

29 July 2020

**SECURITIES AND EXCHANGE COMMISSION**

Corporate Governance and Finance Department  
G/F Secretariat Building, PICC Complex

Attention: **Atty. RACHEL ESTHER J. GUMTANG-REMALANTE**  
Director, Corporate Governance and Finance Department

Dear Atty. Gumtang-Remalante:

In compliance with Securities and Exchange Commission (SEC) Memorandum Circular No. 15, Series of 2017, we submit herewith the **2019 Integrated Annual Corporate Governance Report ("I-ACGR")** of **BDO Leasing and Finance, Inc. (BDOLF)** together with its attachments.

A corresponding Secretary's Certificate is attached attesting that the Board of Directors of BDOLF duly approved such I-ACGR under its Resolution No. 2020-02. The 2019 I-ACGR was unanimously adopted by the directors present during the Board of Directors meeting including Director Vicente S. Pérez, Jr..

All required signatories that are present in the Philippines have signed the 2019 I-ACGR and was duly notarized. Director Pérez could not affix his manual and original signature on the I-ACGR at this time as he is outside of the Philippines due to travel constraints caused by the COVID-19 pandemic situation. BDOLF undertakes to submit the following:

- Written explanation duly executed and signed under oath by Director Pérez within ten (10) days from date of his arrival in the Philippines;
- The written explanation shall set forth the circumstances and relevant facts of the travel abroad with attached proof of departure abroad and arrival in the country;
- The notarized written explanation shall be marked as "CONFIDENTIAL";
- The notarized written explanation executed by Director Pérez shall be submitted to the SEC.

We trust you find the foregoing in order.

Sincerely,

**BDO Leasing and Finance, Inc.**

By:



**Angelita C. Tad-y**  
Compliance Officer &  
Corporate Governance Officer

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

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

**We find ways®**

# COVER SHEET

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S.E.C. Registration Number

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(Company's Full Name)

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(Business address: No. Street City / Town / Province)

<b>ATTY. JOSEPH JASON M. NATIVIDAD</b>
--

Contact Person

<b>(632) 8688-1288</b>
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Company Telephone Number

1	2
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Month

Fiscal Year

3	1
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Day

<b>Integrated Annual Corporate Governance Report (IACGR)</b>
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FORM TYPE

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Annual Meeting

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Secondary License Type, If Applicable

C	G	F	D
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Dept. Requiring this Doc.

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Amended Articles Number/Section

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Total No. of Stockholders

Total Amount of Borrowings

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Domestic

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Foreign

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To be accomplished by SEC Personnel concerned

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STAMPS

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REPUBLIC OF THE PHILIPPINES )  
CITY OF MAKATI ) SS.

### SECRETARY'S CERTIFICATE

I, **JOSEPH JASON M. NATIVIDAD**, Filipino, of legal age and with office address at the 14<sup>th</sup> Floor, North Tower, BDO Corporate Center, 7899 Makati Avenue, Makati City, under oath, do hereby certify that:

1. I am the duly appointed Corporate Secretary of **BDO LEASING AND FINANCE, INC. ("BDOLF")**, a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with business address at the 39<sup>th</sup> Floor, BDO Corporate Center Ortigas, No. 12 ADB Avenue, Ortigas Center, Mandaluyong City, and in that capacity, I have custody of the corporate records of BDOLF;

2. Based on the records, during the Regular meeting of the Board of Directors of BDOLF held on July 21, 2020, at which a quorum was present and acting throughout, the following resolution was unanimously passed and approved:

**"RESOLVED**, That the Board of Directors of BDO Leasing and Finance, Inc. (the "Corporation") approve, as it hereby approves, the 2019 SEC Integrated Annual Corporate Governance Report (I-ACGR) of the Corporation, as approved under CG Resolution No. 2020-02 of the Corporate Governance Committee adopted on July 14, 2020, and which reads as follows:

"CG Resolution No. 2020-02

**RESOLVED**, That the Corporate Governance Committee of BDO Leasing and Finance, Inc. (the "Corporation") hereby approves and recommends for approval of the Board of Directors, the 2019 SEC Integrated Annual Corporate Governance Report (I-ACGR) of the Corporation, copy of which is attached as Annex "B" to the Minutes and made an integral part of this Resolution, subject to the revisions discussed and approved."

3. Chairperson Teresita T. Sy; Vice Chairman Roberto E. Lapid; Independent Directors Jesse H. T. Andres, Ma. Leonora V. De Jesus and Vicente S. Pérez, Jr.; Directors Antonio N. Cotoco, Jeci A. Lapus, Luis S. Reyes Jr., Nestor V. Tan, Exequiel P. Villacorta Jr., and Walter C. Wassmer were present at the meeting and favorably voted to approve the 2019 I-ACGR.


4. The above-quoted resolution has not been revoked or rescinded and continues to be in full force and effect; and

5. I am executing this certificate for whatever legal purpose it may serve.

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

28 JUL 2020

**IN WITNESS WHEREOF**, I have hereunto affixed my signature this \_\_\_\_\_ at Makati City, Philippines.

  
JOSEPH JASON M. NATIVIDAD  
Corporate Secretary

28 JUL 2020

**SUBSCRIBED AND SWORN** to before me this \_\_\_ day of \_\_\_\_\_ at Makati City, affiant exhibiting to me his Passport No. ~~DD052707A~~ issued at DFA-Manila with validity up to October 5, 2028, and his Driver's License No. ~~605-80-038600~~ with validity up to 02 September 2022.

Doc. No. 371  
Page No. 76  
Book No. 1  
Series of 2020.



Atty. ATHENA M. ZOSA  
Appointment No. M-566  
Notary Public until 31 December 2020  
14/F BDO North Tower, BDO Corporate Center  
7899 Makati Avenue, Makati City  
Roll No. 57025  
IBP Lifetime Member No. 014370, RSM  
PTR No. 8117308, 02 January 2020, Makati City  
MCLE Compliance No. VI-0012110, 11 September 2018





## SEC FORM – I-ACGR

### INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT

1. For the fiscal year ended **December 31, 2019**
2. SEC Identification Number **97869**
3. BIR Tax Identification No. **000-486-050-000**
4. Exact name of issuer as specified in its charter **BDO Leasing and Finance, Inc.**
5. **Manila, Philippines**  
Province, Country or other jurisdiction of incorporation or organization
6.  (SEC Use Only)  
Industry Classification Code:
7. **No. 12 ADB Avenue, Ortigas Center, Mandaluyong City, Philippines 1550**  
Address of principal office Postal Code
8. **(632) 8688-1288**  
Issuer's telephone number, including area code
9. **Not Applicable**  
Former name, former address, and former fiscal year, if changed since last report.

**INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT**

	<b>COMPLIANT/ NON-COMPLIANT</b>	<b>ADDITIONAL INFORMATION</b>	<b>EXPLANATION</b>
<b>The Board's Governance Responsibilities</b>			
<p><b>Principle 1:</b> The company should be headed by a competent, working board to foster the long- term success of the corporation, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the long- term best interests of its shareholders and other stakeholders.</p>			
<b>Recommendation 1.1</b>			
<p>1. Board is composed of directors with collective working knowledge, experience or expertise that is relevant to the company's industry/sector.</p>	<p><b>COMPLIANT</b></p>	<p>Provide information or link/reference to a document containing information on the following:</p> <ol style="list-style-type: none"> <li>1. Academic qualifications, industry knowledge, professional experience, expertise and relevant trainings of directors</li> <li>2. Qualification standards for directors to facilitate the selection of potential nominees and to serve as benchmark for the evaluation of its performance</li> </ol>	<p>The Company's Board has 11 members, 5 of whom are bankers with local and international banking experience, 3 are entrepreneurs, 2 are Public Administrators and 1 is a lawyer. See Profile of Directors on page No. 20, of the 2019 SEC 17-Annual Report. (Annex A)</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a></p> <p>For the qualification standards, see Selection, Nomination and Election of Board Members on page 6 of the Revised Corporate Governance Manual. (Annex B)</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>

**INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT**

<p>2. Board has an appropriate mix of competence and expertise.</p>	<p align="center">COMPLIANT</p>		<p>The Company's Board has a diverse and balanced composition. See Board Snapshot on page 19 of the 2019 Sustainability Report (Governance-based Sustainability Strategy) attached to the SEC 17-Annual Report.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a></p>
<p>3. Directors remain qualified for their positions individually and collectively to enable them to fulfill their roles and responsibilities and respond to the needs of the organization.</p>	<p align="center">COMPLIANT</p>		<p>There were no changes in the personal circumstances of each director that would otherwise disqualify them as Directors. Their individual profile can be viewed on page 19-23 in Item 9 of 2019 SEC 17- Annual Report.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a></p>

**Recommendation 1.2**

<p>1. Board is composed of a majority of non-executive directors.</p>	<p align="center">COMPLIANT</p>	<p>Identify or provide link/reference to a document identifying the directors and the type of their directorships</p>	<p>As of December 31, 2019, the Company's Board is composed of 3 Non-Executive Directors including the Chairperson, 3 Independent Directors and 5 Executive Directors. See Governance Structure on page 34 Item 13 of the 2019 SEC 17-Annual Report.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a></p>
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**INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT**

**Recommendation 1.3**

<p>1. Company provides in its Board Charter and Manual on Corporate Governance a policy on training of directors.</p>	<p align="center">COMPLIANT</p>	<p>Provide link or reference to the company's Board Charter and Manual on Corporate Governance relating to its policy on training of directors.</p>	<p>See Page 2, Section 1, on Board Governance Responsibilities (Board Governance Framework – Director Orientation and Continuing Education) of the Revised Corporate Governance Manual.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>
<p>2. Company has an orientation program for first time directors.</p>	<p align="center">COMPLIANT</p>	<p>Provide information or link/reference to a document containing information on the orientation program and trainings of directors for the previous year, including the number of hours attended and topics covered.</p>	<p>See page 2 Section 1 on Board Governance Responsibilities (Board Governance Framework – Director Orientation and Continuing Education) of the Revised Corporate Governance Manual.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>



**INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT**

<p>3. Company has relevant annual continuing training for all directors.</p>	<p align="center">COMPLIANT</p>		<p>All directors of the Company complied with the annual corporate governance training requirement of four (4) hours for 2019. Ten (10) directors of BDOLF attended the in-house corporate governance seminar on 24 July 2019 in Makati City. It concentrated on cyber security in the Philippines and blockchain technology / cryptocurrencies, to update them on emerging risks as banks move to the era of digital banking. One (1) director attended an external corporate governance training, which focused on boardroom realities, fighting red tape, and governance advocacies. Please see page 37 of the SEC 17 Annual Report.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a></p>
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**Recommendation 1.4**

<p>1. Board has a policy on board diversity.</p>	<p align="center">COMPLIANT</p>	<p>Provide information on or link/reference to a document containing information on the company's board diversity policy.</p> <p>Indicate gender composition of the board.</p>	<p>The Company adapts the Board Diversity Policy of the BDO Group which prescribes that a Nomination Committee will consider all aspects of diversity in order to maintain an appropriate balance of skills, background, experience and knowledge of the Board.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BOARD%20DIVERSITY%20POLICY.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BOARD%20DIVERSITY%20POLICY.pdf</a></p> <p>See page 2, Section 1, Item 4 of the Revised Corporate Governance Manual.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>
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**INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT**

The Company's Board has 2 female and 9 male Directors. See Corporate Governance Report on page 20-23 of the 2019 SEC 17-Annual Report.

<https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf>

**Optional: Recommendation 1.4**

1. Company has a policy on and discloses measurable objectives for implementing its board diversity and reports on progress in achieving its objectives.

**COMPLIANT**

Provide information on or link/reference to a document containing the company's policy and measurable objectives for implementing board diversity.

Provide link or reference to a progress report in achieving its objectives.

See Page 2, Section1, Item 4 Board Governance Framework (Board Diversity) in the Revised Corporate Governance Manual.

<https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf>

See Board Snapshot on page 19 of the 2019 Sustainability Report (Governance-based Sustainability Strategy) attached to the 2019 SEC 17 – Annual Report.

<https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf>

**Recommendation 1.5**

**INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT**

<p>1. Board is assisted by a Corporate Secretary.</p>	<p align="center">COMPLIANT</p>	<p><b>Provide information on or link/reference to a document containing information on the Corporate Secretary, including his/her name, qualifications, duties and functions.</b></p>	<p>Atty. Joseph Jason M. Natividad is the Corporate Secretary. See Page 3, Section 1, Item 5 - Board Governance Framework (Independent Officers) in the Revised Corporate Governance Manual for his duties and functions. See page 23 of the 2019 SEC 17-Annual Report for his qualifications.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a></p>
<p>2. Corporate Secretary is a separate individual from the Compliance Officer.</p>	<p align="center">COMPLIANT</p>		<p>He is a separate individual.</p>
<p>3. Corporate Secretary is not a member of the Board of Directors.</p>	<p align="center">COMPLIANT</p>		<p>He is not a member of the Board.</p>
<p>4. Corporate Secretary attends training/s on corporate governance.</p>	<p align="center">COMPLIANT</p>	<p>Provide information or link/reference to a document containing information on the corporate governance training attended, including number of hours and topics covered</p>	<p><b>UPDATED</b> with the date of training in 2019 and copy of Certificate of Attendance.</p> <p>See attached Annex C for the Certificate of Attendance of Atty. Joseph Jason M. Natividad. He attended the 2019 BDOLF Corporate Governance Seminar held on 24 July 2019.</p>
<p><b>Optional: Recommendation 1.5</b></p>			
<p>1. Corporate Secretary distributes materials for board meetings at least</p>	<p align="center">COMPLIANT</p>	<p>Provide proof that corporate secretary distributed board meeting</p>	<p>See Annex D for the scanned copy of transmittal memo to a director on the</p>

**INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT**

five business days before scheduled meeting.		materials at least five business days before scheduled meeting	distribution of board materials.
<b>Recommendation 1.6</b>			
1. Board is assisted by a Compliance Officer.	COMPLIANT	Provide information on or link/reference to a document containing information on the Compliance Officer, including his/her name, position, qualifications, duties and functions.	<p>The Company has a dedicated independent Compliance Officer functionally reporting to the Audit Committee. She is Angelita C. Tad-y. See page 3-4 of the Revised Corporate Governance Manual for her duties and functions and page 23 of the 2019 SEC 17-Annual Report for her profile and qualifications. (Annex E)</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a></p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>
2. Compliance Officer has a rank of Senior Vice President or an equivalent position with adequate stature and authority in the corporation.	COMPLIANT		The Compliance Officer has a rank of First Vice President.
3. Compliance Officer is not a member of the board.	COMPLIANT		She is not a member of the Board.
4. Compliance Officer attends training/s on corporate governance.	COMPLIANT	Provide information on or link/reference to a document containing information on the corporate governance training attended, including number of hours and topics covered	See attached Certificate of Attendance of Ms. Angelita C. Tad-y. She attended the 2019 BDO Corporate Governance Seminar Last 24 July 2019. (Annex F)



**INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT**

**Principle 2:** The fiduciary roles, responsibilities and accountabilities of the Board as provided under the law, the company's articles and by-laws, and other legal pronouncements and guidelines should be clearly made known to all directors as well as to stockholders and other stakeholders.

