of year		
As previously stated	P -	P 3,521.6
Effect of adoption of PFRS 9 (see Note 2)	<u>4,642.0</u>	<u>-</u>
As restated	4,642.0	3,521.6
Redemption/maturity	( 680.0)	( 251.2)
Fair value losses - net	( 370.1)	( 28.4)
Additions	<u>-</u>	<u>1,400.0</u>
Balance at end of year	<u><b>P 3,591.9</b></u>	<u><b>P 4,642.0</b></u>

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

SMC Shares bear an annual dividend rate of 8.0%. The 8990 Holdings and Sta. Lucia Bonds carrying fixed rates of 6.2% and 6.7%, respectively, both with a term of five years and three months. The First Gen Shares carry a dividend rate of 8.0% per annum and are cumulative, non-voting, non-participating and non-convertible. In July 2018, the First Gen Shares was redeemed. No gain or loss was recognized by the Parent Company on the redemption.

Dividend income earned from these financial assets are recorded as Dividend income account under Other Income-net in the statements of income (see Note 18).

The Group and the Parent Company recognized fair value losses of P370.1, P28.4, P4.7 in 2018, 2017, and 2016, respectively. From January 1, 2018, fair value losses are recorded as part of items that will not be reclassified subsequently to profit or loss in the statements of comprehensive income, except for debt securities wherein fair value losses are recorded as part of items that will be reclassified subsequently to profit or loss. The fair values of these financial assets have been determined based on quoted prices in active markets (see Note 6).

As part of the Group's transition to PFRS 9, the Group recognized an impairment loss for debt securities which was credited to the balance of Net Unrealized Fair Value Gains (Losses) on Financial Assets at FVOCI account as at January 1, 2018 amounting to P1.2 [see Note 2.1(b)]. During 2018, the Group recognized an additional impairment loss on financial assets at FVOCI amounting to P0.8, which is presented as part of Impairment and credit losses account under Operating Costs and Expenses in the statement of income and are offset to the fair value losses on debt instruments at FVOCI under items that are reclassified subsequently to profit or loss in the statement of comprehensive income.

The Group and the Parent Company recognized a gain on disposal of AFS financial assets amounting to P1.5 in 2016, which is recorded as part of Miscellaneous under Other Income (see Note 18). There was no disposal of financial assets in 2018 and 2017.

Certain financial assets with face amount of P1,232.1 and P1,912.1 as of December 31, 2018 and 2017, respectively, were used as collateral to secure the payment of certain bills payable (see Note 14).

## 9. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	<b>Group</b>		<b>Parent Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Receivables from customers:				
Finance lease receivables	<b>P 15,351.4</b>	P 13,951.7	<b>P 15,351.4</b>	P 13,951.7
Residual value of leased assets	<b>6,582.4</b>	5,974.4	<b>6,582.4</b>	5,974.4
Unearned leased income	<b>( 1,618.6)</b>	( 1,361.1)	<b>( 1,618.6)</b>	( 1,361.1)
	<b><u>20,315.2</u></b>	<u>18,565.0</u>	<b><u>20,315.2</u></b>	<u>18,565.0</u>
Loans and receivables financed	<b>14,299.2</b>	16,022.8	<b>14,299.2</b>	16,022.8
Unearned finance income	<b>( 29.2)</b>	( 19.4)	<b>( 29.2)</b>	( 19.4)
Client's equity	<b>( 31.6)</b>	( 33.3)	<b>( 31.6)</b>	( 33.3)
	<b><u>14,238.4</u></b>	<u>15,970.1</u>	<b><u>14,238.4</u></b>	<u>15,970.1</u>
Other receivables:				
Accounts receivable	<b>209.7</b>	297.8	<b>55.4</b>	188.4
Accrued interest receivable	<b>63.9</b>	97.6	<b>63.9</b>	97.6
Sales contract receivable	<b>33.1</b>	36.1	<b>33.1</b>	36.1
Dividends receivable	<b>32.1</b>	55.5	<b>32.1</b>	55.5
Accrued rental receivable	<b>11.0</b>	8.7	<b>-</b>	-
	<b><u>349.8</u></b>	<u>495.7</u>	<b><u>184.5</u></b>	<u>377.6</u>
	<b>34,903.4</b>	35,030.8	<b>34,738.1</b>	34,912.7
Allowance for impairment	<b>( 550.8)</b>	( 706.1)	<b>( 550.6)</b>	( 706.1)
	<b><u>P 34,352.6</u></b>	<u>P 34,324.7</u>	<b><u>P 34,187.5</u></b>	<u>P 34,206.6</u>

As of December 31, 2018 and 2017, 83.4% and 82.6%, respectively, of the total receivables from customers of the Group are subject to periodic interest repricing. Remaining receivables from customers earn annual fixed interest rates ranging from 5.0% to 16.5% in 2018, 4.0% to 17.7% in 2017 and 4.0% to 19.6% in 2016.

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

	<b>Group</b>		<b>Parent Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Secured				
Chattel mortgage	<b>P 22,517.4</b>	P 20,674.0	<b>P 22,517.4</b>	P 20,674.0
Real estate mortgage	<b>2,144.7</b>	2,492.2	<b>2,144.7</b>	2,492.2
Others	<b>163.9</b>	245.8	<b>163.9</b>	245.8
	<b><u>24,826.0</u></b>	<u>23,412.0</u>	<b><u>24,826.0</u></b>	<u>23,412.0</u>
Unsecured	<b><u>9,526.6</u></b>	<u>10,912.7</u>	<b><u>9,361.5</u></b>	<u>10,794.6</u>
	<b><u>P 34,352.6</u></b>	<u>P 34,324.7</u>	<b><u>P 34,187.5</u></b>	<u>P 34,206.6</u>

An analysis of the Group's and Parent Company's finance lease receivables as of December 31, 2018 and 2017 is shown below.

	<u>2018</u>	<u>2017</u>
Maturity of gross investment in:		
Finance lease receivables		
Within one year	<b>P 1,336.8</b>	P 1,589.9
Beyond one year but not beyond five years	<b>13,960.5</b>	12,341.2
Beyond five years	<u>54.1</u>	<u>20.6</u>
	<u><b>15,351.4</b></u>	<u>13,951.7</u>
Maturity of gross investment in:		
Residual value of leased assets		
Within one year	<b>1,749.2</b>	1,862.9
Beyond one year but not beyond five years	<b>4,828.5</b>	4,106.8
Beyond five years	<u>4.7</u>	<u>4.7</u>
	<u><b>6,582.4</b></u>	<u>5,974.4</u>
Gross finance lease receivables	<b>21,933.8</b>	19,926.1
Unearned lease income	<u>(1,618.6)</u>	<u>(1,361.1)</u>
Net investment in finance lease receivables	<u><b>P 20,315.2</b></u>	<u>P 18,565.0</u>

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

	<u>2018</u>	<u>2017</u>
Due within one year	<b>P 3,011.2</b>	P 3,370.8
Due beyond one year but not beyond five years	<b>17,255.2</b>	15,172.4
Beyond five years	<u>48.8</u>	<u>21.8</u>
	<u><b>P 20,315.2</b></u>	<u>P 18,565.0</u>

Past due finance lease receivables amounted to P416.0 and P475.8 as of December 31, 2018 and 2017, respectively.

An analysis of the Group's and Parent Company's loans and receivables financed follows:

	<u>2018</u>	<u>2017</u>
Due within one year	<b>P 1,983.7</b>	P 1,793.2
Due beyond one year but not beyond five years	<b>6,217.3</b>	8,227.2
Beyond five years	<u>6,037.4</u>	<u>5,949.7</u>
	<u><b>P 14,238.4</b></u>	<u>P 15,970.1</u>

Past due loans and receivables financed amounted to P688.2 and P411.2 as of December 31, 2018 and 2017, respectively.

An analysis of other receivables follows:

	<b>Group</b>		<b>Parent Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Within one year	<b>P 317.3</b>	P 460.1	<b>P 152.0</b>	P 342.0
Beyond one year	<b>32.5</b>	35.6	<b>32.5</b>	35.6
	<b><u>P 349.8</u></b>	<u>P 495.7</u>	<b><u>P 184.5</u></b>	<u>P 377.6</u>

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

	<b>Group</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Loans and receivable financed	<b>P 998.4</b>	P 979.3	P 834.4
Finance lease receivables	<b>895.2</b>	853.5	835.8
Financial assets at FVOCI	<b>71.6</b>	-	-
Interest on defined benefit plan	<b>1.3</b>	3.1	3.1
Cash and cash equivalents	<b>0.6</b>	0.8	0.8
AFS financial assets	<b>-</b>	<b>81.6</b>	<b>86.6</b>
	<b><u>P 1,967.1</u></b>	<u>P 1,918.3</u>	<u>P 1,760.7</u>

  

	<b>Parent Company</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Loans and receivables financed	<b>P 998.0</b>	P 978.9	P 834.1
Finance lease receivables	<b>895.2</b>	853.5	835.8
Financial assets at FVOCI	<b>71.6</b>	-	-
Interest on defined benefit plan	<b>1.3</b>	3.1	3.1
Cash and cash equivalents	<b>0.6</b>	0.8	0.8
AFS financial assets	<b>-</b>	<b>81.6</b>	<b>86.6</b>
	<b><u>P 1,966.7</u></b>	<u>P 1,917.9</u>	<u>P 1,760.4</u>

Interest income recognized on impaired loans and receivables amounted to P10.3 in 2018, P8.2 in 2017 and P9.8 in 2016.