**Recommendation 2.1**

<p>1. Directors act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company.</p>	<p>COMPLIANT</p>	<p>Provide information or reference to a document containing information on how the directors performed their duties (can include board resolutions, minutes of meeting)</p>	<p>In discharging their fiduciary duty, directors perform functions such as the review and guiding of corporate strategy, risk management policies and procedures, annual budgets and business plans, and monitoring their implementation; the setting financial objectives, monitoring implementation of and corporate performance; and approving the issuance of capital stock distribution of dividends, strategic plans, major capital expenditures, acquisitions, equity investments, fixed assets, mergers, joint ventures, divestments, and significant related party transactions.</p> <p>In 2019, the Board of Directors approved the acts contained in the Minutes of the 2019 Annual Stockholders Meeting. The acts of the Board pertaining to these items were properly and timely disclosed to the PSE after the Board meetings.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20ASM%20Minutes.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20ASM%20Minutes.pdf</a></p>
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**Recommendation 2.2**

<b>INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT</b>			
1. Board oversees the development, review and approval of the company's business objectives and strategy.	<b>COMPLIANT</b>	Provide information or link/reference to a document containing information on how the directors performed this function (can include board resolutions, minutes of meeting)  Indicate frequency of review of business objectives and strategy	As provided in the Company's Revised Corporate Governance Manual (see page 12 – Item b (2) – Specific Duties and Responsibilities of the Board of Directors), the Company's Board of Directors approve the Company's strategic objectives and business plans.  <a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a>
2. Board oversees and monitors the implementation of the company's business objectives and strategy.	<b>COMPLIANT</b>		See page 4- Duties, Functions and Responsibilities of the Board of the Revised Corporate Governance Manual  <a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a>
<b>Supplement to Recommendation 2.2</b>			
1. Board has a clearly defined and updated vision, mission and core values.	<b>COMPLIANT</b>	Indicate or provide link/reference to a document containing the company's vision, mission and core values.  Indicate frequency of review of the vision, mission and core values.	The Company's Vision, Mission Statement and Core Values is found in page 6 of the Sustainability Report attached to the 2019 SEC 17 Annual Report.  <a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a>  These are reviewed every three (3) years.
2. Board has a strategy execution process that facilitates effective management performance and is attuned to the	<b>COMPLIANT</b>	Provide information on or link/reference to a document containing information on the	The strategy execution process is described in page 19 of the 2019 SEC 17-Annual Report. It encompasses the focus areas of the

**INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT**

<p>company's business environment, and culture.</p>		<p>strategy execution process.</p>	<p>Company, its strategic initiatives and a diversified business model with products and services catering to the changing needs of Filipino customers.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a></p>
<p><b>Recommendation 2.3</b></p>			
<p>1. Board is headed by a competent and qualified Chairperson.</p>	<p align="center">COMPLIANT</p>	<p>Provide information or reference to a document containing information on the Chairperson, including his/her name and qualifications</p>	<p>The Chairperson of the Company's Board of Directors is Ms. Teresita T. Sy since September 20, 2005. See page 20 of the 2019 SEC 17-Annual Report for her profile and qualifications.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a></p>
<p><b>Recommendation 2.4</b></p>			

**INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT**

<p>1. Board ensures and adopts an effective succession planning program for directors, key officers and management.</p>	<p align="center">COMPLIANT</p>	<p>Disclose and provide information or link/reference to a document containing information on the company's succession planning policies and programs and its implementation</p>	<p>See page 5- Management Succession Planning under Section 2, Establishing Clear Roles and Responsibilities of the Board (Duties, Functions and Responsibilities of the Board) of the Revised Corporate Governance Manual.</p> <p>The Company adopts the Succession Plan Framework of its Parent, BDO Unibank Inc. It covers the succession management strategy created, developed and approved by its Board to manage the succession process that is aligned with the organizational objectives and needs of the Company. In particular, the Company may adopt the following when a top position vacancy will occur:</p> <p>STRUCTURE:</p> <ol style="list-style-type: none"> <li>1. Promote qualified candidates from within who could immediately assume the position;</li> <li>2. Split the group into smaller units;</li> <li>3. Consolidate the business unit with another group</li> </ol> <p>TALENT POOL</p> <p>Every year, the Human Resources Group identifies units of the Company whose heads are due to retire in 1-2 years.</p>
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**INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT**

2.			<p>1. Based on this information, sources of possible replacements will be identified from the BDO Group;</p> <p>2. Hire externally if no suitable candidate is available.</p> <p><b>TRAINING</b> To prepare identified officers who are potential candidates for higher positions, the Company has the following talent development programs:</p> <ol style="list-style-type: none"> <li>1. Officers Development Program</li> <li>2. Management Development Program</li> <li>3. Talent Management Program – for senior officers</li> </ol> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>
3. Board adopts a policy on the retirement for directors and key officers.	COMPLIANT		See attached Policy on Retirement of Directors approved by the Board of Directors on May 30, 2018.
<b>Recommendation 2.5</b>			
1. Board aligns the remuneration of key officers and board members with long-term interests of the company.	COMPLIANT	Provide information on or link/reference to a document containing information on the company's remuneration policy and its implementation, including the relationship between remuneration and performance.	The Company's remuneration policy is geared towards attracting, retaining and motivating employees and members of the Board. See page 25 of the 2019 SEC 17-Annual Report.  <a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a>

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<p>2. Board adopts a policy specifying the relationship between remuneration and performance.</p>	<p align="center">COMPLIANT</p>		<p>All qualified employees may be entitled to an annual merit increase in salary, based on their performance for the immediately preceding year. This has a long-term and compounding effect on the fixed pay, which serves as basis for their retirement benefit. See page 16 of the Company's 2019 Sustainability Report attached to 2019 SEC – 17 Annual Report</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a></p>
<p>3. Directors do not participate in discussions or deliberations involving his/her own remuneration.</p>	<p align="center">COMPLIANT</p>		<p>The concerned directors are required to recuse in the deliberation.</p>

**Optional: Recommendation 2.5**

<p>1. Board approves the remuneration of senior executives.</p>	<p align="center">COMPLIANT</p>	<p>Provide proof of board approval</p>	<p>The Company follows the Board approved Remuneration policy of its parent, BDO Unibank Inc.</p>
<p>2. Company has measurable standards to align the performance-based remuneration of the executive directors and senior executives with long-term interest, such as claw back provision and deferred bonuses.</p>	<p align="center">COMPLIANT</p>	<p>Provide information on or link/reference to a document containing measurable standards to align performance-based remuneration with the long-term interest of the company.</p>	<p>The measurable standard established by the Company is the Key Result Areas Plan for each employee every year, which specifies the focus area of performance and the results expected that are aligned with the strategy of the Company. The performance of these standards is the basis for the yearly appraisal rating of employees.</p> <p>The Company adopts the policy of its Parent, BDO Unibank Inc., that the remuneration framework for senior management includes</p>

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fixed pay, bonus and the Employee Stock Option Plan (ESOP) as a long term incentive program. A claw back mechanism is in place, where the benefits and rights accruing from the ESOP can be revoked or forfeited, if the eligible employee is terminated from service for cause or in the event of imposition of an administrative or disciplinary sanction or penalty against the eligible employee at any time during and after the vesting period prior to exercise. It is linked to corporate and individual performance, based on annual appraisal of senior management officers. See page 25 - 26 of the 2019 SEC-17 Annual Report.

<https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf>

**Recommendation 2.6**

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<p>1. Board has a formal and transparent board nomination and election policy.</p>	<p align="center">COMPLIANT</p>	<p>Provide information or reference to a document containing information on the company's nomination and election policy and process and its implementation, including the criteria used in selecting new directors, how the shortlisted candidates and how it encourages nominations from shareholders.</p> <p>Provide proof if minority shareholders have a right to nominate candidates to the board</p> <p>Provide information if there was an assessment of the effectiveness of the Board's processes in the nomination, election or replacement of a director.</p>	<p>The procedures for the nomination of directors are published in page 11 of the 2019 Definitive Information (DIS) while the election of directors is in page 3 thereof. The policy for the selection, nomination and election of directors are on page 6 of the Revised Corporate Governance Manual published in the BDOLF website.</p> <p>Please see Section 13, page 32-33 of the Revised Corporate Governance Manual – Promoting Shareholder Rights/Right to Nominate.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>
<p>2. Board nomination and election policy is disclosed in the company's Manual on Corporate Governance.</p>	<p align="center">COMPLIANT</p>		<p>See Page 6, Section 3, Item – Establishing Clear Roles and Responsibilities of the Board. - Duties, Functions and Responsibilities of the Board.(Selection, Nomination and the Board of Directors), and Page 20, Section 3, Item – Establishing Clear Roles and Responsibilities of the Board, Board Committees (Nomination Committee), of the Revised Corporate Governance Manual.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>



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<p>3. Board nomination and election policy includes how the company accepted nominations from minority shareholders.</p>	<p align="center">COMPLIANT</p>		<p>See Page 6, Section 3, Item – Establishing Clear Roles and Responsibilities of the Board - Duties, Functions and Responsibilities of the Board (Selection, Nomination and the Board of Directors) and Page 19 of the 2019 Definitive Information Statement.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>
<p>4. Board nomination and election policy includes how the board shortlists candidates.</p>	<p align="center">COMPLIANT</p>		<p>The short listing of candidates by the Nominations Committee is done by pre-screening and checking the qualifications of nominees from the pool of candidates versus the standard. See Page 6, Section 2, Item – Duties, Functions and Responsibilities of the Board (Selection, Nomination and the Board of Directors in the Revised Corporate Governance Manual and page 11 of the 2019 Definitive Information Statement.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>

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<p>5. Board nomination and election policy includes an assessment of the effectiveness of the Board's processes in the nomination, election or replacement of a director.</p>	<p align="center">COMPLIANT</p>		<p>The Nominations Committee leads in the process of identifying and evaluating nominees for directors. It evaluates the balance of skills, knowledge and experience of the existing Board and the requirements of the Company. The result of the evaluation determines the role and key attributes than an incoming director should have. See Page 6, Section 2, Item – Duties, Functions and Responsibilities of the Board (Selection, Nomination and the Board of Directors), and Page 20, Section 3, Item – Board Committees (Nomination Committee), in the Revised Corporate Governance Manual and page 21 of the 2019 Sustainability Report.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a>  <a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a></p>
<p>6. Board has a process for identifying the quality of directors that is aligned with the strategic direction of the company.</p>	<p align="center">COMPLIANT</p>		<p>See Page 6, Selection, Nomination and Election of Board Members in the Revised Corporate Governance Manual. This is handled by the Nominations Committee.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>
<p><b>Optional: Recommendation to 2.6</b></p>			
<p>1. Company uses professional search firms or other external sources of</p>	<p align="center">COMPLIANT</p>	<p>Identify the professional search firm used or other external sources of</p>	<p>See page 6, Selection, Nomination and Election of Board Members in the Revised</p>

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<p>candidates (such as director databases set up by director or shareholder bodies) when searching for candidates to the board of directors.</p>		<p>candidates</p>	<p>Corporate Governance Manual.</p> <p>The Company, thru its Nominations Committee, uses to the extent possible external search firms or external databases in selecting the pool of candidates for the new members of the Board.</p>
<p><b>Recommendation 2.7</b></p>			
<p>1. Board has overall responsibility in ensuring that there is a group-wide policy and system governing related party transactions (RPTs) and other unusual or infrequently occurring transactions.</p>	<p align="center">COMPLIANT</p>	<p>Provide information on or reference to a document containing the company's policy on related party transaction, including policy on review and approval of significant RPTs</p> <p>Identify transactions that were approved pursuant to the policy.</p>	<p>The Board has established policies and procedures on related party transactions (RPTs) in accordance with BSP and SEC regulations. These include definition of related parties, coverage of RPT policy, guidelines in ensuring arms-length terms, identification and prevention of management potential or actual conflicts of interest, adoption of materiality thresholds, internal limits for individual and aggregate exposures, whistle-blowing mechanisms, and restitution of losses and other remedies for abusive RPTs. See the Company's RPT Policy.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/corporate_governance/Related-Party-Transaction%28RPT%29-Policy-as-of-October-2019.pdf">https://www.bdo.com.ph/sites/default/files/pdf/corporate_governance/Related-Party-Transaction%28RPT%29-Policy-as-of-October-2019.pdf</a></p>

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<p>2. RPT policy includes appropriate review and approval of material RPTs, which guarantee fairness and transparency of the transactions.</p>	<p>COMPLIANT</p>		<p>Material related party transactions (RPT) are vetted and approved by the RPT Committee, composed of two independent directors including the Chairman and non-executive director. RPT whose value meets or exceeds 10% of the Bank's total assets, require review of an external independent party to evaluate the fairness of its terms and conditions and approval of 2/3 vote of the Board, with at least a majority of the independent directors voting affirmatively.</p> <p>See attached Related Party Transactions Policy, which can also be viewed through the following link:</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/corporate_governance/Related-Party-Transaction%28RPT%29-Policy-as-of-October-2019.pdf">https://www.bdo.com.ph/sites/default/files/pdf/corporate_governance/Related-Party-Transaction%28RPT%29-Policy-as-of-October-2019.pdf</a></p>
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<p>3. RPT policy encompasses all entities within the group, taking into account their size, structure, risk profile and complexity of operations.</p>	<p align="center">COMPLIANT</p>		<p>It covers DOSRI, Subsidiaries, Affiliates and Other Related Parties. See Annex A (Related Party Transactions Policy) in the Revised Corporate Governance Manual.</p> <p>BDOLF website:  <a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p> <p>See attached Related Party Transactions (RPT) Policy, which can also be viewed through the following links:  <a href="https://www.bdo.com.ph/sites/default/files/pdf/corporate_governance/Related-Party-Transaction%28RPT%29-Policy-as-of-October-2019.pdf">https://www.bdo.com.ph/sites/default/files/pdf/corporate_governance/Related-Party-Transaction%28RPT%29-Policy-as-of-October-2019.pdf</a></p>
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**Supplement to Recommendations 2.7**

<p>1. Board clearly defines the threshold for disclosure and approval of RPTs and categorizes such transactions according to those that are considered <i>de minimis</i> or transactions that need not be reported or announced, those that need to be disclosed, and those that need prior shareholder approval. The aggregate amount of RPTs within any twelve (12) month period should be considered for purposes of applying the thresholds for disclosure and approval.</p>	<p align="center">COMPLIANT</p>	<p>Provide information on a materiality threshold for RPT disclosure and approval, if any.</p> <p>Provide information on RPT categories</p>	<p>The revised RPT policy provides that transactions that amount to or exceed 10% of the Company's total assets (singly or aggregated within a 12 month period) are required to be reported to the Securities and Exchange Commission. This type of RPT must be approved by at least 2/3 vote of the Board of Directors, with at least a majority of the independent directors voting to approve the proposed transaction. In case a majority of the independent directors' vote is not secured, the material RPT may be ratified by the vote of the stockholders representing at least 2/3 of the outstanding capital stock.</p>
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			<p>The Company also defined a materiality threshold of PHP10 million for credit transactions and PHP1 million for non-credit transactions. This type of material RPTs need to be endorsed by the Related Party Transactions Committee before it can be approved by the Board of Directors.</p>
<p>2. Board establishes a voting system whereby a majority of non-related party shareholders approve specific types of related party transactions during shareholders' meetings.</p>	<p align="center">COMPLIANT</p>	<p>Provide information on voting system, if any.</p>	<p>During the Annual Stockholders' Meeting, material RPTs are presented together with the other acts of the Board for ratification by stockholders whereby effectively, the majority of non-related party shareholders are also included in the voting. Their corresponding votes will be counted and reflected in the voting tabulation. See page 6 of the minutes of the 2019 Annual Stockholders' minutes where all significant related party transactions were ratified by the shareholders.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20ASM%20Minutes.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20ASM%20Minutes.pdf</a></p>

**Recommendation 2.8**

<p>1. Board is primarily responsible for approving the selection of Management led by the Chief Executive Officer (CEO) and the heads of the other control functions (Chief Risk Officer, Chief Compliance Officer and Chief Audit Executive).</p>	<p align="center">COMPLIANT</p>	<p>Provide information on or reference to a document containing the Board's policy and responsibility for approving the selection of management.</p> <p>Identity the Management team appointed</p>	<p>See page 11 of the Revised Corporate Governance Manual.</p> <p>BDOLF website:  <a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>
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<p>2. Board is primarily responsible for assessing the performance of Management led by the Chief Executive Officer (CEO) and the heads of the other control functions (Chief Risk Officer, Chief Compliance Officer and Chief Audit Executive).</p>	<p align="center">COMPLIANT</p>	<p>Provide information on or reference to a document containing the Board's policy and responsibility for assessing the performance of management.</p> <p>Provide information on the assessment process and indicate frequency of assessment of performance.</p>	<p>See page 11 of the Revised Corporate Governance Manual.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p> <p>The assessment process for senior management is part of the Board Performance Self-Assessment Form. This is being done annually.</p> <p>For the independent control functions, this is being done through the yearly Appraisal Report, which is individually reviewed by the respective board-level committees.</p>
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**Recommendation 2.9**

<p>1. Board establishes an effective performance management framework that ensures that Management's performance is at par with the standards set by the Board and Senior Management.</p>	<p align="center">COMPLIANT</p>	<p>Provide information on or link/reference to a document containing the Board's performance management framework for management and personnel.</p>	<p>The Key Result Areas (KRA) Plan which is the effective performance management framework ensures that individual performance is tracked versus standards set by Management and Board.</p>
<p>2. Board establishes an effective performance management framework that ensures that personnel's performance is at par with the standards set by the Board and Senior Management.</p>	<p align="center">COMPLIANT</p>		<p>All employees are similarly assessed using the pre-defined KRA, which considers the employees' functions.</p>

**Recommendation 2.10**

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<p>1. Board oversees that an appropriate internal control system is in place.</p>	<p align="center">COMPLIANT</p>	<p>Provide information on or link/reference to a document showing the Board's responsibility for overseeing that an appropriate internal control system is in place and what is included in the internal control system</p>	<p>See Internal Control and Risk Management on page 11 of the Revised Corporate Governance Manual.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/TermsofReferencecompilation.pdf">https://www.bdo.com.ph/sites/default/files/pdf/TermsofReferencecompilation.pdf</a></p> <p>The Board Audit Committee also ensures that a review of the effectiveness of the Company's internal control, including financial, operational and compliance controls and risk management is conducted annually.</p>
<p>2. The internal control system includes a mechanism for monitoring and managing potential conflict of interest of the Management, members and shareholders.</p>	<p align="center">COMPLIANT</p>		<p>Same</p>
<p>3. Board approves the Internal Audit Charter.</p>	<p align="center">COMPLIANT</p>	<p>Provide reference or link to the company's Internal Audit Charter</p>	<p>See attached Internal Audit Charter.</p>



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**Recommendation 2.11**

<p>1. Board oversees that the company has in place a sound enterprise risk management (ERM) framework to effectively identify, monitor, assess and manage key business risks.</p>	<p align="center">COMPLIANT</p>	<p>Provide information on or link/reference to a document showing the Board's oversight responsibility on the establishment of a sound enterprise risk management framework and how the board was guided by the framework.</p>	<p>See Internal Control and Risk Management on page 11 of the Revised Corporate Governance Manual.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>
<p>2. The risk management framework guides the board in identifying units/business lines and enterprise-level risk exposures, as well as the effectiveness of risk management strategies.</p>	<p align="center">COMPLIANT</p>	<p>Provide proof of effectiveness of risk management strategies, if any.</p>	<p>See Enterprise Risk Management Framework designed to enhance risk management framework through a holistic and integrated framework so that all material risks faced by the Company are identified, measured, evaluated, mitigated, and monitored and appropriately managed. See on page 30 of the Revised Corporate Governance Manual.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>

**Recommendation 2.12**

<p>1. Board has a Board Charter that formalizes and clearly states its roles, responsibilities and accountabilities in carrying out its fiduciary role.</p>	<p align="center">COMPLIANT</p>	<p>Provide link to the company's website where the Board Charter is disclosed.</p>	<p>See page 11 of the Revised Corporate Governance Manual.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>
<p>2. Board Charter serves as a guide to the directors in the performance of their functions.</p>	<p align="center">COMPLIANT</p>		<p>Yes.</p>

<b>INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT</b>			
3. Board Charter is publicly available and posted on the company's website.	COMPLIANT		<p>Yes.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>
<b>Additional Recommendation to Principle 2</b>			
1. Board has a clear insider trading policy.	COMPLIANT	Provide information on or link/reference to a document showing company's insider trading policy.	<p>See page 28 of the Revised Corporate Governance Manual</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>
<b>Optional: Principle 2</b>			
1. Company has a policy on granting loans to directors, either forbidding the practice or ensuring that the transaction is conducted at arm's length basis and at market rates.	COMPLIANT	Provide information on or link/reference to a document showing company's policy on granting loans to directors, if any.	<p>This is covered in the Related Party Transactions Policy published in the corporate website at: <a href="https://www.bdo.com.ph/sites/default/files/pdf/corporate_governance/Related-Party-Transaction%28RPT%29-Policy-as-of-October-2019.pdf">https://www.bdo.com.ph/sites/default/files/pdf/corporate_governance/Related-Party-Transaction%28RPT%29-Policy-as-of-October-2019.pdf</a></p>
2. Company discloses the types of decision requiring board of directors' approval.	COMPLIANT	Indicate the types of decision requiring board of directors' approval and where there are disclosed.	<p>The types of decision requiring board approval:</p> <ul style="list-style-type: none"> <li>• Corporate strategy, risk management policies and procedures, governance policies and practices, annual budgets and business plans, annual and interim financial statements, key operational initiatives, selection of CEO, the hiring, resignations and promotions of senior officers, succession planning, remuneration and nomination of</li> </ul>

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directors.

- Issuance of capital stocks, distribution of dividends, strategic plans, major capital expenditures, amendments of Articles of Incorporation and By-Laws, acquisitions, equity investments, fixed assets, mergers, joint ventures, divestments, and significant related party transactions

See page 4-18 Duties, Functions and Responsibilities of the Board in the Revised Corporate Governance Manual

**Principle 3:** Board committees should be set up to the extent possible to support the effective performance of the Board's functions, particularly with respect to audit, risk management, related party transactions, and other key corporate governance concerns, such as nomination and remuneration. The composition, functions and responsibilities of all committees established should be contained in a publicly available Committee Charter.

**Recommendation 3.1**

<p>1. Board establishes board committees that focus on specific board functions to aid in the optimal performance of its roles and responsibilities.</p>	<p align="center">COMPLIANT</p>	<p>Provide information or link/reference to a document containing information on all the board committees established by the company.</p>	<p>The Board has established 6 committees to assist in the performance of its roles and functions. See Establishing Board Committees page 18-21 of the Revised Corporate Governance Manual.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>
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**Recommendation 3.2**

<p>1. Board establishes an Audit Committee to enhance its oversight capability over the company's financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and</p>	<p align="center">COMPLIANT</p>	<p>Provide information or link/reference to a document containing information on the Audit Committee, including its functions.</p>	<p>See page 19-20 of the Revised Corporate Governance Manual.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>
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<p>regulations.</p>		<p>Indicate if it is the Audit Committee's responsibility to recommend the appointment and removal of the company's external auditor.</p>	<p>YES. See External Audit on page 20 and Strengthening the External Auditor's Independence on page 29 of the Revised Corporate Governance Manual.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>
<p>2. Audit Committee is composed of at least three appropriately qualified non-executive directors, the majority of whom, including the Chairman is independent.</p>	<p align="center">COMPLIANT</p>	<p>Provide information or link/reference to a document containing information on the members of the Audit Committee, including their qualifications and type of directorship.</p>	<p>The Audit Committee is composed of 3 members all of whom are Independent Directors including the Chairman. See page 42 of the 2019 SEC 17-Annual Report on the Audit Committee composition. Qualification can be seen on page 19 of the Revised Corporate Governance Manual</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>
<p>3. All the members of the committee have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing and finance.</p>	<p align="center">COMPLIANT</p>	<p>Provide information or link/reference to a document containing information on the background, knowledge, skills, and/or experience of the members of the Audit Committee.</p>	<p>See page 19 of the Revised Corporate Governance Manual on the qualifications and type of directorship of the Audit Committee members. See page 20-23 of the 2019 SEC 17- Annual Report on their qualifications.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a></p>

**INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT**

4. The Chairman of the Audit Committee is not the Chairman of the Board or of any other committee.	COMPLIANT	Provide information or link/reference to a document containing information on the Chairman of the Audit Committee	<p>The Chairman of the Audit Committee is Ma. Leonora V. De Jesus, Independent Director. She is not a Chairman of any other Board Committees. See page 22 of the 2019 SEC 17 Annual Report and page 20 of the Revised Corporate Governance Manual.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>
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**Supplement to Recommendation 3.2**

1. Audit Committee approves all non-audit services conducted by the external auditor.	COMPLIANT	Provide proof that the Audit Committee approved all non-audit services conducted by the external auditor.	<p>All services provided by the External Auditor are required to be approved by the Audit Committee. See External Audit on page 20 and Strengthening the External Auditor's Independence on page 29 of the Revised Corporate Governance Manual.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>
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2. Audit Committee conducts regular meetings and dialogues with the external audit team without anyone from management present.	COMPLIANT	Provide proof that the Audit Committee conducted regular meetings and dialogues with the external audit team without anyone from management present.	<p>The Audit Committee conducted a dialogue on February 20, 2018 with External Auditor without anyone from management present.</p> <p>This is being done in the Executive Session of the Independent and Non-Executive Directors (NED) without the presence of management. In 2019, there were 2 sessions of INEDs with the External Auditor.</p>
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**INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT**

**Optional: Recommendation 3.2**

<p>1. Audit Committee meet at least four times during the year.</p>	<p align="center">COMPLIANT</p>	<p>Indicate the number of Audit Committee meetings during the year and provide proof</p>	<p>In 2019, Audit Committee held 12 meetings. See attached Certification of the Office of the Corporate Secretary for Board Committee Attendance.</p>
<p>2. Audit Committee approves the appointment and removal of the internal auditor.</p>	<p align="center">COMPLIANT</p>	<p>Provide proof that the Audit Committee approved the appointment and removal of the internal auditor.</p>	<p>This is part of the Terms of Reference of the Audit Committee. See Internal Audit Division on page 19 of the 2018 Revised Corporate Governance Manual.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>

**Recommendation 3.3**

<p>1. Board establishes a Corporate Governance Committee tasked to assist the Board in the performance of its corporate governance responsibilities, including the functions that were formerly assigned to a Nomination and Remuneration Committee.</p>	<p align="center">COMPLIANT</p>	<p>Provide information or reference to a document containing information on the Corporate Governance Committee, including its functions</p> <p>Indicate if the Committee undertook the process of identifying the quality of directors aligned with the company's strategic direction, if applicable.</p>	<p>See page 20 of the Revised Corporate Governance Manual.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p> <p>The function of identifying the quality of directors is vested on the Nominations Committee, which is a separate and distinct committee.</p>
<p>2. Corporate Governance Committee is composed of at least three members, all of whom should be independent directors.</p>	<p align="center">COMPLIANT</p>	<p>Provide information or link/reference to a document containing information on the members of the Corporate Governance Committee, including their qualifications and type of directorship.</p>	<p>The Corporate Governance Committee is composed of 3 members all of whom are Independent Directors including the Chairman. See page 43 of the 2019 SEC 17-Annual Report on membership composition, and pages 20 to 23 on the qualification of the members.</p>

<b>INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT</b>			
			<a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a>
3. Chairman of the Corporate Governance Committee is an independent director.	COMPLIANT	Provide information or link/reference to a document containing information on the Chairman of the Corporate Governance Committee.	The Chairman of the Corporate Governance Committee is Atty. Jesse H.T. Andres, Independent Director. See See page 43 of the 2019 SEC 17- Annual Report.
<b>Optional: Recommendation 3.3.</b>			
1. Corporate Governance Committee meets at least twice during the year.	COMPLIANT	Indicate the number of Corporate Governance Committee meetings held during the year and provide proof thereof.	In 2019, the Corporate Governance Committee held 5 meetings. See 43 of the 2019 SEC 17- Annual Report.
<b>Recommendation 3.4</b>			
1. Board establishes a separate Board Risk Oversight Committee (BROC) that should be responsible for the oversight of a company's Enterprise Risk Management system to ensure its functionality and effectiveness.	COMPLIANT	Provide information or link/reference to a document containing information on the Board Risk Oversight Committee (BROC), including its functions	See Risk Management Committee on page 21 of the Revised Corporate Governance Manual.  <a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a>
2. BROC is composed of at least three members, the majority of whom should be independent directors, including the Chairman.	COMPLIANT	Provide information or link/reference to a document containing information on the members of the BROC, including their qualifications and type of directorship	The Risk Management Committee is composed of 3 members, majority of whom are Independent Directors including the Chairman. See page 20-23 of the 2019 SEC 17-Annual Report for the qualification of Committee members. <a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a>
3. The Chairman of the BROC is not the Chairman of the Board or of any other committee.	COMPLIANT	Provide information or link/reference to a document containing information on the Chairman of the BROC	The Chairman of the Risk Management Committee is Mr. Vicente S. Perez, Jr., Independent Director. See page 23 of the 2019 SEC 17-Annual Report.