The changes in the allowance or impairment are summarized below.

	<b>Group</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Balance at beginning of year			
As previously reported	<b>P 706.1</b>	P 629.0	P 580.1
Effect of adoption of PFRS 9 (see Note 2)	<b>( 144.8)</b>	-	-
As restated	<b>561.3</b>	629.0	580.1
Reversal of impairment losses	<b>( 10.4)</b>	-	-
Impairment losses during the year	<b>0.2</b>	63.5	50.0
Accounts written-off	<b>( 0.3)</b>	( 0.3)	( 1.1)
Reclassification (see Note 11)	<b>-</b>	<b>13.9</b>	-
Balance at end of year	<b><u>P 550.8</u></b>	<u>P 706.1</u>	<u>P 629.0</u>

	<b>Parent Company</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Balance at beginning of year			
As previously reported	<b>P 706.1</b>	P 629.0	P 580.1
Effect of adoption of PFRS 9 (see Note 2)	<b>( 144.8)</b>	-	-
As restated	<b>561.3</b>	629.0	580.1
Reversal of impairment losses	<b>( 10.4)</b>	-	-
Accounts written-off	<b>( 0.3)</b>	( 0.3)	( 1.1)
Impairment losses during the year	-	63.5	50.0
Reclassification (see Note 11)	-	13.9	-
Balance at end of year	<b>P 550.6</b>	P 706.1	P 629.0

Certain loans and receivables with carrying amount of P268.5 and P1,045.7 as of December 31, 2018 and 2017, respectively, were used as collateral to secure the payment of certain bills payable (see Note 14).

In 2018 and 2017, the BOD approved the write-off of certain loans and receivable financed and finance lease receivables with a total carrying amount of P0.3 for each year.

## 10. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of 2018 and 2017 are shown below.

	<b>Transportation and Other Equipment</b>	<b>Furniture, Fixtures and Others</b>	<b>Leasehold Improvements</b>	<b>Total</b>
<b><u>Group</u></b>				
December 31, 2018				
Cost	<b>P 4,439.4</b>	<b>P 47.6</b>	<b>P 1.3</b>	<b>P 4,488.3</b>
Accumulated depreciation and amortization	<b>( 2,193.4)</b>	<b>( 38.7)</b>	<b>( 1.3)</b>	<b>( 2,233.4)</b>
Net carrying amount	<b>P 2,246.0</b>	<b>P 8.9</b>	<b>P -</b>	<b>P 2,254.9</b>
December 31, 2017				
Cost	P 4,385.5	P 41.4	P 1.3	P 4,428.2
Accumulated depreciation and amortization	( 2,136.0)	( 34.7)	( 0.9)	( 2,171.6)
Net carrying amount	P 2,249.5	P 6.7	P 0.4	P 2,256.6
January 1, 2017				
Cost	P 4,015.8	P 35.3	P 20.0	P 4,071.1
Accumulated depreciation and amortization	( 1,640.9)	( 29.8)	( 19.2)	( 1,689.9)
Net carrying amount	P 2,374.9	P 5.5	P 0.8	P 2,381.2
<b><u>Parent Company</u></b>				
December 31, 2018				
Cost	<b>P -</b>	<b>P 47.6</b>	<b>P 1.3</b>	<b>P 48.9</b>
Accumulated depreciation and amortization	-	<b>( 38.7)</b>	<b>( 1.3)</b>	<b>( 40.0)</b>
Net carrying amount	<b>P -</b>	<b>P 8.9</b>	<b>P -</b>	<b>P 8.9</b>
December 31, 2017				
Cost	P -	P 41.4	P 1.3	P 42.7
Accumulated depreciation and amortization	-	( 34.7)	( 0.9)	( 35.6)
Net carrying amount	P -	P 6.7	P 0.4	P 7.1

	Transportation and Other Equipment	Furniture, Fixtures and Others	Leasehold Improvements	Total
January 1, 2017				
Cost	P -	P 35.3	P 20.0	P 55.3
Accumulated depreciation and amortization	<u>-</u>	<u>( 29.8)</u>	<u>( 19.2)</u>	<u>( 49.0)</u>
Net carrying amount	<u>P -</u>	<u>P 5.5</u>	<u>P 0.8</u>	<u>P 6.3</u>

A reconciliation of the carrying amounts of property and equipment at the beginning and end of 2018 and 2017 is shown below.

	Transportation and Other Equipment	Furniture, Fixtures and Others	Leasehold Improvements	Total
<b>Group</b>				
Balance at January 1, 2018, net of accumulated depreciation and amortization	<b>P 2,249.5</b>	<b>P 6.7</b>	<b>P 0.4</b>	<b>P 2,256.6</b>
Additions	<b>888.9</b>	<b>6.2</b>	<b>-</b>	<b>895.1</b>
Disposals	<b>( 107.1)</b>	<b>-</b>	<b>-</b>	<b>( 107.1)</b>
Reclassifications (see Notes 12.6 and 12.7)	<b>76.1</b>	<b>-</b>	<b>-</b>	<b>76.1</b>
Depreciation and amortization charges for the year	<b>( 861.4)</b>	<b>( 4.0)</b>	<b>( 0.4)</b>	<b>( 865.8)</b>
Balance at December 31, 2018, net of accumulated depreciation and amortization	<b><u>P 2,246.0</u></b>	<b><u>P 8.9</u></b>	<b><u>P -</u></b>	<b><u>P 2,254.9</u></b>
Balance at January 1, 2017, net of accumulated depreciation and amortization	P 2,374.9	P 5.5	P 0.8	P 2,381.2
Additions	776.5	6.1	-	782.6
Disposals	( 82.7)	-	-	( 82.7)
Reclassifications (see Note 12.6)	( 4.7)	-	-	( 4.7)
Depreciation and amortization charges for the year	<b>( 814.5)</b>	<b>( 4.9)</b>	<b>( 0.4)</b>	<b>( 819.8)</b>
Balance at December 31, 2017, net of accumulated depreciation and amortization	<b><u>P 2,249.5</u></b>	<b><u>P 6.7</u></b>	<b><u>P 0.4</u></b>	<b><u>P 2,256.6</u></b>

**Parent Company**

Balance at January 1, 2018, net of accumulated depreciation and amortization	<b>P -</b>	<b>P 6.7</b>	<b>P 0.4</b>	<b>P 7.1</b>
Additions	<b>-</b>	<b>6.2</b>	<b>-</b>	<b>6.2</b>
Depreciation and amortization charges for the year	<b>-</b>	<b>( 4.0)</b>	<b>( 0.4)</b>	<b>( 4.4)</b>
Balance at December 31, 2018, net of accumulated depreciation and amortization	<b><u>P -</u></b>	<b><u>P 8.9</u></b>	<b><u>P -</u></b>	<b><u>P 8.9</u></b>



	<u>Transportation and Other Equipment</u>	<u>Furniture, Fixtures and Others</u>	<u>Leasehold Improvements</u>	<u>Total</u>
<b><u>Parent Company</u></b>				
Balance at January 1, 2017, net of accumulated depreciation and amortization	P -	P 5.5	P 0.8	P 6.3
Additions	-	6.1	-	6.1
Depreciation and amortization charges for the year	<u>-</u>	<u>( 4.9)</u>	<u>( 0.4)</u>	<u>( 5.3)</u>
Balance at December 31, 2017, net of accumulated depreciation and amortization	<u>P -</u>	<u>P 6.7</u>	<u>P 0.4</u>	<u>P 7.1</u>

The cost of fully depreciated assets that are still being used in operations amounted to P33.2 and P51.7 for the Group as of December 31, 2018 and 2017, respectively, and P33.2 and P20.9 for the Parent Company as of December 31, 2018 and 2017, respectively.

Depreciation and amortization charges for 2018, 2017 and 2016 are included as part of Occupancy and Equipment-related Expenses account in the statements of income.

As of December 31, 2018 and 2017, the net book value of transportation and other equipment leased out by the Group (nil for the Parent Company) under operating lease arrangements amounted to P2,246.0 and P2,249.5, respectively.

In 2018, 2017 and 2016, the Group disposed of certain equipment with carrying value of P107.1, P82.7 and P51.1, respectively, resulting in a gain on sale of P24.8, P6.0 and P10.7, respectively (see Note 18).