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			<a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a>
4. At least one member of the BROCC has relevant thorough knowledge and experience on risk and risk management.	COMPLIANT	Provide information or link/reference to a document containing information on the background, skills, and/or experience of the members of the BROCC.	See page 20-23 of the 2019 SEC 17-Annual Report. Members are a banker, lawyer and investment officer (the last two having extensive experience in public administration).  <a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a>
<b>Recommendation 3.5</b>			
1. Board establishes a Related Party Transactions (RPT) Committee, which is tasked with reviewing all material related party transactions of the company.	COMPLIANT	Provide information or link/reference to a document containing information on the Related Party Transactions (RPT) Committee, including its functions.	See Related Party Transactions Committee on page 21 of the Revised Corporate Governance Manual.  <a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a>
2. RPT Committee is composed of at least three non-executive directors, two of whom should be independent, including the Chairman.	COMPLIANT	Provide information or link/reference to a document containing information on the members of the RPT Committee, including their qualifications and type of directorship.	The Related Party Transactions Committee is composed of 3 members all of whom are Non-Executive Directors, majority of whom are Independent Directors including the Chairman. See page 20-23 of the 2019 SEC 17-Annual Report on the membership composition and qualification of members.  <a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a>
<b>Recommendation 3.6</b>			



**INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT**

<p>1. All established committees have a Committee Charter stating in plain terms their respective purposes, memberships, structures, operations, reporting process, resources and other relevant information.</p>	<p align="center">COMPLIANT</p>	<p>Provide information on or link/reference to the company's committee charters, containing all the required information, particularly the functions of the Committee that is necessary for performance evaluation purposes.</p>	<p>Each committee has its own Terms of Reference that clearly define the composition, duties and responsibilities, which are approved by the Board. These are published in the Company's website at:</p> <p>BDOLF website:  <a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%20Terms%20of%20Reference.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%20Terms%20of%20Reference.pdf</a></p>
<p>2. Committee Charters provide standards for evaluating the performance of the Committees.</p>	<p align="center">COMPLIANT</p>		<p>Yes. This is included in the Terms of Reference of each committee.</p>
<p>3. Committee Charters were fully disclosed on the company's website.</p>	<p align="center">COMPLIANT</p>	<p>Provide link to company's website where the Committee Charters are disclosed.</p>	<p>Yes. These are published in the Company's website at:  <a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%20Terms%20of%20Reference.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%20Terms%20of%20Reference.pdf</a></p>

**Principle 4:** To show full commitment to the company, the directors should devote the time and attention necessary to properly and effectively perform their duties and responsibilities, including sufficient time to be familiar with the corporation's business.

**Recommendation 4.1**

<p>1. The Directors attend and actively participate in all meetings of the Board, Committees and shareholders in person or through tele-/videoconferencing conducted in accordance with the rules and regulations of the Commission.</p>	<p align="center">COMPLIANT</p>	<p>Provide information or link/reference to a document containing information on the process and procedure for tele-/videoconferencing board and/or committee meetings.</p> <p>Provide information or link/reference to a document containing information on the attendance and participation of directors to Board, Committee and shareholders' meetings.</p>	<p>BDOLF follows procedures set by SEC and BSP on tele/videoconferencing of board and/or committee meetings. See attached SEC Memorandum No. 15, Series of 2001, and BSP Circular No. 969, Series of 2017 and the Terms of Reference of BDOLF Committees.</p> <p>The Terms of Reference of BDOLF Committees can also be viewed through the following link:  <a href="https://www.bdo.com.ph/sites/default/files/pdf/Terms-of-Reference-2019.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Terms-of-Reference-2019.pdf</a></p>
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**INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT**

			<p>See attached disclosure on the attendance and participation of directors to Board meetings and Board-level Committee meetings, while attendance to shareholders' meetings can be seen in the Minutes of 2019 Annual Stockholders Meeting.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20ASM%20Minutes.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20ASM%20Minutes.pdf</a></p>
<p>2. The directors review meeting materials for all Board and Committee meetings.</p>	<p align="center">COMPLIANT</p>		<p>The directors are expected to prepare diligently for the meetings to evaluate and add value to the items presented, actively participate and contribute meaningfully to the discussions of the Board. See Board and Committee meetings on page 21-22 of the Revised Corporate Governance Manual.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>
<p>3. The directors ask the necessary questions or seek clarifications and explanations during the Board and Committee meetings.</p>	<p align="center">COMPLIANT</p>	<p>Provide information or link/reference to a document containing information on any questions raised or clarification/explanation sought by the directors</p>	<p>See Minutes of the 2019 Annual Stockholders Meeting (Open Forum).</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20ASM%20Minutes.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20ASM%20Minutes.pdf</a></p>

**INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT**

**Recommendation 4.2**

<p>1. Non-executive directors concurrently serve in a maximum of five publicly-listed companies to ensure that they have sufficient time to fully prepare for minutes, challenge Management's proposals/views, and oversee the long-term strategy of the company.</p>	<p align="center">COMPLIANT</p>	<p>Disclose if the company has a policy setting the limit of board seats that a non-executive director can hold simultaneously.</p> <p>Provide information or reference to a document containing information on the directorships of the company's directors in both listed and non-listed companies</p>	<p>See <a href="#">Multiple Board Seats</a> on page 22 of the Revised Corporate Governance Manual.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p> <p>See page 20-23 of the 2019 SEC 17 - Annual Report for the list of directorships in PLCs and non-PLCs of the members of the BDOLF Board.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a></p>
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**Recommendation 4.3**

<p>1. The directors notify the company's board before accepting a directorship in another company.</p>	<p align="center">COMPLIANT</p>	<p>Provide copy of written notification to the board or minutes of board meeting wherein the matter was discussed.</p>	<p>This is part of the <a href="#">Multiple Board Seats Policy</a> on page 22 of the Revised Corporate Governance Manual,</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>
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**Optional: Principle 4**

<p>1. Company does not have any executive directors who serve in more than two boards of listed companies outside of the group.</p>	<p align="center">COMPLIANT</p>		<p>Yes. Executive Directors Nestor V. Tan, Robert E. Lapid, Antonio N. Cotoco, Luis S. Reyes, Jr., Walter S. Wassmer, sits in the BDOLF and BDO Board. They have no directorships in a listed company outside of the Bank.</p> <p>See their profiles on pages 20-23 of the 2019 SEC 17-Annual Report. 2019</p>
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			<a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a>
2. Company schedules board of directors' meetings before the start of the financial year.	COMPLIANT		<p>Schedule of regular board meetings for the coming year is set in advance before the start of the new calendar year and published in the Board Calendar of Activities for the information and guidance of all directors and advisers. See Board Meetings-Frequency on page 21 of the Revised Corporate Governance Manual.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>
3. Board of directors meets at least six times during the year.	COMPLIANT	Indicate the number of board meetings during the year and provide proof	In 2019, the BDO Board met 14 times. See attached disclosure on the attendance and participation of directors to Board meetings.
4. Company requires as minimum quorum of at least 2/3 for board decisions.	COMPLIANT	Indicate the required minimum quorum for board decisions	The Company's Board meetings have always been attended by more than 2/3 of the members deciding on any matter for approval by the Board. Hence, the requirement of at least 2/3 minimum quorum for board decisions has been consistently complied with. See attached meeting attendance of directors, which are above 75% of all meetings.

**INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT**

**Principle 5:** The board should endeavor to exercise an objective and independent judgment on all corporate affairs

**Recommendation 5.1**

<p>1. The Board has at least 3 independent directors or such number as to constitute one-third of the board, whichever is higher.</p>	<p align="center">COMPLIANT</p>	<p>Provide information or link/reference to a document containing information on the number of independent directors in the board</p>	<p>The Company's Board shall have at least 3 Independent Directors. Currently, the 3 Independent Directors constitute 27% of the full Board. See Independent Directors on page 22 of the Revised Corporate Governance Manual and Composition on page 20-23 of the 2019 SEC 17- Annual Report.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a></p>
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**Recommendation 5.2**

<p>1. The independent directors possess all the qualifications and none of the disqualifications to hold the positions.</p>	<p align="center">COMPLIANT</p>	<p>Provide information or link/reference to a document containing information on the qualifications of the independent directors.</p>	<p>See Profiles of the Independent Directors on page 20-23 of the 2019 SEC 17- Annual Report.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a></p>
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**Supplement to Recommendation 5.2**

<p>1. Company has no shareholder agreements, by-laws provisions, or other arrangements that constrain the directors' ability to vote independently.</p>	<p align="center">COMPLIANT</p>	<p>Provide link/reference to a document containing information that directors are not constrained to vote independently.</p>	<p>The Company has no voting trust agreements and restrictions in the By-Laws that constrain the directors' ability to vote independently.</p>
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**INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT**

**Recommendation 5.3**

<p>1. The independent directors serve for a cumulative term of nine years (reckoned from 2012).</p>	<p align="center">COMPLIANT</p>	<p>Provide information or link/reference to a document showing the years IDs have served as such.</p>	<p>See Tenure/Term Limits of Independent Directors on page 24 of the Revised Corporate Governance Manual.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>
<p>2. The company bars an independent director from serving in such capacity after the term limit of nine years.</p>	<p align="center">COMPLIANT</p>	<p>Provide information or link/reference to a document containing information on the company's policy on term limits for its independent director</p>	<p>See Tenure/Term Limits of Independent Directors on page 24 of the Revised Corporate Governance Manual.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>
<p>3. In the instance that the company retains an independent director in the same capacity after nine years, the board provides meritorious justification and seeks shareholders' approval during the annual shareholders' meeting.</p>	<p align="center">COMPLIANT</p>	<p>Provide reference to the meritorious justification and proof of shareholders' approval during the annual shareholders' meeting.</p>	<p>This is part of the Tenure/Term Limits of Independent Directors Policy. As of 2019, all independent directors of the Company have not served in such capacity for more than nine years.</p>

**Recommendation 5.4**

<p>1. The positions of Chairman of the Board and Chief Executive Officer are held by separate individuals.</p>	<p align="center">COMPLIANT</p>	<p>Identify the company's Chairman of the Board and Chief Executive Officer</p>	<p>The Chairperson of the Board is Ms. Teresita T. Sy while the President is Mr. Roberto E. Lapid.</p>
<p>2. The Chairman of the Board and Chief Executive Officer have clearly defined responsibilities.</p>	<p align="center">COMPLIANT</p>	<p>Provide information or link/reference to a document containing information on the roles and responsibilities of the Chairman of</p>	<p>Their roles are separate and distinct from each other to achieve a balance of authority, clear accountability, and better capacity for independent decision making.</p>

**INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT**

		<p>the Board and Chief Executive Officer.</p> <p>Identify the relationship of Chairman and CEO.</p>	<p>See Chairperson of the Board and Chief Executive Officer on page 24-25 of the Revised Corporate Governance Manual.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p> <p>The Chairman and President have no family relationship.</p>
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**Recommendation 5.5**

<p>1. If the Chairman of the Board is not an independent director, the board designates a lead director among the independent directors.</p>	<p><b>COMPLIANT</b></p>	<p>Provide information or link/reference to a document containing information on a lead independent director and his roles and responsibilities, if any.</p> <p>Indicate if Chairman is independent.</p>	<p>The Chairperson of the Board is a Non-Executive Director as prescribed by the BSP. The Company has a Lead Independent Director (Ma. Leonora V. De Jesus) who was appointed by the Board from amongst the Independent Directors. See her functions on page 25 of the Revised Corporate Governance Manual.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>
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**Recommendation 5.6**

<p>1. Directors with material interest in a transaction affecting the corporation abstain from taking part in the deliberations on the transaction.</p>	<p><b>COMPLIANT</b></p>	<p>Provide proof of abstention, if this was the case</p>	<p>The Related Party Transactions Policy of the Company requires any member of the reviewing committee or the Board who has a potential interest in any proposed related party transaction shall abstain from the discussion or deliberation.</p>
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**Recommendation 5.7**

**INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT**

<p>1. The non-executive directors (NEDs) have separate periodic meetings with the external auditor and heads of the internal audit, compliance and risk functions, without any executive present.</p>	<p align="center">COMPLIANT</p>	<p>Provide proof and details of said meeting, if any.</p> <p>Provide information on the frequency and attendees of meetings.</p>	<p>In 2019, there were 3 executive sessions with the External Auditor, Chief Risk Officer &amp; Compliance Officer and Internal Auditor without the presence of the Management. See discussion on 2019 Compliance with Leading Practices on Corporate Governance in page 43 of the 2019 SEC 17 Annual Report</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a></p>
<p>2. The meetings are chaired by the lead independent director.</p>	<p align="center">COMPLIANT</p>		<p>Ms. Leonora V De Jesus, Lead Independent Director chaired these meetings. See page 43 of SEC 17-Annual Report.</p>

**Optional: Principle 5**

<p>1. None of the directors is a former CEO of the company in the past 2 years.</p>	<p align="center">COMPLIANT</p>	<p>Provide name/s of company CEO for the past 2 years</p>	<p>The Company's President for the last 2 years until now is Mr. Roberto E. Lapid.</p>
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**Principle 6:** The best measure of the Board's effectiveness is through an assessment process. The Board should regularly carry out evaluations to appraise its performance as a body, and assess whether it possesses the right mix of backgrounds and competencies.

**Recommendation 6.1**



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<p>1. Board conducts an annual self-assessment of its performance as a whole.</p>	<p align="center">COMPLIANT</p>	<p>Provide proof of self-assessments conducted for the whole board, the individual members, the Chairman and the Committees</p>	<p>A yearly self-assessment is conducted focusing on the performance of the Board, Directors, Committees and senior management, through the Corporate Governance Committee, using an approved set of questionnaires. For the year 2019 coverage period, the Company commissioned to engage an independent assessor to do the 2019 assessment of the Board's performance. It is expected to be completed in July 2020. See page 35 of the 2019 SEC 17 - Annual Report.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a></p>
<p>2. The Chairman conducts a self-assessment of his performance.</p>	<p align="center">COMPLIANT</p>		<p>Yes, this is part of the yearly Board Self-Assessment.</p>
<p>3. The individual members conduct a self-assessment of their performance.</p>	<p align="center">COMPLIANT</p>		<p>Yes, this is part of the yearly Board Self-Assessment.</p>
<p>4. Each committee conducts a self-assessment of its performance.</p>	<p align="center">COMPLIANT</p>		<p>Yes, this is part of the yearly Board Self-Assessment.</p>
<p>5. Every three years, the assessments are supported by an external facilitator.</p>		<p>Identify the external facilitator and provide proof of use of an external facilitator.</p>	<p>For year 2019 assessment of the Board's performance, the Company commissioned Institute of Corporate Directors (ICD) to facilitate the Board Effectiveness Evaluation in compliance with the SEC Code of Corporate Governance, and to further align its governance framework with the principles</p>

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of the said Code and global best practices. Part of the engagement of ICD is to facilitate a self and peer evaluation process on the Board, Board Committees, and individual directors and senior management. The results thereof are validated through focused interviews with individual directors and senior management. See page 35 of the 2019 SEC 17-Annual Report.

- <https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf>

**Recommendation 6.2**

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<p>1. Board has in place a system that provides, at the minimum, criteria and process to determine the performance of the Board, individual directors and committees.</p>	<p align="center">COMPLIANT</p>	<p>Provide information or link/reference to a document containing information on the system of the company to evaluate the performance of the board, individual directors and committees, including a feedback mechanism from shareholders</p>	<p>The Board recognizes the importance and benefits of conducting annual self-assessment to determine its effectiveness. The Board, through the Corporate Governance Committee, undertakes the evaluation of its performance as a collective body, its Committees including the performance of the Chairperson to determine whether they are functioning effectively, pinpoint areas for improvement and assess whether it possesses the right mix of backgrounds and competencies. The Corporate Governance Committee reports the results of the self-assessment to the Board.</p> <p>A Director Peer Evaluation is also be conducted annually. Each director is requested to rate his/her colleagues on the Board using a prescribed questionnaire.</p>
<p>2. The system allows for a feedback mechanism from the shareholders.</p>	<p align="center">COMPLIANT</p>		<p><u><a href="#">The result of the yearly self-assessment is published either in the Annual Report which is distributed to the shareholders or in the Company's website hence, they could comment on the information published.</a></u></p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a></p>

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**Principle 7:** Members of the Board are duty-bound to apply high ethical standards, taking into account the interests of all stakeholders.

**Recommendation 7.1**

<p>1. Board adopts a Code of Business Conduct and Ethics, which provide standards for professional and ethical behavior, as well as articulate acceptable and unacceptable conduct and practices in internal and external dealings of the company.</p>	<p align="center">COMPLIANT</p>	<p>Provide information on or link/reference to the company's Code of Business Conduct and Ethics.</p>	<p>The Revised Code of Business Conduct and Ethics is published in the corporate website at :</p> <p><a href="https://www.bdo.com.ph/sites/default/files/BDO%20CODE%20OF%20CONDUCT%20AND%20BUSINESS%20ETHICS.pdf">https://www.bdo.com.ph/sites/default/files/BDO%20CODE%20OF%20CONDUCT%20AND%20BUSINESS%20ETHICS.pdf</a></p>
<p>2. The Code is properly disseminated to the Board, senior management and employees.</p>	<p align="center">COMPLIANT</p>	<p>Provide information on or discuss how the company disseminated the Code to its Board, senior management and employees.</p>	<p>The Human Resources Group and the Office of the Corporate Secretary are responsible for overseeing the implementation of this Code across the BDO Unibank Group. This was disseminated groupwide through the eNewsgram. Officers and staff were required to sign the Acknowledgment Receipt Form to document that they have read and understand the provisions of the Code. See page 7 of the Code – Responsibility for Implementation.</p>
<p>3. The Code is disclosed and made available to the public through the company website.</p>	<p align="center">COMPLIANT</p>	<p>Provide a link to the company's website where the Code of Business Conduct and Ethics is posted/ disclosed.</p>	<p>The Revised Code of Business Conduct and Ethics is published in the corporate website at :</p> <p><a href="https://www.bdo.com.ph/sites/default/files/BDO%20CODE%20OF%20CONDUCT%20AND%20BUSINESS%20ETHICS.pdf">https://www.bdo.com.ph/sites/default/files/BDO%20CODE%20OF%20CONDUCT%20AND%20BUSINESS%20ETHICS.pdf</a></p>

**Supplement to Recommendation 7.1**

<p>1. Company has clear and stringent policies and procedures on curbing and penalizing company involvement in offering, paying and receiving</p>	<p align="center">COMPLIANT</p>	<p>Provide information on or link/reference to a document containing information on the company's policy and procedure on</p>	<p><b>NO CHANGE</b> See page 4 # 6 Acceptance/Solicitation of Gifts, Bribery and Corruption under Observance of Standards of Conduct for</p>
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bribes.		curbing and penalizing bribery	Individuals of the Revised Code of Business Conduct and Ethics. Likewise, the institution commits to comply with anti-corruption and bribery laws in all jurisdictions it operates.  <a href="https://www.bdo.com.ph/sites/default/files/B_DOLF%20CODE%20OF%20CONDUCT%20AND%20BUSINESS%20ETHICS.pdf">https://www.bdo.com.ph/sites/default/files/B_DOLF%20CODE%20OF%20CONDUCT%20AND%20BUSINESS%20ETHICS.pdf</a>
<b>Recommendation 7.2</b>			
1. Board ensures the proper and efficient implementation and monitoring of compliance with the Code of Business Conduct and Ethics.	COMPLIANT	Provide proof of implementation and monitoring of compliance with the Code of Business Conduct and Ethics and internal policies.  Indicate who are required to comply with the Code of Business Conduct and Ethics and any findings on non-compliance.	All directors and employees are required to acknowledge that they have read and understood the Code stipulating their compliance with the standards and policies set forth therein.  The Code applies at all times to all members of the Board of Directors and BDO Unibank Group employees in their dealings with clients, business partners and service providers. See page 1 of the Code – Applicability of the Code and Commitment to the Code.
2. Board ensures the proper and efficient implementation and monitoring of compliance with company internal policies.	COMPLIANT		See page 7 of the Code – Responsibility for Implementation, and Approval and Disclosure
<b>Disclosure and Transparency</b>			
<b>Principle 8:</b> The company should establish corporate disclosure policies and procedures that are practical and in accordance with best practices and regulatory expectations.			
<b>Recommendation 8.1</b>			
1. Board establishes corporate disclosure policies and procedures to ensure a comprehensive, accurate, reliable and	COMPLIANT	Provide information on or link/reference to the company's disclosure policies and procedures	See page 27 Section 8, Enhancing Company Disclosure Policies and Procedures of the Revised Corporate Governance Manual.

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timely report to shareholders and other stakeholders that give a fair and complete picture of a company's financial condition, results and business operations.		including reports distributed/made available to shareholders and other stockholders	<a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a>
<b>Supplement to Recommendations 8.1</b>			
1. Company distributes or makes available annual and quarterly consolidated reports, cash flow statements, and special audit revisions. Consolidated financial statements are published within ninety (90) days from the end of the fiscal year, while interim reports are published within forty-five (45) days from the end of the reporting period.	<b>COMPLIANT</b>	Indicate the number of days within which the consolidated and interim reports were published, distributed or made available from the end of the fiscal year and end of the reporting period, respectively.	<p>As a policy, audited financial statements are released not later than 60 days after the close of the financial year. The 2019 FS were disclosed to the PSE 60 days from Dec. 31, 2018.</p> <p>The interim reports for 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> quarter of 2019 were disclosed to the PSE respectively after the end of the quarter.</p>
2. Company discloses in its annual report the principal risks associated with the identity of the company's controlling shareholders; the degree of ownership concentration; cross-holdings among company affiliates; and any imbalances between the controlling shareholders' voting power and overall equity position in the company.	<b>COMPLIANT</b>	<p>Provide link or reference to the company's annual report where the following are disclosed:</p> <ol style="list-style-type: none"> <li>principal risks to minority shareholders associated with the identity of the company's controlling shareholders;</li> </ol>	<ol style="list-style-type: none"> <li>The principal risk to minority shareholders could arise from Related Party Transactions. However, because all RPTs are done on an arms' length basis and are compliant with BSP regulations, this risk is properly managed and controlled. For material RPTs, the Related Party Transactions Committee reviews the transaction to ensure that there is no preferential treatment and that it is done at arm's length before these are endorsed to the Board for approval. See page 29 of 2019 SEC 17-Annual Report.</li> <li>See Item 12 pages 29 to 33 of BDOLF's 2019 SEC 17- Annual Report for disclosures on Certain Relationships and Related Transactions.</li> <li>No imbalances exist.</li> </ol>
	<b>COMPLIANT</b>	<ol style="list-style-type: none"> <li>cross-holdings among company affiliates; and</li> </ol>	

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	<b>COMPLIANT</b>	3. any imbalances between the controlling shareholders' voting power and overall equity position in the company.	<a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a>
<b>Recommendation 8.2</b>			
1. Company has a policy requiring all directors to disclose/report to the company any dealings in the company's shares within three business days.	<b>COMPLIANT</b>	Provide information on or link/reference to the company's policy requiring directors and officers to disclose their dealings in the company's share.	See page 1 Applicability of the Personal Trading Policy to all directors, officers and employees of BDO Unibank, Inc. and its subsidiaries which is published in the corporate website at:  <a href="https://www.bdo.com.ph/sites/default/files/PERSONAL%20TRADING%20POLICY.pdf">https://www.bdo.com.ph/sites/default/files/PERSONAL%20TRADING%20POLICY.pdf</a>
2. Company has a policy requiring all officers to disclose/report to the company any dealings in the company's shares within three business days.	<b>COMPLIANT</b>	Indicate actual dealings of directors involving the corporation's shares including their nature, number/percentage and date of transaction.	Actual dealings of shares are disclosed in PSE Edge within 3 days after transaction date. The disclosures are published in the corporate website at : <a href="https://www.bdo.com.ph/leasing/company-disclosures/files/pdf">https://www.bdo.com.ph/leasing/company-disclosures/files/pdf</a>
<b>Supplement to Recommendation 8.2</b>			
1. Company discloses the trading of the corporation's shares by directors, officers (or persons performing similar functions) and controlling shareholders. This includes the disclosure of the company's purchase of its shares from the market (e.g. share buy-back program).	<b>COMPLIANT</b>	Provide information on or link/reference to the shareholdings of directors, management and top 100 shareholders.  Provide link or reference to the company's Conglomerate Map.	See attached quarterly disclosure to PSE of BDOLF's Public Ownership Report and List of BDOLF's Top 100 stockholders for 2019, which can also be viewed through the following links: PSE EDGE: <a href="http://edge.pse.com.ph/companyDisclosures/form.do?cmpy_id=31">http://edge.pse.com.ph/companyDisclosures/form.do?cmpy_id=31</a>  <a href="https://www.bdo.com.ph/leasing/investor-relations">https://www.bdo.com.ph/leasing/investor-relations</a>
<b>Recommendation 8.3</b>			
1. Board fully discloses all relevant and	<b>COMPLIANT</b>	Provide link or reference to the	<b>NO CHANGE</b>

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<p>material information on individual board members to evaluate their experience and qualifications, and assess any potential conflicts of interest that might affect their judgment.</p>		<p>directors' academic qualifications, share ownership in the company, membership in other boards, other executive positions, professional experiences, expertise and relevant trainings attended.</p>	<p>See page 20-23 (Board of Directors) and page 28 (Security Ownership Management) Board of Directors of the 2019 SEC 17 - Annual Report</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a>.</p>
<p>2. Board fully discloses all relevant and material information on key executives to evaluate their experience and qualifications, and assess any potential conflicts of interest that might affect their judgment.</p>	<p align="center">COMPLIANT</p>	<p>Provide link or reference to the key officers' academic qualifications, share ownership in the company, membership in other boards, other executive positions, professional experiences, expertise and relevant trainings attended.</p>	<p>See page 12-13 of the 2019 Definitive Information Statement. The security ownership of management is in page 5 of the report.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%20Definitive%20Information%20Statement%20for%202019%20Annual%20Stockholders%20Meeting.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%20Definitive%20Information%20Statement%20for%202019%20Annual%20Stockholders%20Meeting.pdf</a></p>
<p><b>Recommendation 8.4</b></p>			
<p>1. Company provides a clear disclosure of its policies and procedure for setting Board remuneration, including the level and mix of the same.</p>	<p align="center">COMPLIANT</p>	<p>Disclose or provide link/reference to the company policy and practice for setting board remuneration</p>	<p>See Article III, Section 5 (Compensation of Directors) and Article IV, Section 2 (Compensation of Officers) of the Amended By-Laws, which can also be viewed in BDOLF's website through the following link:</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF_by_Laws.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF_by_Laws.pdf</a></p>
<p>2. Company provides a clear disclosure of its policies and procedure for setting executive remuneration, including the level and mix of the same.</p>	<p align="center">COMPLIANT</p>	<p>Disclose or provide link/reference to the company policy and practice for determining executive remuneration</p>	<p>See page 5-6 Remuneration and Other Incentives of Directors and Senior Management of the Revised Corporate Governance Manual.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>



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<p>3. Company discloses the remuneration on an individual basis, including termination and retirement provisions.</p>	<p>NOT COMPLIANT</p>	<p>Provide breakdown of director remuneration and executive compensation, particularly the remuneration of the CEO.</p>	<p>On the disclosure of remuneration on an individual basis for Board members and Executive Officers, the Board has serious concerns given the possible adverse security issues and poaching of talents by competitors in the industry. Hence, it has decided it will not be to the best interest of the Company to do so at this time. It will disclose the remuneration figures on a consolidated basis only. See page 5 and 6 of the Revised Corporate Governance Manual as stated.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p> <p>In light of the Revised Corporation Code (R.A. 11232), the Company shall await guidance from the Securities and Exchange Commission, by way of a Memorandum Circular, with regard to the disclosure of the remuneration of directors on an individual basis.</p>
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**Recommendation 8.5**

<p>1. Company discloses its policies governing Related Party Transactions (RPTs) and other unusual or infrequently occurring transactions in their Manual on Corporate Governance.</p>	<p>COMPLIANT</p>	<p>Disclose or provide reference/link to company's RPT policies</p> <p>Indicate if the director with conflict of interest abstained from the board discussion on that particular transaction.</p>	<p>See attached Annex A (Related Party Transactions Policy) of the Revised Corporate Governance Manual.</p> <p>See pages 45-64, Annex A (Related Party Transactions Policy) of the Revised Corporate Governance Manual.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/">https://www.bdo.com.ph/sites/default/files/</a></p>
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			<p><a href="#">pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p> <p>The updated Related Party Transaction Policy of the Company was enhanced in order to conform with the requirement of SEC Memorandum Circular No. 10 (Series of 2019).</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/corporate_governance/Related-Party-Transaction%28RPT%29-Policy-as-of-October-2019.pdf">https://www.bdo.com.ph/sites/default/files/pdf/corporate_governance/Related-Party-Transaction%28RPT%29-Policy-as-of-October-2019.pdf</a></p>
<p>2. Company discloses material or significant RPTs reviewed and approved during the year.</p>	<p align="center"><b>COMPLIANT</b></p>	<p>Provide information on all RPTs for the previous year or reference to a document containing the following information on all RPTs:</p> <ol style="list-style-type: none"> <li>1. name of the related counterparty;</li> <li>2. relationship with the party;</li> <li>3. transaction date;</li> <li>4. type/nature of transaction;</li> <li>5. amount or contract price;</li> <li>6. terms of the transaction;</li> <li>7. rationale for entering into the transaction;</li> <li>8. the required approval (i.e., names of the board of directors approving, names and percentage of shareholders who approved) based on the company's policy; and</li> <li>9. other terms and conditions</li> </ol>	<p>The RPT Disclosure or the Note 21 of the Company's 2019 and 2018 AFS are compliant with the applicable PFRS and SEC SRC reporting standards.</p> <p>Aside from the Advisement Report to be submitted to the SEC, the Company's RPT policy requires public disclosure of material RPTs that meet or exceed 10% of the Bank's total assets by including a summary thereof in the Integrated-Annual Corporate Governance Report. In 2019, public disclosures were made on material RPTs that meet or exceeded 20% of the Company's total assets. Please refer to the attached summary of Material Related Party Transactions of the Company in 2019.</p>

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**Supplement to Recommendation 8.5**

<p>1. Company requires directors to disclose their interests in transactions or any other conflict of interests.</p>	<p align="center">COMPLIANT</p>	<p>Indicate where and when directors disclose their interests in transactions or any other conflict of interests.</p>	<p>See Conflicts of Interest Policy wherein directors and employees are required that any financial and personal interest or benefit in any transaction involving BDO must be disclosed. When presented with a situation involving a potential conflict of interest, it is necessary to disclose the possible conflict in writing to the Supervising Officer, in case of officer or employee, or to the Board of Directors, in case of Directors. This is documented through the Conflict of Interest (COI) Form. This policy is published in the corporate website thru the Annual Corporate Governance Report (page 53)</p> <p><a href="https://www.bdo.com.ph/sites/default/files/Conflict%20of%20Interest%20Disclosure%20Form.pdf">https://www.bdo.com.ph/sites/default/files/Conflict%20of%20Interest%20Disclosure%20Form.pdf</a></p>
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**Optional : Recommendation 8.5**

<p>1. Company discloses that RPTs are conducted in such a way to ensure that they are fair and at arms' length.</p>	<p align="center">COMPLIANT</p>	<p>Provide link or reference where this is disclosed, if any</p>	<p>The process of ensuring that RPTs are conducted in a fair and at arms' length manner could be found in –the Related Party Transactions Policy. The Revised Related Party Transactions Policy provides a general approval matrix to be observed to ensure proper review and approval of transactions between the Company and a Related Party. In 2019, the Company engaged in related party transactions that breached the threshold set by SEC Memorandum Circular No. 10 (Series of 2019)</p>
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[https://www.bdo.com.ph/sites/default/files/pdf/corporate\\_governance/Related-Party-Transaction%28RPT%29-Policy-as-of-October-2019.pdf](https://www.bdo.com.ph/sites/default/files/pdf/corporate_governance/Related-Party-Transaction%28RPT%29-Policy-as-of-October-2019.pdf).