## 11. INVESTMENT PROPERTIES

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

The carrying amounts and accumulated depreciation at the beginning and end of 2018 and 2017 are shown below and in the succeeding pages.

	<u>Land</u>	<u>Building and Improvements</u>	<u>Total</u>
<b><u>Group</u></b>			
December 31, 2018			
Cost	P 358.4	P 40.0	P 398.4
Accumulated depreciation and amortization	-	( 19.6)	( 19.6)
Accumulated impairment	<u>( 23.4)</u>	<u>( 0.9)</u>	<u>( 24.3)</u>
Net carrying amount	<u>P 335.0</u>	<u>P 19.5</u>	<u>P 354.5</u>

	<u>Land</u>	<u>Building and Improvements</u>	<u>Total</u>
<b><u>Group</u></b>			
December 31, 2017			
Cost	P 369.9	P 38.9	P 408.8
Accumulated depreciation and amortization	-	( 29.0)	( 29.0)
Accumulated impairment	( 24.5)	( 0.9)	( 25.4)
Net carrying amount	<u>P 345.4</u>	<u>P 9.0</u>	<u>P 354.4</u>
January 1, 2017			
Cost	P 462.5	P 63.5	P 526.0
Accumulated depreciation and amortization	-	( 54.4)	( 54.4)
Accumulated impairment	( 44.5)	( 0.6)	( 45.1)
Net carrying amount	<u>P 418.0</u>	<u>P 8.5</u>	<u>P 426.5</u>
<b><u>Parent Company</u></b>			
December 31, 2018			
Cost	P 132.3	P 40.0	P 172.3
Accumulated depreciation and amortization	-	( 19.6)	( 19.6)
Accumulated impairment	( 23.4)	( 0.9)	( 24.3)
Net carrying amount	<u>P 108.9</u>	<u>P 19.5</u>	<u>P 128.4</u>
December 31, 2017			
Cost	P 143.8	P 38.9	P 182.7
Accumulated depreciation and amortization	-	( 29.0)	( 29.0)
Accumulated impairment	( 24.5)	( 0.9)	( 25.4)
Net carrying amount	<u>P 119.3</u>	<u>P 9.0</u>	<u>P 128.3</u>
January 1, 2017			
Cost	P 236.4	P 63.5	P 299.9
Accumulated depreciation and amortization	-	( 54.4)	( 54.4)
Accumulated impairment	( 44.5)	( 0.6)	( 45.1)
Net carrying amount	<u>P 191.9</u>	<u>P 8.5</u>	<u>P 200.4</u>

A reconciliation of the carrying amounts at the beginning and end of 2018 and 2017 of investment properties is shown below.

	<u>Land</u>	<u>Building and Improvements</u>	<u>Total</u>
<b><u>Group</u></b>			
Balance at January 1, 2018, net of accumulated depreciation and amortization and impairment	P 345.4	P 9.0	P 354.4
Additions	0.8	13.9	14.7
Disposals	( 11.6)	( 1.6)	( 13.2)
Reclassifications (see Note 12.5)	0.4	-	0.4
Depreciation and amortization charges for the year	-	( 1.8)	( 1.8)
Balance at December 31, 2018, net of accumulated depreciation and amortization and impairment	<u>P 335.0</u>	<u>P 19.5</u>	<u>P 354.5</u>

	<u>Land</u>	<u>Building and Improvements</u>	<u>Total</u>
<b><u>Group</u></b>			
Balance at January 1, 2017, net of accumulated depreciation and amortization and impairment	P 418.0	P 8.5	P 426.5
Additions	1.0	3.7	4.7
Disposals	( 93.6)	( 0.4)	( 94.0)
Reclassifications	20.0	( 0.3)	19.7
Depreciation and amortization charges for the year	<u>-</u>	<u>( 2.5)</u>	<u>( 2.5)</u>
Balance at December 31, 2017, net of accumulated depreciation and amortization and impairment	<u>P 345.4</u>	<u>P 9.0</u>	<u>P 354.4</u>
<b><u>Parent Company</u></b>			
Balance at January 1, 2018, net of accumulated depreciation and amortization and impairment	P 119.3	P 9.0	P 128.3
Additions	0.8	13.9	14.7
Disposals	( 11.6)	( 1.6)	( 13.2)
Reclassifications (see Note 12.5)	0.4	-	0.4
Depreciation and amortization charges for the year	<u>-</u>	<u>( 1.8)</u>	<u>( 1.8)</u>
Balance at December 31, 2018, net of accumulated depreciation and amortization and impairment	<u>P 108.9</u>	<u>P 19.5</u>	<u>P 128.4</u>
Balance at January 1, 2017, net of accumulated depreciation and amortization and impairment	P 191.9	P 8.5	P 200.4
Additions	1.0	3.7	4.7
Reclassifications	20.0	( 0.3)	19.7
Disposals	( 93.6)	( 0.4)	( 94.0)
Depreciation and amortization charges for the year	<u>-</u>	<u>( 2.5)</u>	<u>( 2.5)</u>
Balance at December 31, 2017, net of accumulated depreciation and amortization and impairment	<u>P 119.3</u>	<u>P 9.0</u>	<u>P 128.3</u>

The appraised values of the investment properties as of December 31, 2018 and 2017 follow (see Note 6.2.4):

	<u><b>Group</b></u>	
	<u><b>2018</b></u>	<u>2017</u>
Land	<b>P 751.2</b>	P 670.5
Building and improvements	<u><b>52.1</b></u>	<u>43.8</u>
	<u><b>P 803.3</b></u>	<u>P 714.3</u>

		<b>Parent Company</b>	
		<b>2018</b>	<b>2017</b>
Land	<b>P</b>	<b>525.1</b>	P 435.0
Building and improvements		<b>52.1</b>	<b>43.8</b>
	<b>P</b>	<b>577.2</b>	P 478.8

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

Direct operating expenses incurred, such as real property taxes, insurance and security services, amounted to P4.7, P4.2 and P4.9 in 2018, 2017 and 2016, respectively, by the Group, and P3.1, P1.3 and P1.5 in 2018, 2017 and 2016, respectively, by the Parent Company, and was recognized as part of Other Expenses account under Operating Costs and Expenses in the Group's and Parent Company's statements of income.

Depreciation and amortization charges amounting to P1.8, P2.5 and P3.9 for 2018, 2017 and 2016, respectively, are included as part of Occupancy and Equipment-related Expenses account in the statements of income. There were no impairment losses recognized in 2018, 2017 and 2016.

Gain on sale of investment properties of the Parent Company, recorded as Gain on sale of investment properties as part of Other Income, amounted to P17.4, P59.1, and P9.5 in 2018, 2017 and 2016, respectively (see Note 18).

## 12. OTHER ASSETS

Other assets consist of the following:

		<b>Group</b>		<b>Parent Company</b>	
		<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Deferred input VAT	12.1	<b>P 259.7</b>	P 269.1	P -	P -
Equity investments	12.2	<b>235.3</b>	266.6	<b>721.0</b>	797.8
Deferred tax assets – net	22	<b>126.2</b>	110.1	<b>126.2</b>	110.1
Prepaid expenses	12.3	<b>40.4</b>	27.8	<b>40.2</b>	27.6
Retirement benefit asset	20	<b>26.3</b>	25.8	<b>26.3</b>	25.8
Intangible assets – net	12.4	<b>15.5</b>	29.4	<b>15.5</b>	29.4
Non-current assets					
held-for-sale - net	12.5	<b>3.6</b>	9.8	<b>3.6</b>	9.8
Repossessed chattels and					
other equipment - net	12.6	<b>0.5</b>	4.7	-	-
Miscellaneous – net	12.7	<b>4.2</b>	62.9	<b>3.9</b>	3.9
		<b>P 711.7</b>	P 806.2	<b>P 936.7</b>	P 1,004.4

The current and non-current portion of this account is shown below:

	<b>Group</b>		<b>Parent Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Current	<b>P 151.8</b>	P 137.9	<b>P 58.8</b>	P 39.3
Non-current	<b>559.9</b>	668.3	<b>877.9</b>	965.1
	<b><u>P 711.7</u></b>	<u>P 806.2</u>	<b><u>P 936.7</u></b>	<u>P 1,004.4</u>

### 12.1 Deferred Input VAT

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

### 12.2 Equity Investments

Equity investments consist of the following:

		<b>Group</b>		<b>Parent Company</b>	
	<b>% Interest Held</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Subsidiary – BDO Rental	100%	<b>P -</b>	P -	<b>P 485.7</b>	P 531.2
Associate – MMPC Auto Financial Services Corp. (MAFSC)	40%	<b>235.3</b>	266.6	<b>235.3</b>	266.6
		<b><u>P 235.3</u></b>	<u>P 266.6</u>	<b><u>P 721.0</u></b>	<u>P 797.8</u>

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

	<b>Subsidiary</b>		<b>Associate</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Acquisition costs	<b>P 250.0</b>	P 250.0	<b>P 300.0</b>	P 300.0
Accumulated equity in total comprehensive income:				
Balance at beginning of year, as previously reported	<b>281.2</b>	380.9	<b>( 33.4)</b>	( 19.9)
Share on adjustments due to the adoption of PFRS 9	<b>-</b>	-	<b>7.3</b>	-
Balance at beginning of year, as restated	<b>281.2</b>	380.9	<b>( 26.1)</b>	( 19.9)
Dividend income	<b>( 35.0)</b>	( 120.0)	<b>-</b>	-
Share in net profit (loss)	<b>( 10.5)</b>	20.3	<b>( 39.0)</b>	( 20.0)
Share in other comprehensive income	<b>-</b>	-	<b>0.4</b>	-
Share in 2016 net operating loss carry-over	<b>-</b>	-	<b>-</b>	6.5
	<b><u>235.7</u></b>	<u>281.2</u>	<b><u>( 64.7)</u></b>	<u>( 33.4)</u>
	<b><u>P 485.7</u></b>	<u>P 531.2</u>	<b><u>P 235.3</u></b>	<u>P 266.6</u>

As of December 31, 2018 and 2017, the Parent Company holds 250 million common shares of BDO Rental representing 100% ownership.