**Recommendation 8.6**

<p>1. Company makes a full, fair, accurate and timely disclosure to the public of every material fact or event that occur, particularly on the acquisition or disposal of significant assets, which could adversely affect the viability or the interest of its shareholders and other stakeholders.</p>	<p align="center">COMPLIANT</p>	<p>Provide link or reference where this is disclosed</p>	<p>Material fact or events are disclosed to PSE EDGE under "Company Disclosures". See below link to said section of PSE EDGE:</p> <p><a href="http://edge.pse.com.ph/companyDisclosures/form.do?cmpy_id=31">http://edge.pse.com.ph/companyDisclosures/form.do?cmpy_id=31</a></p> <p>Company disclosures are also available in BDOLF's website and can be viewed using the following link:</p> <p><a href="https://www.bdo.com.ph/leasing/company-disclosures">https://www.bdo.com.ph/leasing/company-disclosures</a></p>
<p>2. Board appoints an independent party to evaluate the fairness of the transaction price on the acquisition or disposal of assets.</p>	<p align="center">COMPLIANT</p>	<p>Identify independent party appointed to evaluate the fairness of the transaction price</p> <p>Disclose the rules and procedures for evaluating the fairness of the transaction price, if any.</p>	<p>The Company's RPT Committee composed of Independent Directors, evaluates the fairness of the transaction price on acquisition or disposal of assets.</p> <p>Further, the Company's Related Party Transactions Policy requires that related party transactions, whose values meet or exceed 10% of the Company's total assets, require review of an external independent party to evaluate the fairness of its terms and conditions and approval of 2/3 vote of the Board, with at least a majority of the independent directors voting affirmatively.</p>

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[https://www.bdo.com.ph/sites/default/files/pdf/corporate\\_governance/Related-Party-Transaction%28RPT%29-Policy-as-of-October-2019.pdf](https://www.bdo.com.ph/sites/default/files/pdf/corporate_governance/Related-Party-Transaction%28RPT%29-Policy-as-of-October-2019.pdf)

**Supplement to Recommendation 8.6**

<p>1. Company discloses the existence, justification and details on shareholder agreements, voting trust agreements, confidentiality agreements, and such other agreements that may impact on the control, ownership, and strategic direction of the company.</p>	<p>COMPLIANT</p>	<p>Provide link or reference where these are disclosed.</p>	<p>See page 5 of the Definitive Information Statement particularly NOTE on Security Ownership of certain record/beneficial owners wherein the Company disclosed that there are no voting trust shares or shares issued pursuant to a Voting Trust Agreement registered with BDOLF nor has there been any change in control of BDOLF. BDOLF is also not aware of any contractual arrangement or otherwise between its shareholders and/or third parties, which may result in change in control of BDOLF.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%20Definitive%20Information%20Statement%20for%202019%20Annual%20Stockholders%20Meeting.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%20Definitive%20Information%20Statement%20for%202019%20Annual%20Stockholders%20Meeting.pdf</a></p>
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**Recommendation 8.7**

<p>1. Company's corporate governance policies, programs and procedures are contained in its Manual on Corporate Governance (MCG).</p>	<p>COMPLIANT</p>	<p>Provide link to the company's website where the Manual on Corporate Governance is posted.</p>	<p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>
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2. Company's MCG is submitted to the SEC and PSE.	COMPLIANT		The latest version of the Corporate Governance Manual was submitted to the SEC on Nov 22, 2018. It can be viewed in PSE EDGE at:  <a href="http://edge.pse.com.ph/companyDisclosures/form.do?cmpy_id=31">http://edge.pse.com.ph/companyDisclosures/form.do?cmpy_id=31</a>
3. Company's MCG is posted on its company website.	COMPLIANT		<a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a>
<b>Supplement to Recommendation 8.7</b>			
1. Company submits to the SEC and PSE an updated MCG to disclose any changes in its corporate governance practices.	COMPLIANT	Provide proof of submission.	The latest version of the Corporate Governance Manual was submitted to the SEC on Nov 22,, 2018. It can be viewed in PSE EDGE at:  <a href="http://edge.pse.com.ph/companyDisclosures/form.do?cmpy_id=31">http://edge.pse.com.ph/companyDisclosures/form.do?cmpy_id=31</a>
<b>Optional: Principle 8</b>			
1. Does the company's Annual Report disclose the following information:		Provide link or reference to the company's Annual Report containing the said information.	
a. Corporate Objectives	COMPLIANT		See page 15-18 of the 2019 SEC 17 - Annual Report re: Management Discussion or Analysis and Plan of Operations 2019  <a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a>

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b. Financial performance indicators	COMPLIANT		<p>See page 15-18 of the 2019 SEC 17-Annual Report re: Management Discussion or Analysis and Plan of Operations</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a></p>
c. Non-financial performance indicators	COMPLIANT		<p>See page 15-18 of the 2019 SEC 17-Annual Report re: Management Discussion or Analysis and Plan of Operations</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a></p>
d. Dividend Policy	COMPLIANT		<p>See page 13 of the 2019 SEC-17 Annual Report re: Market for Issuer's Common Equity and Related Stockholder Matters</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a></p>
e. Biographical details (at least age, academic qualifications, date of first appointment, relevant experience, and other directorships in listed companies) of all directors	COMPLIANT		<p>See page 19-23 of the 2019 SEC 17 - Annual Report re: Directors and Executive Officers of the Registrant</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a></p>
f. Attendance details of each director in all directors meetings held during the year	COMPLIANT		<p>See Attached Certificate of attendance of Board meetings and committee meetings, respectively. (Annex G)</p>

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g. Total remuneration of each member of the board of directors	COMPLIANT		The total remuneration is disclosed on a consolidated basis for reason of security and possible poaching of talents by competitors in the industry.
2. The Annual Report contains a statement confirming the company's full compliance with the Code of Corporate Governance and where there is non-compliance, identifies and explains reason for each such issue.	COMPLIANT	Provide link or reference to where this is contained in the Annual Report	See page 34 to 40 of the 2019 SEC 17 -Annual Report re: Compliance with the SEC Code of Corporate Governance  <a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a>
3. The Annual Report/Annual CG Report discloses that the board of directors conducted a review of the company's material controls (including operational, financial and compliance controls) and risk management systems.	COMPLIANT	Provide link or reference to where this is contained in the Annual Report	See page 34 of the 2019 SEC 17 - Annual Report and pages 41-42 of the Audit Committee Report in the 2019 SEC 17 - Annual Report.  <a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a>
4. The Annual Report/Annual CG Report contains a statement from the board of directors or Audit Committee commenting on the adequacy of the company's internal controls/risk management systems.	COMPLIANT	Provide link or reference to where this is contained in the Annual Report	See pages 41 of the Audit Committee Report in the 2019 SEC 17 - Annual Report <a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a>
5. The company discloses in the Annual Report the key risks to which the company is materially exposed to (i.e. financial, operational including IT, environmental, social, economic).	COMPLIANT	Provide link or reference to where these are contained in the Annual Report	See pages 85-105 re Notes to the Financial Statements attached to the 2019 SEC 17 - Annual Report.  <a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a>



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**Principle 9:** The company should establish standards for the appropriate selection of an external auditor, and exercise effective oversight of the same to strengthen the external auditor's independence and enhance audit quality.

**Recommendation 9.1**

<p>1. Audit Committee has a robust process for approving and recommending the appointment, reappointment, removal, and fees of the external auditors.</p>	<p align="center">COMPLIANT</p>	<p>Provide information or link/reference to a document containing information on the process for approving and recommending the appointment, reappointment, removal and fees of the company's external auditor.</p>	<p>See page 29 Section 9. Strengthening the External Auditor's Independence and Improving Audit Quality of the Revised Corporate Governance Manual on the Audit Committee Oversight Function on the External Auditor.</p>
<p>2. The appointment, reappointment, removal, and fees of the external auditor is recommended by the Audit Committee, approved by the Board and ratified by the shareholders.</p>	<p align="center">COMPLIANT</p>	<p>Indicate the percentage of shareholders that ratified the appointment, reappointment, removal and fees of the external auditor.</p>	<p>The Board Audit Committee recommends to the Board the appointment, reappointment, and/or change of external audit. See its Term of Reference.</p> <p>Of the total votes cast, votes in favor of the reappointment of the external auditor was 100%. See Item VIII (Appointment of External Auditor) in the Minutes of the 2019 ASM, which can be also be viewed in BDOLF's website through:</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20ASM%20Minutes.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20ASM%20Minutes.pdf</a></p>
<p>3. For removal of the external auditor, the reasons for removal or change are disclosed to the regulators and the public through the company website and required disclosures.</p>	<p align="center">COMPLIANT</p>	<p>Provide information on or link/reference to a document containing the company's reason for removal or change of external auditor.</p>	<p>No such removal or change has happened to date.</p>

**Supplement to Recommendation 9.1**

<p>1. Company has a policy of rotating the lead audit partner every five years.</p>	<p align="center">COMPLIANT</p>	<p>Provide information on or link/reference to a document containing the policy of rotating the</p>	<p>See Page 16, Item 7 (Independent Public Accountants) of the 2019 Definitive Information Statement, which could also be</p>
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lead audit partner every five years.

viewed through the following links: -  
<https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%20Definitive%20Information%20Statement%20for%202019%20Annual%20Stockholders%20Meeting.pdf>

**Recommendation 9.2**

1. Audit Committee Charter includes the Audit Committee's responsibility on:

- i. assessing the integrity and independence of external auditors;
- ii. exercising effective oversight to review and monitor the external auditor's independence and objectivity; and
- iii. exercising effective oversight to review and monitor the effectiveness of the audit process, taking into consideration relevant Philippine professional and regulatory requirements.

COMPLIANT

Provide link/reference to the company's Audit Committee Charter

See Terms of Reference of the Audit Committee published in the corporate website at:

<https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%20Terms%20of%20Reference.pdf>

2. Audit Committee Charter contains the Committee's responsibility on reviewing and monitoring the external auditor's suitability and effectiveness on an annual basis.

COMPLIANT

Provide link/reference to the company's Audit Committee Charter

See Terms of Reference of the Audit Committee published in the corporate website at:

<https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%20Terms%20of%20Reference.pdf>

**Supplement to Recommendations 9.2**

1. Audit Committee ensures that the external auditor is credible, competent and has the ability to understand complex related party transactions, its

COMPLIANT

Provide link/reference to the company's Audit Committee Charter

See Terms of Reference of the Audit Committee published in the corporate website at:

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counterparties, and valuations of such transactions.			<a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%20Terms%20of%20Reference.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%20Terms%20of%20Reference.pdf</a>
2. Audit Committee ensures that the external auditor has adequate quality control procedures.	COMPLIANT	Provide link/reference to the company's Audit Committee Charter	See Terms of Reference of the Audit Committee published in the corporate website at:  <a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%20Terms%20of%20Reference.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%20Terms%20of%20Reference.pdf</a>
<b>Recommendation 9.3</b>			
1. Company discloses the nature of non-audit services performed by its external auditor in the Annual Report to deal with the potential conflict of interest.	COMPLIANT	Disclose the nature of non-audit services performed by the external auditor, if any.	There were no non-audit services performed by Punongbayan & Araullo. See page 16 Item 7 (Independent Public Accountants) of the 2019 Definitive Information Statement which could also be viewed at:  <a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%20Definitive%20Information%20Statement%20for%202019%20Annual%20Stockholders%20Meeting.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%20Definitive%20Information%20Statement%20for%202019%20Annual%20Stockholders%20Meeting.pdf</a>
2. Audit Committee stays alert for any potential conflict of interest situations, given the guidelines or policies on non-audit services, which could be viewed as impairing the external auditor's objectivity.	COMPLIANT	Provide link or reference to guidelines or policies on non-audit services	To avoid conflict of interest and impairment of independence, the Audit Committee has in place the list of non-audit services, which may not be provided by the External Auditor. See page 29 last paragraph of Audit Committee Oversight Function in the Revised Corporate Governance Manual.  <a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a>

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<b>Supplement to Recommendation 9.3</b>			
1. Fees paid for non-audit services do not outweigh the fees paid for audit services.	COMPLIANT	Provide information on audit and non-audit fees paid.	Yes. Audit fees paid for audit services in 2019 amounted to Php1.486 Million. No other fees were paid to the Auditor for 2019.
<b>Additional Recommendation to Principle 9</b>			
1. Company's external auditor is duly accredited by the SEC under Group A category.	COMPLIANT	Provide information on company's external auditor, such as:  <ol style="list-style-type: none"> <li>1. Name of the audit engagement partner;</li> <li>2. Accreditation number;</li> <li>3. Date Accredited;</li> <li>4. Expiry date of accreditation; and</li> <li>5. Name, address, contact number of the audit firm.</li> </ol>	Mr. Romualdo V. Murcia III SEC Group A Accreditation Partner – No. 0628-AR-4 (until Sept. 4, 2022) Firm No. 0002-FR-5 (until March 26, 2021)  Punongbayan & Araullo Grant Thornton 19th & 20th Floor, Tower 1, The Enterprise Center, 6766 Ayala Ave, Makati, 1200
2. Company's external auditor agreed to be subjected to the SEC Oversight Assurance Review (SOAR) Inspection Program conducted by the SEC's Office of the General Accountant (OGA).	COMPLIANT	Provide information on the following:  <ol style="list-style-type: none"> <li>1. Date it was subjected to SOAR inspection, if subjected;</li> <li>2. Name of the Audit firm; and</li> <li>3. Members of the engagement team inspected by the SEC.</li> </ol>	<ol style="list-style-type: none"> <li>1. September 3-14, 2018</li> <li>2. Punongbayan &amp; Araullo</li> <li>3. Engagement Partner: Renan A. Piamonte; Engagement Manager: Niccolo Ian Unera</li> </ol>
<b>Principle 10:</b> The company should ensure that the material and reportable non-financial and sustainability issues are disclosed.			
<b>Recommendation 10.1</b>			
1. Board has a clear and focused policy on the disclosure of non-financial information, with emphasis on the management of economic,	COMPLIANT	Disclose or provide link on the company's policies and practices on the disclosure of non-financial information, including EESG issues.	The Company's is striving to be compliant with the globally recognized standard in reporting sustainability and non-financial issue. Its 2019 Sustainability Report attached