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

MAFSC started its commercial operations on June 1, 2016. The Parent Company owns 40% of MAFSC by making a capital contribution of P300.0 and has exercised significant influence over MAFSC in 2016. The Parent Company recognized share in MAFSC's net loss in 2018 and 2017 and is presented as part of Miscellaneous under Other Income account in the Parent Company's statements of income (see Note 18).

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

	<u>Total Assets</u>	<u>Total Liabilities</u>	<u>Revenues</u>	<u>Net Loss</u>
<b><u>December 31, 2018</u></b>				
BDO Rental	<u>P 2,944.1</u>	<u>P 2,458.4</u>	<u>P 974.1</u>	<u>(P 10.5)</u>
MAFSC	<u>P 7,727.9</u>	<u>P 7,139.6</u>	<u>P 789.2</u>	<u>(P 97.6)</u>
	<u>Total Assets</u>	<u>Total Liabilities</u>	<u>Revenues</u>	<u>Net Profit (Loss)</u>
<b><u>December 31, 2017</u></b>				
BDO Rental	<u>P 3,007.7</u>	<u>P 2,476.5</u>	<u>P 922.2</u>	<u>P 20.3</u>
MAFSC	<u>P 3,719.1</u>	<u>P 3,052.6</u>	<u>P 224.3</u>	<u>(P 50.1)</u>

A reconciliation of the above summarized financial information to the carrying amount of the investment in MAFSC is shown below.

	<u>2018</u>	<u>2017</u>
Net asset of MAFSC	<b>P 588.3</b>	P 666.5
Proportion of ownership interest	<u>40%</u>	<u>40%</u>
	<b><u>P 235.3</u></b>	<b><u>P 266.6</u></b>

In 2018 and 2017, the Group and Parent Company have assessed that no impairment loss is necessary to be recognized for the equity investments.

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

In 2017, creditable withholding taxes of BDO Rental, Inc. amounting to P109.2, previously part of Prepaid Expenses, have been reclassified to Accounts receivable (see Note 9). There was no similar transaction in 2018.

## 12.4 Intangible Assets

Intangible Assets represent the unamortized cost of the leasing system of the Parent Company that was used starting 2015. Amortization expense on intangible assets amounted to P13.9, P13.9, and P13.5 in 2018, 2017, and 2016, respectively, and is included as part of Occupancy and Equipment-related Expenses account in the statements of income.

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

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

	<u>2018</u>	<u>2017</u>
Cost	<b>P 5.8</b>	P 15.5
Accumulated impairment	<b>( 2.2)</b>	( 5.7)
	<b><u>P 3.6</u></b>	<b><u>P 9.8</u></b>

A reconciliation of the carrying amounts of non-current assets held-for-sale at the beginning and end of 2018 and 2017 is shown below.

	<u>2018</u>	<u>2017</u>
Balance at January 1, net of accumulated impairment	<b>P 9.8</b>	P 0.4
Additions	<b>1.3</b>	16.4
Disposals	<b>( 7.1)</b>	( 1.3)
Reclassifications (see Note 11)	<b>( 0.4)</b>	( 5.7)
Balance at December 31, net of accumulated impairment	<b><u>P 3.6</u></b>	<b><u>P 9.8</u></b>

## 12.6 Repossessed Chattels and Other Equipment

Repossessed chattels and other equipment of the Group include certain transportation equipment returned to BDO Rental which were reclassified from property and equipment to other assets at year-end (see Note 10). As of December 31, 2018 and 2017, the Parent Company had no remaining repossessed chattels and other equipment.

No depreciation expense and impairment loss was recognized on repossessed chattels and other equipment in 2018, 2017 and 2016.

## 12.7 Miscellaneous Assets

In 2017, Miscellaneous assets includes computer equipment and licenses amounting to P58.8, which are not yet fully installed and operational. In March 2018, the Group purchased additional computer equipment and licenses amounting to P18.0. In July 2018, such computer equipment and licenses were reclassified from other assets to property and equipment (see Note 10), and were leased out by the Group under an operating lease agreement with BDO Nomura Securities, Inc. (BDO Nomura) [see Note 21(n)].

### 13. ALLOWANCE FOR IMPAIRMENT

Changes in the allowance for impairment are summarized below.

	Notes	Group		Parent Company	
		2018	2017	2018	2017
Balance at beginning of year:					
Loans and other receivables	9	P 706.1	P 629.0	P 706.1	P 629.0
Investment properties	11	25.4	45.1	25.4	45.1
Other assets	12.5	5.7	0.1	5.7	0.1
Balance before adoption of PFRS 9		737.2	674.2	737.2	674.2
Effect of adoption of PFRS 9	2.2(ii)	(144.8)	-	(144.8)	-
Balance as restated		592.4	674.2	592.4	674.2
Reversals		(10.4)	-	(10.4)	-
Adjustments		(4.6)	(28.1)	(4.6)	(28.1)
Write-offs		(0.3)	(0.3)	(0.3)	(0.3)
Impairment losses - net		0.2	63.5	-	63.5
Reclassification		-	27.9	-	27.9
		(15.1)	63.0	(15.3)	63.0
Balance at end of year:					
Loans and other receivables	9	550.8	706.1	550.6	706.1
Investment properties	11	24.3	25.4	24.3	25.4
Other assets	12.5	2.2	5.7	2.2	5.7
		P 577.3	P 737.2	P 577.1	P 737.2

### 14. BILLS PAYABLE

This account consists of:

	Group		Parent Company	
	2018	2017	2018	2017
Borrowings from:				
Banks	P 25,452.6	P 19,783.2	P 23,207.6	P 17,592.2
Others	3,385.5	10,626.9	3,385.5	10,626.9
Accrued interest	139.7	68.2	130.8	59.2
	P 28,977.8	P 30,478.3	P 26,723.9	P 28,278.3

The maturity profile of this account is presented below.

	Group		Parent Company	
	2018	2017	2018	2017
Within one year	P 27,161.9	P 30,075.8	P 24,908.0	P 27,875.8
Beyond one year	1,815.9	402.5	1,815.9	402.5
	P 28,977.8	P 30,478.3	P 26,723.9	P 28,278.3



Bills payable to banks represent peso borrowings from local banks (including BDO Unibank as of December 31, 2018, 2017 and 2016 – see Note 21), with annual interest rates ranging from 3.1% to 7.2% in 2018, 2.2% to 3.5% in 2017, and 2.2% to 3.3% in 2016. As of December 31, 2018, 2017 and 2016, bills payable – others represent short-term notes issued to corporate investors, with annual interest rates ranging from 5.0% to 6.7%, 2.5% to 3.3% and 2.3% to 2.7% in 2018, 2017 and 2016, respectively. These rates approximate prevailing market rates. As of December 31, 2018 and 2017, bills payable amounting to P226.2 and P1,414.9, respectively, are secured by the Group's financial assets at FVOCI (2018)/AFS Financial Assets (2017) with face amount of P1,232.1 and P1,912.1 as of December 31, 2018 and 2017, respectively, and certain loans receivables with carrying value amounting to P268.5 and P1,045.7, as of December 31, 2018 and 2017, respectively (see Notes 8 and 9).