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environmental, social and governance (EESG) issues of its business, which underpin sustainability.			to the 2019 SEC 17 – Annual Report can be accessed at:  <a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a>
2. Company adopts a globally recognized standard/framework in reporting sustainability and non-financial issues.	<b>COMPLIANT</b>	Provide link to Sustainability Report, if any. Disclose the standards used.	The Company's is trying to adapt the globally recognized standard in reporting sustainability and non-financial issue. Its partially completed 2019 Sustainability Report can be accessed at:  <a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a>
<b>Principle 11:</b> The company should maintain a comprehensive and cost-efficient communication channel for disseminating relevant information. This channel is crucial for informed decision-making by investors, stakeholders and other interested users.			
<b>Recommendation 11.1</b>			
1. Company has media and analysts' briefings as channels of communication to ensure the timely and accurate dissemination of public, material and relevant information to its shareholders and other investors.	<b>COMPLIANT</b>	Disclose and identify the communication channels used by the company (i.e., website, Analyst's briefing, Media briefings /press conferences, Quarterly reporting, Current reporting, etc.). Provide links, if any.	See page 30, Section 11. Promoting a Comprehensive and Cost-Efficient Access to Relevant Information in the Revised Corporate Governance Manual.  <a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a>
<b>Supplemental to Principle 11</b>			

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1. Company has a website disclosing up-to-date information on the following:		Provide link to company website	
a. Financial statements/reports (latest quarterly)	COMPLIANT		See SEC 17Q Reports at <a href="https://www.bdo.com.ph/leasing/company-disclosures">https://www.bdo.com.ph/leasing/company-disclosures</a> 2020 SEC - 17Q - 1st Quarter- <a href="https://www.bdo.com.ph/sites/default/files/pdf/SEC%2017Q%20-%201Q%202020.pdf">https://www.bdo.com.ph/sites/default/files/pdf/SEC%2017Q%20-%201Q%202020.pdf</a>
b. Materials provided in briefings to analysts and media	COMPLIANT		See page 30, Section 11. Promoting a Comprehensive and Cost-Efficient Access to Relevant Information in the Revised Corporate Governance Manual. <a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a>
c. Downloadable annual report	COMPLIANT		See Annual Reports at: <a href="https://www.bdo.com.ph/leasing/company-disclosures">https://www.bdo.com.ph/leasing/company-disclosures</a>
d. Notice of ASM and/or SSM	COMPLIANT		See Annual Stockholder Meeting (DIS) at: <a href="https://www.bdo.com.ph/leasing/company-disclosures">https://www.bdo.com.ph/leasing/company-disclosures</a>
e. Minutes of ASM and/or SSM	COMPLIANT		See Minutes of the 2019 Annual Stockholders Meeting at: - <a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20ASM%20Minutes.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20ASM%20Minutes.pdf</a>

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f. Company's Articles of Incorporation and By-Laws	COMPLIANT		See BDO Amended Articles of Incorporation and By-Laws at  <a href="https://www.bdo.com.ph/sites/default/files/pdf/Amended%20Articles%20of%20Incorporation%20(Article%20III).pdf">https://www.bdo.com.ph/sites/default/files/pdf/Amended%20Articles%20of%20Incorporation%20(Article%20III).pdf</a>
<b>Additional Recommendation to Principle 11</b>			
1. Company complies with SEC-prescribed website template.	COMPLIANT		Yes. The Company website structure is compliant with SEC mandated format.
<b>Internal Control System and Risk Management Framework</b>			
<b>Principle 12:</b> To ensure the integrity, transparency and proper governance in the conduct of its affairs, the company should have a strong and effective internal control system and enterprise risk management framework.			
<b>Recommendation 12.1</b>			
1. Company has an adequate and effective internal control system in the conduct of its business.	COMPLIANT	List quality service programs for the internal audit functions.  Indicate frequency of review of the internal control system	The BDOLF internal audit function adheres to the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing (ISPPA) as prescribed by the Bangko Sentral ng Pilipinas, as well as to the Definition of Internal Auditing, and Code of Ethics.  For Year 2019, 14 regular and 15 targeted audits were conducted covering the head office units, marketing teams, branches, and desks of the Company. One (1) regular and four (4) targeted audits were likewise completed for its wholly owned subsidiary, BDO Rental Inc. The  information technology-related operations were covered in the audits of the Parent

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			Bank, in view of the insourcing arrangement/ structure within BDO Group.
2. Company has an adequate and effective enterprise risk management framework in the conduct of its business.	COMPLIANT	<p>Identify international framework used for Enterprise Risk Management</p> <p>Provide information or reference to a document containing information on:</p> <ol style="list-style-type: none"> <li>1. Company's risk management procedures and processes</li> <li>2. Key risks the company is currently facing</li> <li>3. How the company manages the key risks</li> </ol> <p>Indicate frequency of review of the enterprise risk management framework.</p>	<p>See pages 8-10 of the 2019 SEC 17 – Annual Report, and pages 81-105 of the Notes to the 2019 Audited Financial Statements for the discussion of the Risk Management Framework, risk management procedures and processes, major risks of the Company and how these are adequately and consistently evaluated, managed, controlled and monitored, and risk governance structure. Please also see page 30, Section 12 of the Revised Manual on Corporate Governance.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>
<b>Supplement to Recommendations 12.1</b>			
1. Company has a formal comprehensive enterprise-wide compliance program covering compliance with laws and relevant regulations that is annually reviewed. The program includes appropriate training and awareness initiatives to facilitate understanding, acceptance and compliance with the said issuances.	COMPLIANT	<p>Provide information on or link/ reference to a document containing the company's compliance program covering compliance with laws and relevant regulations.</p> <p>Indicate frequency of review.</p>	<p>See attached BDOLF Regulatory Compliance Manual which is reviewed annually and changes are approved by the Board Audit Committee.</p>



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**Optional: Recommendation 12.1**

<p>1. Company has a governance process on IT issues including disruption, cyber security, and disaster recovery, to ensure that all key risks are identified, managed and reported to the board.</p>	<p align="center">COMPLIANT</p>	<p>Provide information on IT governance process</p>	<p>The Company follows that of the BDO Unibank's effective IT governance process that covers structure, principles and processes. On top of the IT governance structure is the Board of Directors that provides oversight and strategic direction in the development and implementation of the IT governance process thru the Information Technology Steering Committee (ITSC). The IT governance principles define the role that IT will play within and across the organization. These principles are defined in the context of business strategy. In BDO Unibank where there are multiple business units, these principles are geared towards supporting the needs of each business entity including IT security and business continuity requirements and how IT will support them, collectively on a shared-service basis or individually. The end-to-end processes define the necessary series of steps with defined inputs, activities, deliverables, roles and associated responsibilities and authority. Results are then submitted to the ITSC for review and reporting to the Board.</p>
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**Recommendation 12.2**

<p>1. Company has in place an independent internal audit function that provides an independent and objective assurance, and consulting services designed to add value and improve the company's operations.</p>	<p align="center">COMPLIANT</p>	<p>Disclose if the internal audit is in-house or outsourced. If outsourced, identify external firm.</p>	<p>BDOLF Internal Audit is in-house.</p>
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**Recommendation 12.3**

<b>INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT</b>			
1. Company has a qualified Chief Audit Executive (CAE) appointed by the Board.	COMPLIANT	Identify the company's Chief Audit Executive (CAE) and provide information on or reference to a document containing his/her responsibilities.	The Chief Audit Executive is Ms. Estrellita V. Ong. See Role of Chief Internal Auditor (CIA) on page 31 of the Revised Corporate Governance Manual for her responsibilities.  <a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a>
2. CAE oversees and is responsible for the internal audit activity of the organization, including that portion that is outsourced to a third party service provider.	COMPLIANT		This is part of the CIA responsibilities as described in the Revised Corporate Governance Manual (page 31)  <a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a>
3. In case of a fully outsourced internal audit activity, a qualified independent executive or senior management personnel is assigned the responsibility for managing the fully outsourced internal audit activity.	NOT APPLICABLE	Identify qualified independent executive or senior management personnel, if applicable.	This is not applicable since BDOLF Internal Audit is in-house.
<b>Recommendation 12.4</b>			
1. Company has a separate risk management function to identify, assess and monitor key risk exposures.	COMPLIANT	Provide information on company's risk management function.	See page 31 Independent Risk Management Function of the Revised Corporate Governance Manual. <a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a>
<b>Supplement to Recommendation 12.4</b>			
1. Company seeks external technical support in risk management when such competence is not available internally.	NOT APPLICABLE	Identify source of external technical support, if any.	In 2019, the Risk Management Group did not avail of external technical support.

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**Recommendation 12.5**

<p>1. In managing the company's Risk Management System, the company has a Chief Risk Officer (CRO), who is the ultimate champion of Enterprise Risk Management (ERM).</p>	<p align="center">COMPLIANT</p>	<p>Identify the company's Chief Risk Officer (CRO) and provide information on or reference to a document containing his/her responsibilities and qualifications/background.</p>	<p>The Chief Risk Officer is Ms. Angelita C. Tad-y. See page 23 of the 2019 SEC 17 – Annual Report for her qualifications and page 31 Role of the Chief Risk Officer of the Revised Corporate Governance Manual for her responsibilities.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>
<p>2. CRO has adequate authority, stature, resources and support to fulfill his/her responsibilities.</p>	<p align="center">COMPLIANT</p>		<p>The Chief Risk Officer has a rank of First Vice President. She is appointed by the Board of Directors and reports directly to the Risk Management Committee. She is the Head of the BDOLF Risk Management Unit.</p>

**Additional Recommendation to Principle 12**

<p>1. Company's Chief Executive Officer and Chief Audit Executive attest in writing, at least annually, that a sound internal audit, control and compliance system is in place and working effectively.</p>	<p align="center">COMPLIANT</p>	<p>Provide link to CEO and CAE's attestation</p>	<p>The Chief Internal Auditor (CIA) attests annually to the Board Audit Committee and to the Chairperson of the Board that a sound independent control system is in place and functioning well, as part of the 2019 Internal Audit Closing Report. The Chief Internal Auditor (CIA) functionally reports to the Audit Committee. Please see attached report for 2019.</p> <p>The Chief Compliance Officer (CCO) reports the status of the Bank's compliance with laws, rules, and regulations to the Audit Committee on a monthly basis. He also functionally reports to the Audit Committee.</p>
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As the CIA and CCO are considered independent officers reporting to the Board Audit Committee, their respective reports are made, and should be made, directly to the Audit Committee of the Board and to the Chairperson of the Board. They do not functionally report to the President & Chief Executive Officer.

**Cultivating a Synergic Relationship with Shareholders**

**Principle 13:** The company should treat all shareholders fairly and equitably, and also recognize, protect and facilitate the exercise of their rights.

**Recommendation 13.1**

<p>1. Board ensures that basic shareholder rights are disclosed in the Manual on Corporate Governance.</p>	<p align="center">COMPLIANT</p>	<p>Provide link or reference to the company's Manual on Corporate Governance where shareholders' rights are disclosed.</p>	<p>See Section 13. Promoting Shareholders Rights page 32-35 of the Revised Corporate Governance Manual.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>
<p>2. Board ensures that basic shareholder rights are disclosed on the company's website.</p>	<p align="center">COMPLIANT</p>	<p>Provide link to company's website</p>	<p>The Revised Corporate Governance Manual is published in the corporate website at:</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>

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**Supplement to Recommendation 13.1**

<p>1. Company's common share has one vote for one share.</p>	<p align="center">COMPLIANT</p>		<p>Yes. This is expressly stated in the voting Rights of shareholders in Article II Section 6 of the Amended By-Laws.  <a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>
<p>2. Board ensures that all shareholders of the same class are treated equally with respect to voting rights, subscription rights and transfer rights.</p>	<p align="center">COMPLIANT</p>	<p>Provide information on all classes of shares, including their voting rights if any.</p>	<p>The equitable treatment of shareholders is enshrined in Article II Section 6 of Amended By-Laws and page 35 of the Revised Corporate Governance Manual. Our CG principle of FAIRNESS essentially applies among others, to the equal treatment and protection of shareholder rights as stated. Rights available to the majority shareholders are also available to the minority shareholders.</p> <p>BDOLF has only 1 kind of share: Common Share with 1 vote per share, except in the election of directors where one share is entitled to as many votes as there are directors to be elected.  <a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>
<p>3. Board has an effective, secure, and efficient voting system.</p>	<p align="center">COMPLIANT</p>	<p>Provide link to voting procedure. Indicate if voting is by poll or show of hands.</p>	<p>BDOLF has been using poll voting. Cumulative Voting is allowed in the election of directors. This method is discussed in detail on page 4 of the 2019 Definitive Information Statement item © Election of Directors and Voting Rights (Cumulative Voting).</p>

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<https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%20Definitive%20Information%20Statement%20for%202019%20Annual%20Stockholders%20Meeting.pdf>

4. Board has an effective shareholder voting mechanisms such as supermajority or “majority of minority” requirements to protect minority shareholders against actions of controlling shareholders.

**NOT COMPLIANT**

Provide information on shareholder voting mechanisms such as supermajority or “majority of minority”, if any.

The Company affirms the voting rights given to the minority shareholders relative to certain major corporate acts that require the approval of at least 2/3 of the shareholders, which effectively include already the “majority of the minority” shareholders. In accordance with law, the Company recognizes also the appraisal right of any shareholder in case of dissenting vote on any approved major corporate actions. As additional mechanisms to protect minority shareholders, the Company has in place policies on Related Party Transactions to protect against improper conflict of interest, Personal Trading Policy to prevent insider trading and Whistle Blower to provide a channel for reporting of illegal practices, abuse of authority and fraudulent activity, etc. without fear of reprisal. Related party transactions are reviewed by the Related Party Transactions Committee consisting of Independent and Non-Executive Directors.

In the Notice of the Annual Stockholders’ Meeting (ASM), the Company is reminding all shareholders including minority shareholders to vote during the ASM to reinforce their participation in the affairs of the company.