Interest and financing charges consist of interest on:

	Note	2018	2017	2016
<b><u>Group</u></b>				
Bills payable - banks		P 850.1	P 487.8	P 259.7
Bills payable - others		314.5	356.7	408.6
Amortization on lease deposits	16	5.6	3.8	3.3
Others		-	2.0	1.9
		<u>P 1,170.2</u>	<u>P 850.3</u>	<u>P 673.5</u>
<b><u>Parent Company</u></b>				
Bills payable - banks		P 758.9	P 424.9	P 206.4
Bills payable - others		314.5	356.7	408.6
Amortization on lease deposits	16	1.4	0.4	0.8
Others		-	2.0	1.9
		<u>P 1,074.8</u>	<u>P 784.0</u>	<u>P 617.7</u>

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

	<u>Group</u>	<u>Parent Company</u>
Balance as of January 1, 2018	P 30,478.3	P 28,278.3
Cash flows from financing activities:		
Repayments of bills payable	( 174,115.4)	( 161,900.3)
Additional borrowings	<u>172,614.9</u>	<u>160,345.9</u>
Balance at December 31, 2018	<u>P 28,977.8</u>	<u>P 26,723.9</u>
Balance as of January 1, 2017	P 27,268.1	P 25,312.1
Cash flows from financing activities:		
Additional borrowings	166,621.1	159,093.9
Repayments of bills payable	<u>( 163,410.9)</u>	<u>( 156,127.7)</u>
Balance at December 31, 2017	<u>P 30,478.3</u>	<u>P 28,278.3</u>

## 15. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities consist of the following:

	<b>Group</b>		<b>Parent Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Accounts payable	<b>P 433.6</b>	P 628.4	<b>P 325.5</b>	P 431.0
Unapplied advance payments	<b>74.0</b>	133.5	<b>69.6</b>	131.7
Accrued taxes and other expenses	<b>24.6</b>	61.6	<b>23.5</b>	61.5
Withholding taxes payable	<b>22.7</b>	26.0	<b>21.7</b>	24.0
Other liabilities	<b>32.2</b>	28.4	<b>32.3</b>	23.8
	<b><u>P 587.1</u></b>	<u>P 877.9</u>	<b><u>P 472.6</u></b>	<u>P 672.0</u>

Accounts payable include amount payable to BDO Unibank of P8.7 as of December 31, 2018, representing the Group's liability arising from the stock option plan offered to the Group's employees. There are no related payable arising from this transaction in 2017 [see Notes 2.18(e)].

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

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

## 16. LEASE DEPOSITS

This account represents deposits on:

	<b>Group</b>		<b>Parent Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Finance leases	<b>P 6,542.4</b>	P 5,918.1	<b>P 6,542.4</b>	P 5,918.1
Operating leases	<b>89.9</b>	70.5	<b>-</b>	-
	<b><u>P 6,632.3</u></b>	<u>P 5,988.6</u>	<b><u>P 6,542.4</u></b>	<u>P 5,918.1</u>

The current and non-current portion of this account is shown below:

	<b>Group</b>		<b>Parent Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Current	<b>P 1,678.3</b>	P 1,854.6	<b>P 1,656.2</b>	P 1,829.6
Non-current	<b>4,954.0</b>	4,134.0	<b>4,886.2</b>	4,088.5
	<b><u>P 6,632.3</u></b>	<u>P 5,988.6</u>	<b><u>P 6,542.4</u></b>	<u>P 5,918.1</u>

Interest expense on lease deposits accrued using the effective interest method in the Group's financial statements amounted to P5.6, P3.8 and P3.3 in 2018, 2017 and 2016 respectively, and P1.4, P0.4 and P0.8 in 2018, 2017 and 2016, respectively, in the Parent Company's financial statements (see Note 14). These are included as part of Interest and Financing Charges under Operating Costs and Expenses in the Group and Parent Company's statements of income.

## 17. EQUITY

### 17.1 Capital Management Objectives, Policies and Procedures

The Group's capital management objectives are:

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

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

The Group's capital and overall financing as of December 31, 2018 and 2017 are shown below.

	<u>2018</u>	<u>2017</u>
Total equity	<b>P 5,343.0</b>	P 5,442.3
Cash and cash equivalents	<b>( 274.6)</b>	( 457.7)
Net capital	<b><u>P 5,068.4</u></b>	<u>P 4,984.6</u>
Bills payable	<b>P 28,977.8</b>	P 30,478.3
Lease deposits	<b>6,632.3</b>	5,988.6
Total equity	<b><u>5,343.0</u></b>	<u>5,442.3</u>
Overall financing	<b><u>P 40,953.1</u></b>	<u>P 41,909.2</u>
Capital-to-overall financing ratio	<b><u>0.12:1.00</u></b>	<u>0.12:1.00</u>

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

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

As of December 31, 2018 and 2017, the Group is in compliance with this minimum paid-up capital requirement.

### ***17.2 Preferred Shares***

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

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

None of these authorized preferred shares have been issued as of December 31, 2018 and 2017.

### ***17.3 Common Shares***

As of December 31, 2018 and 2017, out of the total authorized capital stock of 3,400,000,000 common shares with par value of P1.00 per share, 2,162,475,312 common shares, net of treasury shares of 62,693,718, common shares amounting to P2,162.5 are issued and outstanding.

### ***17.4 Retained Earnings – Free***

On February 21, 2018, the BOD approved declaration of cash dividends at P0.10 per share amounting to P216.2. The dividends were declared in favor of stockholders of record as of March 9, 2018 and were paid on March 27, 2018.

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

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

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

### ***17.5 Retained Earnings – Reserves***

In compliance with the requirements of the BSP, the Bank appropriated P147.0 for general loan loss provision to meet the 1% minimum provisions on loans (see Notes 2.13 and 9) and is presented under Retained Earnings – Reserves account.

### ***17.6 Track Record of Registration of Securities***

On January 6, 1997, the Parent Company was listed with the PSE with 106,100,000 additional common shares and 15,120,000 existing common shares with par value of P1.00 per share. The listing was approved by the SEC in May 1996. As of December 31, 2018 and 2017, the Parent Company's number of shares registered totaled 3,400,000,000 with par value of P1.00 per share and closed at a price of P2.19 in 2018 and P3.82 in 2017. The total number of stockholders is 1,116 and 1,122 as of December 31, 2018 and 2017, respectively.

## 18. OTHER INCOME

This account is composed of the following:

	Notes	Group		
		2018	2017	2016
Dividend income	8	P 206.0	P 215.2	P 150.3
Gain on sale of property and equipment and investment properties	10, 11	42.2	65.1	20.2
Day-one gains – net		13.2	4.8	2.5
Miscellaneous – net	8, 12, 21	48.7	30.9	30.4
		<u>P 310.1</u>	<u>P 316.0</u>	<u>P 203.4</u>

  

	Notes	Parent Company		
		2018	2017	2016
Dividend income	8	P 206.0	P 215.2	P 150.3
Gain on sale of investment properties	11	17.4	59.1	9.5
Day-one gains – net		4.5	1.3	0.1
Miscellaneous – net	8, 12, 21	36.8	48.3	108.6
		<u>P 264.7</u>	<u>P 323.9</u>	<u>P 268.5</u>

Dividend income pertains to income earned for investments in Smart Notes, SMC shares and First Gen shares (see Note 8).

Day-one gains – net represent the fair value gains on initial recognition of lease deposits (representing excess of principal amount over fair value of leased deposits), net of the day one losses on initial recognition of the residual value receivables under finance lease.

## 19. LEASES

The Group's finance lease contracts generally have lease terms ranging from 24 to 60 months.

In the ordinary course of business, the Group enters into various operating leases with lease terms ranging from 12 months to 15 years. Operating lease income, presented under Rent account in the Group's statements of income for the years ended December 31, 2018, 2017 and 2016, amounted to P938.3, P922.2 and P890.2, respectively.

Future minimum rental receivables under operating leases follow:

	2018	2017	2016
Within one year	P 747.5	P 831.4	P 804.5
After one year but not more than five years	792.9	924.7	883.5
More than five years	79.3	87.7	100.3
	<u>P 1,619.7</u>	<u>P 1,843.8</u>	<u>P 1,788.3</u>

## 20. EMPLOYEE BENEFITS

### 20.1 Employee Benefits

Expenses recognized for salaries and employee benefits for the Group and the Parent Company are presented below.

	<u>2018</u>		<u>2017</u>		<u>2016</u>
Salaries and wages	<b>P 134.7</b>	P	130.9	P	122.1
Bonuses	<b>48.6</b>		42.2		43.9
Retirement – defined benefit plan	<b>18.1</b>		17.1		14.1
Fringe benefits	<b>10.3</b>		15.2		10.7
Employee stock option plan	<b>8.7</b>		6.3		16.9
Directors' fee	<b>5.5</b>		5.5		5.5
Social security costs	<b>4.1</b>		3.9		3.9
Other benefits	<b>5.7</b>		5.9		3.6
	<b><u>P 235.7</u></b>	P	<u>227.0</u>	P	<u>220.7</u>

The Employee benefits expense account includes the expense arising from Employee Stock Option Plan [see Note 2.18(e)] recognized by the Parent Company over the vesting period. The outstanding payable arising from this transaction as of December 31, 2018 (nil in 2017) is presented as part of Accounts payable under Accounts Payable and Other Liabilities account in the statements of financial position (see Note 15).

### 20.2 Post-employment Benefits

#### (a) Characteristics of the Defined Benefit Plan

The Group maintains a wholly-funded, tax-qualified, noncontributory and multi-employer retirement plan that is being administered by a trustee bank covering all regular full-time employees.

The normal retirement age is 60 with a minimum of five years of credited service. The plan also provides for an early retirement at age 50 with a minimum of 5 years of credited service and late retirement after age 60 but not beyond 65 years of age, both subject to the approval of the Group's BOD.

#### (b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the post-employment benefit costs and the related amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2018 and 2017.

The amounts of retirement benefit asset (presented under Other Assets account (see Note 12) the Group and the Parent Company recognized in the statements of financial position are determined as follows:

	<u>2018</u>		<u>2017</u>
Fair value of plan assets	<b>P 274.3</b>	P	279.4
Present value of the obligation	<b>( 245.3)</b>	(	251.6)
Effect of asset ceiling	<b>( 2.7)</b>	(	2.0)
Balance at end of year	<b><u>P 26.3</u></b>	P	<u>25.8</u>

The movement in the fair value of plan assets is presented below.

	<u>2018</u>		<u>2017</u>
Balance at beginning of year	<b>P 279.4</b>	P	264.0
Interest income	<b>15.8</b>		14.8
Contributions to the plan	<b>18.8</b>		12.2
Return on plan assets (excluding amounts included in net interest)	<b>( 15.5)</b>	(	9.5)
Benefits paid	<b>( 24.2)</b>	(	2.1)
Balance at end of year	<b><u>P 274.3</u></b>	P	<u>279.4</u>

The movements in the present value of the retirement benefit obligation recognized in the books are as follows:

	<u>2018</u>		<u>2017</u>
Balance at beginning of year	<b>P 251.6</b>	P	205.5
Current service cost	<b>18.1</b>		17.1
Interest expense	<b>14.3</b>		11.3
Benefits paid	<b>( 24.2)</b>	(	2.1)
Remeasurements:			
Actuarial losses (gains) arising from changes in:			
- experience adjustments	<b>23.8</b>		72.6
- financial assumptions	<b>( 20.6)</b>	(	18.7)
- demographic assumptions	<b>( 17.7)</b>	(	34.1)
Balance at end of year	<b><u>P 245.3</u></b>	P	<u>251.6</u>

The composition of the fair value of plan assets at the end of the reporting period for each category and risk characteristics is shown below.

	<u>2018</u>		<u>2017</u>
Cash and cash equivalents	<b>P 11.7</b>	P	31.4
Unit investment trust funds	<b>58.9</b>		61.4
Loans	<b>16.7</b>		12.6
Equity instruments	<b>5.4</b>		6.6
Real estate	<b><u>3.7</u></b>		<u>2.8</u>
	<b><u>96.4</u></b>		<u>114.8</u>
Debt instruments:			
Government bonds	<b>27.3</b>		90.9
Other bonds	<b><u>151.2</u></b>		<u>57.8</u>
	<b><u>178.5</u></b>		<u>148.7</u>
Others	<b>( 0.6)</b>		15.9
	<b><u>P 274.3</u></b>	P	<u>279.4</u>

The retirement trust fund assets are valued by the fund manager at fair value using the mark-to-market valuation. While no significant changes in asset allocation are expected in the next financial year, the retirement plan trustee may make changes at any time.

Actual return on plan assets amounted P0.3 in 2018, P5.3 in 2017 and P11.2 in 2016.

Except for certain shares of stock of the Parent Company, plan assets do not comprise any of the Parent Company's own financial instruments or any of its assets occupied and/or used in its operations [see Note 21(i)].

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit plan are as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<i>Reported in profit or loss:</i>			
Current service cost	<b>P 18.1</b>	P 17.1	P 14.1
Net interest income	<b>( 1.3)</b>	( 3.2)	( 3.1)
	<b><u>P 16.8</u></b>	<b><u>P 13.9</u></b>	<b><u>P 11.0</u></b>
<i>Reported in other comprehensive income:</i>			
Actuarial losses (gains) arising from:			
- experience adjustments	<b>P 23.8</b>	P 72.6	P 8.6
- changes in financial assumptions	<b>( 20.6)</b>	( 18.7)	2.1
- demographic changes	<b>( 17.7)</b>	( 34.1)	-
Return on plan assets (excluding amounts included in net interest)	<b>15.5</b>	9.5	0.9
Effect of asset ceiling	<b><u>0.6</u></b>	<b><u>( 5.1)</u></b>	<b><u>( 2.1)</u></b>
	<b><u>P 1.6</u></b>	<b><u>P 24.2</u></b>	<b><u>P 9.5</u></b>

Current service cost is presented as a part of Employee Benefits account. The net interest income is included as part of Interest and Discounts account in the statements of income.

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

In determining the amounts of the post-employment benefit obligation, the following significant actuarial assumptions were used:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Discount rates	<b>7.5%</b>	5.7%	5.5%
Expected rate of salary increases	<b>6%/7%/8%</b> <b>9%/10%/11%</b>	6.0%/8.0%/9.0%	9.0%

Assumptions regarding future mortality are based on published statistics and mortality tables. The projected retirement date of the employees is at age 60 or at age of 50 with completion of 10 years of service, whichever is shorter. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms to maturity approximating to the terms of the retirement obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.



(c) *Risks Associated with the Retirement Plan*

The plan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) *Investment and Interest Risks*

The present value of the retirement benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan asset is concentrated in debt instruments, unit investment trust funds, cash and cash equivalents and loans. Due to the long-term nature of plan obligation, a level of continuing debt instruments is an appropriate element of the Group's long-term strategy to manage the plans efficiently.

(ii) *Longevity and Salary Risks*

The present value of the retirement benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(iii) *Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions, the Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described as follows.

(iv) *Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the retirement benefit obligation as of December 31, 2018 and 2017:

<u>Impact on Retirement Benefit Obligation</u>				
	<u>Change in</u>		<u>Increase in</u>	<u>Decrease in</u>
	<u>Assumption</u>		<u>Assumption</u>	<u>Assumption</u>
<b><u>December 31, 2018</u></b>				
Discount rate	+/-1.0%	(P	13.67) P	15.3
Salary growth rate	+/-1.0%		15.0 (	13.6)
<b><u>December 31, 2017</u></b>				
Discount rate	+/-1.0%	(P	16.5) P	18.9
Salary growth rate	+/-1.0%		16.0 (	14.4)

The table of sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the retirement benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the retirement benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the retirement benefit obligation recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(i) *Asset-liability Matching Strategy*

The retirement plan trustee has no specific matching strategy between the plan assets and the plan liabilities.

(ii) *Funding Arrangements and Expected Contributions.*

The plan is currently overfunded by P26.3 as of December 31, 2018 based on the latest actuarial valuation.

The Group expects to make contribution of P18.8 to the plan during the next financial year.

The maturity profile of undiscounted expected benefits payments from the plan for the next 10 years follows:

	<u>2018</u>		<u>2017</u>
Within one year	<b>P 55.6</b>	P	55.8
More than one year to five years	<b>124.8</b>		74.9
More than five years to ten years	<u><b>203.6</b></u>		<u>125.2</u>
	<u><b>P 384.0</b></u>	P	<u>255.9</u>

## 21. 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 in the succeeding pages.

The summary of the Group's and Parent Company's transactions with its related parties in 2018, 2017 and 2016 and the related outstanding balances as of December 31, 2018 and 2017 are shown in the succeeding pages:

Related Party Category	Notes	Amount of Transaction			
		2018	2017	2016	
<b>Ultimate parent company (BDO Unibank)</b>					
Interest income on savings and demand deposits	(a)	P 0.6	P 0.8	P 0.7	
Interest expense on bills payable	(b)	120.6	141.5	38.0	
Rent expense	(c)	13.6	12.3	10.5	
Management fees	(d)	16.0	13.8	2.4	
Service charges and fees	(e)	1.4	-	-	
Service fees	(f)	0.1	-	-	
Employee stock option plan	2.18, 20	8.7	6.3	16.9	
<b>Subsidiary (BDO Rental)</b>					
Dividend income	(j)	35.0	120.0	60.0	
Management fees	(d)	0.4	0.4	0.4	
Rent income	(c)	0.1	0.1	0.4	
<b>Under common ownership</b>					
Service and charges fees	(g), (k)	4.3	5.0	5.5	
Interest expense on bills payable	(l)	145.0	94.1	-	
Operating lease income	(n)	47.1	-	-	
Insurance expense	(m)	0.3	-	-	
<b>Key management personnel</b>					
Short-term benefits	(h)	58.6	47.5	50.4	
Loans to officers	(h)	1.7	3.8	5.0	
Related Party Category	Notes	Outstanding Balance			
		2018	2017		
<b>Ultimate parent company (BDO Unibank)</b>					
Savings and demand deposits	(a)	P 269.8	P 453.0		
Bills payable	(b)	2,146.0	4,782.9		
Employee stock option plan	2.18, 20	8.7	-		
<b>Under common ownership</b>					
Accounts receivable	(k)	0.8		0.8	
Bills payable	(l)	1,988.8		3,901.0	
Unearned rental income	(n)	-		4.6	
<b>Key management personnel</b>					
Loans to officers	(h)		5.1	7.5	
<b>Retirement benefit fund</b>					
Shares of stock	(i)		1.1	2.0	

(a) The Group maintains savings and demand deposit accounts with BDO Unibank. As of December 31, 2018 and 2017, savings and demand deposit accounts maintained with BDO Unibank are included under Cash and Cash Equivalents account in the statements of financial position (see Note 7). These deposits generally earn interest at annual rates of 0.25% in 2018, 2017 and 2016. Interest income earned on these deposits in 2018, 2017 and 2016 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 with annual interest rates ranging from 2.2% to 6.5% in 2018, 2.2% to 3.5% in 2017 and 2.2% to 3.0% in 2016. Total bill availments and payments amounted to P34,050.6 and P36,715.7, respectively, in 2018, P33,288.2 and P31,087.9, respectively, in 2017, and P21,532.7 and P22,205.6, respectively, in 2016. These bills payable are secured by certain financial assets at FVOCI with fair value of P1,240.1 and P2,066.6 as of December 31, 2018 and 2017, respectively (see Note 8). The amount outstanding from borrowings as of December 31, 2018 and 2017 is presented under Bills Payable account in the statements of financial position (see Note 14). Interest expense incurred on these bills payable in 2018, 2017 and 2016 is included as part of Interest and Financing Charges account under Operating Costs and Expenses 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 2018, 2017 and 2016 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 2018, 2017 and 2016 is presented as part of Other Income-net account in the Parent Company's statements of income (see Note 18). There are no outstanding receivables and payables on these transactions as of the end of 2018 and 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 are shown as part of Other Expenses account under Operating Costs and Expenses in the statements of income. Also, the Parent Company charges BDO Rental for the management services it renders to BDO Rental. This is presented as part of Other Income-net account in the Parent Company's statements of income (see Note 18). There are no outstanding receivables and payables on these transactions as of the end of 2018 and 2017.
- (e) In 2018, the Parent Company sold portion of its receivables to BDO Unibank. The Parent Company charged BDO for service charges and fees which are presented as part of Other Income-net account in the statements of income. There is no outstanding receivable and payable on these transactions as of the end of 2018.
- (f) In 2018, the Parent Company entered into an agreement with BDO Unibank on stock transfer where BDO Unibank will charge the Parent Company for stock transfer services. Service 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. There is no outstanding receivable and payable on these transactions as of the end of 2018.
- (g) 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 P2.0 for 2018, P3.2 for 2017 and P4.0 for 2016 are included as part of Other Expenses account under Operating Costs and Expenses in the statements of income. There are no outstanding payables on this transaction as of the end of 2018 and 2017.

- (b) 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 amounting to P58.6 in 2018, P47.5 in 2017 and P50.4 in 2016, include salaries, paid annual leave and paid sick leave, profit sharing and bonuses, and non-monetary benefits. On the other hand, retirements benefits expense amounted to P8.7 in 2018, P7.0 in 2017 and P5.7 in 2016.

The Group also granted loans to officers, which are secured by mortgage on the property, bear interest with a range a 7.0% to 9.0% per annum and have terms ranging from 3 to 4 years. Outstanding loans to officers are presented as part of Accounts receivable under Loans and Other Receivables account (see Note 9). The Group assessed that these loans are not impaired as of December 31, 2018 and 2017.

- (i) The retirement fund holds, as an investment, 519,915 shares of stock of the Parent Company as of December 31, 2018 and 2017, which has a market value of P2.19 and P3.82 per share as of December 31, 2018 and 2017, respectively (see Note 20.2). The retirement fund does not hold any shares of stock of BDO Unibank.
- (j) In 2018, 2017 and 2016, BDO Rental declared cash dividends amounting to P35.0 (received in 2018) and P120.0 (received in 2017), and P60.0 (outstanding in 2016, received in 2017), respectively. No outstanding receivable on this transaction as of the end of 2018 and 2017.
- (k) In 2016, the Parent Company earned from BDO Insurance Brokers, Inc. (BDO Insurance) service charges and fees for accounts referred and are included as part of Miscellaneous-net under Other Income-net account in the statements of income (see Note 18). This resulted to the 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 (see Note 9). These are receivable in cash and normally collectible within 12 months after reporting period. The Group assessed that such receivable is not impaired.
- (l) In 2017, the Parent Company obtains unsecured, short-term bills payable from BDO Strategic Holdings Inc. and SM Prime Holdings, Inc with annual interest rates ranging from 2.6% to 5.3% and 3.3% to 6.7%, respectively, in 2018, and 2.5% to 2.6% and 2.7% to 3.3%, respectively, in 2017. Total bill availments and payments amounted to P4,244.2 and P4,155.4, respectively, in 2018 and P3,902.4 and P2,991.7, respectively, in 2017 for BDO Strategic Holdings Inc. Total bill availments and payments amounted to P18,000.0 and P20,000.0, respectively, in 2018 and P21,000.0 and P18,000.0, respectively, in 2017 for SM Prime Holdings, Inc. The amount outstanding from borrowings is presented under Bills Payable account in the statements of financial position (see Note 14). Interest expense incurred on these bills payable is included as part of Interest and Financing Charges account under Operating Costs and Expenses in the statements of income.
- (m) In 2018, the Parent Company paid BDO Life Assurance Company, Inc. for Group Life Insurance of the Parent Company's employees. Insurance paid by Parent Company is presented as part of Occupancy and Equipment Related Expense under Operating Costs and Expenses in the 2018 statement of income. No outstanding receivable and payable on this transaction as of the end of 2018.

- (n) In 2017, BDO Rental, entered into Operating Lease Agreement with BDO Nomura which will commence in 2018 (see Note 12.7). 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. In 2018, BDO Rental, entered into Operating Lease Agreement with SM Prime Holdings, Inc. and Alfamart Trading Philippines, Inc. Operating lease income earned from these transactions is presented as part of Rent account in the Group's statements of income. No outstanding receivable on this transaction as of the end of 2018.

## 22. TAXES

### 22.1 Taxes and Licenses

This account is composed of the following:

	<b>Group</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Documentary stamp tax	<b>P 215.2</b>	P 148.4	P 131.1
Gross receipts tax	<b>93.2</b>	86.2	81.3
Local taxes	<b>20.2</b>	19.9	16.5
Others	<b>16.6</b>	14.4	16.6
	<b><u>P 345.2</u></b>	<u>P 268.9</u>	<u>P 245.5</u>
	<b>Parent Company</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Documentary stamp tax	<b>P 199.4</b>	P 137.6	P 118.5
Gross receipts tax	<b>93.2</b>	86.2	81.3
Local taxes	<b>12.5</b>	12.0	11.1
Others	<b>15.1</b>	10.8	16.6
	<b><u>P 320.2</u></b>	<u>P 246.6</u>	<u>P 227.5</u>

### 22.2 Current and Deferred Taxes

The components of tax expense for the years ended December 31 follow:

	<b>Group</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<i>Reported in statements of income</i>			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	<b>P 86.5</b>	P 192.9	P 207.1
Final tax at 20%	<b>14.4</b>	16.8	19.0
Minimum corporate income tax (MCIT) at 2%	<b>0.2</b>	-	-
	<b>101.1</b>	209.7	226.1
Deferred tax income relating to origination and reversal of temporary differences	<b>( 11.5)</b>	( 60.9)	( 45.4)
	<b><u>P 89.6</u></b>	<u>P 148.8</u>	<u>P 180.7</u>

	<b>Group</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<i>Reported in statements of comprehensive income</i>			
Deferred tax income relating to origination of temporary differences:			
Financial assets at FVOCI	(P 4.1)	P -	P -
Actuarial gains and losses	( 0.5)	( 7.3)	( 2.9)
AFS financial assets	-	( 0.1)	( 0.6)
	<b>(P 4.6)</b>	<b>(P 7.4)</b>	<b>(P 3.5)</b>
	<b>Parent Company</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<i>Reported in statements of income</i>			
Current tax expense:			
RCIT at 30%	P 86.5	P 183.6	P 172.2
Final tax at 20%	<b>14.4</b>	<b>16.8</b>	<b>19.0</b>
	<b>100.9</b>	<b>200.4</b>	<b>191.2</b>
Deferred tax income relating to origination and reversal of temporary differences	( 11.5)	( 60.9)	( 45.4)
	<b>P 89.4</b>	<b>P 139.5</b>	<b>P 145.8</b>
<i>Reported in statements of comprehensive income</i>			
Deferred tax income relating to origination of temporary differences:			
Financial assets at FVOCI	(P 4.1)	P -	P -
Actuarial gains and losses	( 0.5)	( 7.3)	( 2.9)
AFS financial assets	-	( 0.1)	( 0.6)
	<b>(P 4.6)</b>	<b>(P 7.4)</b>	<b>(P 3.5)</b>

A reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in the statements of income follows:

	<b>Group</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Tax on pretax profit	P 126.1	P 215.8	P 225.2
Adjustment for income subjected to lower tax rate	( 7.2)	( 8.4)	( 9.5)
Tax effects of:			
Non-taxable income	( 46.9)	( 48.0)	( 47.5)
Non-deductible expense	18.5	42.0	35.9
Non-deductible interest expense	8.8	8.3	10.1
Reversal of deferred tax liability	( 7.2)	( 43.7)	( 33.5)
Deductible temporary differences not recognized	( 6.9)	( 17.2)	-
Unrecognized deferred tax assets on:			
Net operating loss carry-over	4.2	-	-
MCIT	<b>0.2</b>	<b>-</b>	<b>-</b>
	<b>P 89.6</b>	<b>P 148.8</b>	<b>P 180.7</b>

	<b>Parent Company</b>			
	<b>2018</b>		<b>2017</b>	<b>2016</b>
Tax on pretax profit	<b>P 126.0</b>	P	213.0	P 214.7
Adjustment for income subjected to lower tax rate	( 7.2)	(	8.4)	( 9.5)
Tax effects of:				
Non-taxable income	( 44.3)	(	53.1)	( 71.2)
Non-deductible expense	21.3		40.4	35.9
Non-deductible interest expense	7.7		8.5	9.4
Deductible temporary differences not recognized	( 6.9)	(	17.2)	-
Reversal of deferred tax liability	( 7.2)	(	43.7)	( 33.5)
	<b>P 89.4</b>	P	139.5	P 145.8

The components of net deferred tax assets (see Note 12) as of December 31, 2018 and 2017 follow:

		<b>Statements of Financial Position</b>			
		<b>Group</b>		<b>Parent Company</b>	
		<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Deferred tax assets:					
Allowance for impairment on:					
Loans and discounts	<b>P 93.5</b>	P	87.9	<b>P 93.5</b>	P 87.9
Investment properties and non-current assets held-for-sale	7.9		9.3	7.9	9.3
Accounts receivable	9.1		7.9	9.1	7.9
Retirement benefit obligation	22.2		22.5	22.2	22.5
	<b>132.7</b>		127.6	<b>132.7</b>	127.6
Deferred tax liabilities:					
Unrealized fair value gains on financial assets at FVOCI	( 6.2)	-	( 6.2)	-	
Unrealized fair value gains on AFS financial assets	-	( 10.3)	-	( 10.3)	
Lease income differential	-	( 7.2)	-	( 7.2)	
Others	( 0.3)	-	( 0.3)	-	
	<b>( 6.5)</b>	( 17.5)	<b>( 6.5)</b>	( 17.5)	
Net deferred tax assets	<b>P 126.2</b>	P 110.1	<b>P 126.2</b>	P 110.1	



The components of deferred tax income in profit and loss and in other comprehensive income for the years ended December 31, 2017, 2016 and 2015 follow:

	<b>Group</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<i>In profit or loss:</i>			
Deferred tax assets:			
Allowance for impairment on:			
Loans and discounts	P 5.6	P 16.0	P 9.8
Accounts receivable	1.2	5.3	1.4
Investment properties and non-current assets held-for-sale	( 1.4)	( 4.3)	( 1.1)
Retirement benefit obligation	( 0.8)	( 0.1)	1.8
	<u>4.6</u>	<u>16.9</u>	<u>11.9</u>
Deferred tax liabilities:			
Lease income differential	7.2	43.7	33.5
Others	( 0.3)	0.3	-
	<u>6.9</u>	<u>44.0</u>	<u>33.5</u>
Net deferred tax income	<u>P 11.5</u>	<u>P 60.9</u>	<u>P 45.4</u>
	<b>Parent Company</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<i>In profit or loss:</i>			
Deferred tax assets:			
Allowance for impairment on:			
Loans and discounts	P 5.6	P 16.0	P 9.8
Accounts receivable	1.2	5.3	1.4
Investment properties and non-current assets held-for-sale	( 1.4)	( 4.3)	( 1.1)
Retirement benefit obligation	( 0.8)	( 0.1)	1.8
	<u>4.6</u>	<u>16.9</u>	<u>11.9</u>
Deferred tax liabilities:			
Lease income differential	7.2	43.7	33.5
Others	( 0.3)	0.3	-
	<u>6.9</u>	<u>44.0</u>	<u>33.5</u>
Net deferred tax income	<u>P 11.5</u>	<u>P 60.9</u>	<u>P 45.4</u>
	<b>Group/Parent Company</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<i>In other comprehensive income:</i>			
Deferred tax income on:			
Net actuarial losses	P 0.5	P 7.3	P 2.9
Unrealized fair value gains on financial assets at FVOCI	4.1	-	-
Unrealized fair value gains on AFS financial assets	-	0.1	0.6
Net deferred tax income	<u>P 4.6</u>	<u>P 7.4</u>	<u>P 3.5</u>

The Group is subject to MCIT, which is computed at 2% of gross income, as defined under tax regulations or RCIT, whichever is higher. In 2018, 2017 and 2016, the Group claimed itemized deductions in computing for its income tax due.

The Group has not recognized deferred tax assets on certain temporary differences, NOLCO and other tax credits since management believes that the future income tax benefits will not be realized within the availment period, as defined under tax regulations.

The Subsidiary's NOLCO can be claimed as deduction from future taxable income within three years from the year the taxable loss was incurred. Also, the Subsidiary's MCIT can be applied against RCIT for the next three consecutive years after the MCIT was incurred.

### ***22.3 Supplementary Information Required Under Revenue Regulation (RR) No. 15-2010***

The Bureau of Internal Revenue (BIR) issued RR No. 15-2010 which required certain supplementary information to be disclosed as part of the notes to financial statements. The supplementary information is, however, not a required part of the basic financial statements prepared in accordance with PFRS; it is neither a required disclosure under the SEC rules and regulations covering the form and content of financial statements under the Securities Regulation Code Rule 68, as amended.

The Parent Company presented this tax information required by the BIR as a supplementary schedule filed separately from the basic financial statements.

## **23. EARNINGS PER SHARE**

Basic earnings per share were computed as follows:

	<b>Group</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Net profit	<b>P 330.7</b>	P 570.5	P 570.0
Divided by the weighted average number of outstanding common shares – net*	<b><u>2,162.0</u></b>	<u>2,162.0</u>	<u>2,162.0</u>
Basic earnings per share	<b><u>P 0.15</u></b>	<u>P 0.26</u>	<u>P 0.26</u>
	<b>Parent Company</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Net profit	<b>P 330.7</b>	P 570.5	P 570.0
Divided by the weighted average number of outstanding common shares – net*	<b><u>2,162.0</u></b>	<u>2,162.0</u>	<u>2,162.0</u>
Basic earnings per share	<b><u>P 0.15</u></b>	<u>P 0.26</u>	<u>P 0.26</u>

\* net of treasury shares

There were no outstanding dilutive potential common shares as of December 31, 2018 and 2017.

## 24. SELECTED FINANCIAL PERFORMANCE INDICATORS

The following are some of the financial performance indicators of the Group and the Parent Company:

	<u>2018</u>	<u>2017</u>
Current ratio	<b>41.96%</b>	38.11%
Debt-to-equity ratio	<b>677.47%</b>	687.20%
Return on equity	<b>6.13%</b>	10.57%
Return on assets	<b>0.78%</b>	1.40%
Loans-to-assets	<b>82.70%</b>	80.12%

## 25. CONTINGENT LIABILITIES AND COMMITMENTS

### *25.1 Operating Lease Commitments – Group as Lessee*

The Group leases the head office and certain branch offices from BDO Unibank. Total lease payments presented as part of Occupancy and Equipment-related Expenses account under Operating Costs and Expenses in the statements of income amounted to P13.6 in 2018, P13.6 in 2017 and P19.6 in 2016.

Future minimum lease payments under these operating leases follow:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Within one year	<b>P 14.2</b>	P 12.5	P 12.5
After one year but not more than five years	<b>28.8</b>	42.6	42.4
More than five years	<u>-</u>	<u>0.2</u>	<u>-</u>
	<b><u>P 43.0</u></b>	<b><u>P 55.3</u></b>	<b><u>P 54.9</u></b>

### *25.2 Others*

In addition to those already mentioned in the preceding notes, in the ordinary course of business, the Group incurs contingent liabilities and commitments arising from normal business transactions which are not reflected in the accompanying financial statements. As of December 31, 2018, management does not anticipate significant losses from these contingencies and commitments that would adversely affect the Group's financial position and results of operations.