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<p>5. Board allows shareholders to call a special shareholders' meeting and submit a proposal for consideration or agenda item at the AGM or special meeting.</p>	<p align="center">COMPLIANT</p>	<p>Provide information on how this was allowed by board (i.e., minutes of meeting, board resolution)</p>	<p>BDOLF Amended By-Laws allows this. Please see Article III Section 2 Amended By-Laws – Special Meetings which states that:</p> <p>“Special meetings of the stockholders may be called for any purpose by the President or by the Chairman upon order of the Board of Directors or the Executive Committee. The Secretary shall call a special meeting of stockholders whenever she is requested in writing to do so by holders of record of a majority of the capital stock of the Company entitled to vote to such meetings.”</p> <p>However, there has been no special shareholders' meeting called.</p>
<p>6. Board clearly articulates and enforces policies with respect to treatment of minority shareholders.</p>	<p align="center">COMPLIANT</p>	<p>Provide information or link/reference to the policies on treatment of minority shareholders</p>	<p>The Company recognizes that all shareholders should be treated fairly and equally whether they are controlling or minority, local or foreign. To ensure this, the Amended By-Laws of the Company provide that all shares in each class should carry the same rights and any changes in the voting rights to be approved by them.</p> <p>Any stockholder, whether majority or minority has the right to nominate candidates for seats in the Board of Directors, access to any information relating to matters for which the management is accountable, propose items in the agenda of the meeting, provided the items are for legitimate business purposes.</p> <p>Policies and procedures have been put in</p>

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			<p>place as well to protect the interests of minority shareholders such as the Related Party Transactions Policy to manage potential conflicts of interests arising from related party transactions and the Personal Trading Policy that prohibits insider trading. Please see page 32-33 Section 13 for the rights of the shareholders in the Revised Corporate Governance Manual.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>
<p>7. Company has a transparent and specific dividend policy.</p>	<p align="center"><b>COMPLIANT</b></p>	<p>Provide information on or link/reference to the company's dividend Policy.</p>	<p>See BDOLF Dividend Policy Statement at: <a href="https://www.bdo.com.ph/sites/default/files/pdf/Dividend%20Policy%20Statement.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Dividend%20Policy%20Statement.pdf</a></p> <p>"BDOLF recognizes the importance of providing a stable and sustainable dividend stream consistent with its commitment to shareholders. In February 2018, the Company paid a cash dividend of Php 0.10 per share and will endeavor to do so while maintaining financial flexibility.</p> <p>The Board of Directors may, at its discretion and depending on the business results for the year and capital needs of the business, declare and approve the distribution of additional special dividends to all shareholders normally announced at the Annual Stockholders' Meeting."</p> <p>Yes. Dividends are processed and paid</p>



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	<b>COMPLIANT</b>	Indicate if company declared dividends. If yes, indicate the number of days within which the dividends were paid after declaration. In case the company has offered scrip-dividends, indicate if the company paid the dividends within 60 days from declaration	based on PSE and SEC Rules as follows:  Payment date should not be more than 18 trading days from the record date, and disclosure of record date must not be less than 10 trading days from said date.
<b>Optional: Recommendation 13.1</b>			
1. Company appoints an independent party to count and/or validate the votes at the Annual Shareholders' Meeting.	<b>COMPLIANT</b>	Identify the independent party that counted/validated the votes at the ASM, if any.	The Company's external auditor, Punongbayan & Araullo Grant Thornton (P&A), is tasked to count and validate the votes at the Annual Shareholders' Meeting. See page 2 of the Minutes of the 2019 Annual Meeting of the Stockholders
<b>Recommendation 13.2</b>			
1. Board encourages active shareholder participation by sending the Notice of Annual and Special Shareholders' Meeting with sufficient and relevant information at least 28 days before the meeting.	<b>COMPLIANT</b>	Indicate the number of days before the annual stockholders' meeting or special stockholders' meeting when the notice and agenda were sent out  Indicate whether shareholders' approval of remuneration or any changes therein were included in the agenda of the meeting.  Provide link to the Agenda included in the company's Information Statement (SEC Form 20-IS)	Notice and Agenda including Rationale were released on March 20, 2019 (22 days before the ASM). Remuneration was included in the agenda meeting as part of the Approval and Ratification of all Acts of the Board of Directors, Board Committees and Management during their term of office.  See 2019 Definitive Information Statement at  <a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%20Definitive%20Information%20Statement%20for%202019%20Annual%20Stockholders%20Meeting.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%20Definitive%20Information%20Statement%20for%202019%20Annual%20Stockholders%20Meeting.pdf</a>
<b>Supplemental to Recommendation 13.2</b>			
1. Company's Notice of Annual		Provide link or reference to the	

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Stockholders' Meeting contains the following information:		company's notice of Annual Shareholders' Meeting	
a. The profiles of directors (i.e., age, academic qualifications, date of first appointment, experience, and directorships in other listed companies)	COMPLIANT		See pages 6 to 9 of the 2019 Definitive Information Statement at:  <a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%20Definitive%20Information%20Statement%20for%202019%20Annual%20Stockholders%20Meeting.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%20Definitive%20Information%20Statement%20for%202019%20Annual%20Stockholders%20Meeting.pdf</a>
b. Auditors seeking appointment/re-appointment	COMPLIANT		See Item 7. Independent Public Accountants on page 16 of the 2019 Definitive Information Statement at :  <a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%20Definitive%20Information%20Statement%20for%202019%20Annual%20Stockholders%20Meeting.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%20Definitive%20Information%20Statement%20for%202019%20Annual%20Stockholders%20Meeting.pdf</a>
c. Proxy documents	COMPLIANT		Proxy documents could be downloaded from the corporate website at:  <a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF-proxy-forms-individual-and-corporation.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF-proxy-forms-individual-and-corporation.pdf</a>
<b>Optional: Recommendation 13.2</b>			
1. Company provides rationale for the agenda items for the annual stockholders meeting	COMPLIANT	Provide link or reference to the rationale for the agenda items	Agenda Details and Rationale Annex A of the 2019 Definitive Information Statement at  <a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%20Definitive%20Information%20Statement%20for%202019%20Annual%20Stockholders%20Meeting.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%20Definitive%20Information%20Statement%20for%202019%20Annual%20Stockholders%20Meeting.pdf</a>

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**Recommendation 13.3**

<p>1. Board encourages active shareholder participation by making the result of the votes taken during the most recent Annual or Special Shareholders' Meeting publicly available the next working day.</p>	<p align="center">COMPLIANT</p>	<p>Provide information or reference to a document containing information on all relevant questions raised and answers during the ASM and special meeting and the results of the vote taken during the most recent ASM/SSM.</p>	<p>See disclosure to PSE on the results of the BDOLF's 2019 ASM which was done the next day at:   <a href="https://www.bdo.com.ph/leasing/company-disclosures">https://www.bdo.com.ph/leasing/company-disclosures</a></p>
<p>2. Minutes of the Annual and Special Shareholders' Meetings were available on the company website within five business days from the end of the meeting.</p>	<p align="center">COMPLIANT</p> <p align="center">COMPLIANT</p> <p align="center">COMPLIANT</p> <p align="center">COMPLIANT</p>	<p>Provide link to minutes of meeting in the company website.</p> <p>Indicate voting results for all agenda items, including the approving, dissenting and abstaining votes.</p> <p>Indicate also if the voting on resolutions was by poll.</p> <p>Include whether there was opportunity to ask question and the answers given, if any</p>	<p>See BDOLF's Minutes of the 2019 ASM at:   <a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20ASM%20Minutes.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20ASM%20Minutes.pdf</a></p> <p>Complete voting results are included in the Minutes of the ASM.</p> <p>Voting of resolutions was done by poll.</p> <p>Yes. The Open Forum portion of the 2018 ASM Minutes includes the questions from the shareholders and answers of Roberto E. Lapid/President.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20ASM%20Minutes.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20ASM%20Minutes.pdf</a></p>

**Supplement to Recommendation 13.3**

<p>1. Board ensures the attendance of the external auditor and other relevant individuals to answer shareholders questions during the ASM and SSM.</p>	<p align="center">COMPLIANT</p>	<p>Indicate if the external auditor and other relevant individuals were present during the ASM and/or special meeting</p>	<p>See Pages 1-2 of the Minutes of the 2019 ASM at:                      - <a href="https://www.bdo.com.ph/sites/default/files/">https://www.bdo.com.ph/sites/default/files/</a></p>
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[pdf/BDOLF%202019%20ASM%20Minutes.pdf](#)

Minutes of ASM states that P&A had been appointed to count and validate all votes with voting procedures provided in DIS. DIS states that:  
BDO Trust Inc., the Company's stock transfer agent, in conjunction with Punongbayan & Araullo, Grant Thornton, the Company's external auditor, both independent parties, are tasked to count votes on any matter properly brought to the vote of the shareholders, including the election of directors.

**Recommendation 13.4**

<p>1. Board makes available, at the option of a shareholder, an alternative dispute mechanism to resolve intra-corporate disputes in an amicable and effective manner.</p>	<p align="center">COMPLIANT</p>	<p>Provide details of the alternative dispute resolution made available to resolve intra-corporate disputes</p>	<p>See pages 95-96 Annex B Alternative Dispute Resolution (ADR) of the Revised Manual of Corporate Governance for complete details of the ADR. BDOLF website: <a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>
<p>2. The alternative dispute mechanism is included in the company's Manual on Corporate Governance.</p>	<p align="center">COMPLIANT</p>	<p>Provide link/reference to where it is found in the Manual on Corporate Governance</p>	<p>See pages 95-96 Annex B of the Revised Manual of Corporate Governance at  <a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>

**Recommendation 13.5**

<p>1. Board establishes an Investor Relations Office (IRO) to ensure constant engagement with its shareholders.</p>	<p align="center">COMPLIANT</p>	<p>Disclose the contact details of the officer/office responsible for investor relations, such as: 1. Name of the person</p>	<p>Being a subsidiary and part of BDO Group, the Company's Investor Relation function is centralized with the Parent Bank.</p>
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		2. Telephone number 3. Fax number 4. E-mail address	
2. IRO is present at every shareholder's meeting.	COMPLIANT	Indicate if the IRO was present during the ASM.	The Company's Investor Relation Officer is Luis S. Reyes who is present every shareholder's meeting.
<b>Supplemental Recommendations to Principle 13</b>			
1. Board avoids anti-takeover measures or similar devices that may entrench ineffective management or the existing controlling shareholder group	COMPLIANT	Provide information on how anti-takeover measures or similar devices were avoided by the board, if any.	BDOLF Amended By-Laws do not contain anti-takeover provisions, no issuance of "poison pill" preferred stocks, no standstill agreement, premium stock repurchases, etc.
2. Company has at least thirty percent (30%) public float to increase liquidity in the market.	COMPLIANT	Indicate the company's public float.	As of December 31, 2019, public float was 11.45%, per attached BDOLF's Public Ownership Report submitted to PSE.  BDOLF Website: <a href="https://www.bdo.com.ph/leasing/about-leasing">https://www.bdo.com.ph/leasing/about-leasing</a>
<b>Optional: Principle 13</b>			
1. Company has policies and practices to encourage shareholders to engage with the company beyond the Annual Stockholders' Meeting	COMPLIANT	Disclose or provide link/reference to policies and practices to encourage shareholders' participation beyond ASM	See page 30 Section 11. Promoting a Comprehensive And Cost-Efficient Access to Relevant Information; page 35 Shareholder Relations; page 36 Investors and page 37 Stakeholders' Engagement of the Revised Corporate Governance Manual. These contain the policies and practices to actively engage the shareholders anytime for a better appreciation of market sentiment towards the Company.  - <a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-</a>

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			<a href="#">Governance.pdf</a>
2. Company practices secure electronic voting in absentia at the Annual Shareholders' Meeting.	<b>NOT COMPLIANT</b>	Disclose the process and procedure for secure electronic voting in absentia, if any.	In 2019, the Company awaited for concrete guidelines, relevant laws, rules, and regulations in securing electronic voting in absentia.

**Duties to Stakeholders**

**Principle 14:** The rights of stakeholders established by law, by contractual relations and through voluntary commitments must be respected. Where stakeholders' rights and/or interests are at stake, stakeholders should have the opportunity to obtain prompt effective redress for the violation of their rights.

**Recommendation 14.1**

1. Board identifies the company's various stakeholders and promotes cooperation between them and the company in creating wealth, growth and sustainability.	<b>COMPLIANT</b>	Identify the company's shareholder and provide information or reference to a document containing information on the company's policies and programs for its stakeholders.	The Company's stakeholders are the shareholders, customers, employees, creditors, suppliers, service providers, counterparties, government, regulators, competitors, and communities in which the Company operates. See pages 35-37 Fair Treatment and Protection of Stakeholders of the Revised Corporate Governance Manual for the policies and programs for each type of stakeholders.  <a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a>
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**Recommendation 14.2**

1. Board establishes clear policies and programs to provide a mechanism on the fair treatment and protection of stakeholders.	<b>COMPLIANT</b>	Identify policies and programs for the protection and fair treatment of company's stakeholders	See pages 35-37 Fair Treatment and Protection of Stakeholders of the Revised Corporate Governance Manual for the policies and programs for each type of stakeholders.
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<https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf>

**Recommendation 14.3**

1. Board adopts a transparent framework and process that allow stakeholders to communicate with the company and to obtain redress for the violation of their rights.

**COMPLIANT**

Provide the contact details (i.e., name of contact person, dedicated phone number or e-mail address, etc.), which stakeholders can use to voice their concerns and/or complaints for possible violation of their rights.

1. For Shareholders:  
 NAME: Mr. Luis S. Reyes/SVP – Head, Investors Relations & Corporate Planning  
 TEL. NUMBER: (632) 840-7000 locals 6069, 4809 and 3581  
 EMAIL ADDRESS: [irandcorplan@bdo.com.ph](mailto:irandcorplan@bdo.com.ph)

2. For Customers and Other Stakeholders

NAME: Mr. Romell A. Gamboa  
 TEL. NUMBER: 840-7000 (loc. 45410)  
 EMAILADDRESS: [BDOLF\\_Customer\\_Assistance\\_Management@bdo.com.ph](mailto:BDOLF_Customer_Assistance_Management@bdo.com.ph)

See Policy on Disclosure of Sensitive/Confidential Matters to Management at:

<https://www.bdo.com.ph/sites/default/files/pdf/Policy-on-Disclosure-on-Sensitive-Information.pdf>

**COMPLIANT**

Provide information on whistle blowing policy, practices and procedures for stakeholders

**Supplement to Recommendation 14.3**

1. Company establishes an alternative dispute resolution system so that conflicts and differences with key stakeholders is settled in a fair and expeditious manner.

**COMPLIANT**

Provide information on the alternative dispute resolution system established by the company.

See Annex B of the Revised Corporate Governance Manual for the full details of Alternative Dispute Resolution Policy.

<https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf>

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[Governance.pdf](#)

**Additional Recommendations to Principle 14**

<p>1. Company does not seek any exemption from the application of a law, rule or regulation especially when it refers to a corporate governance issue. If an exemption was sought, the company discloses the reason for such action, as well as presents the specific steps being taken to finally comply with the applicable law, rule or regulation.</p>	<p align="center">COMPLIANT</p>	<p>Disclose any requests for exemption by the company and the reason for the request.</p>	<p>BDOLF has not requested any exemption from SEC, PSE and BSP related to corporate governance. In fact, the Bank has continued to follow, where appropriate, the international best practices of corporate governance issued by globally recognized standards setting bodies such as the Organization of Economic Cooperation and Development (OECD) and the ASEAN Corporate Governance Scorecard which serve as essential points of reference.</p>
<p>2. Company respects intellectual property rights.</p>	<p align="center">COMPLIANT</p>	<p>Provide specific instances, if any.</p>	<p>The Company does not infringe on the intellectual property rights of others. As an example, it uses only licensed software in its banking applications. Proprietary protection of Intellectual Property Rights is a standard provision in the Software Licensing Agreement.</p>
<p><b>Optional: Principle 14</b></p>			
<p>1. Company discloses its policies and practices that address customers' welfare</p>	<p align="center">COMPLIANT</p>	<p>Identify policies, programs and practices that address customers' welfare or provide link/reference to a document containing the same.</p>	<p>The Board of Directors approved on December 2018 the Company's Guiding Principles on Consumer Protection which serves as the Company's framework for defining its Consumer Protection Risk Management System (CPRMS). As specified in the CPRMS, consumer protection practices are embedded in the banking operations, and considered in the development and implementation of products and services.</p>



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			<p>See page 36 of the 2019 SEC 17 - Annual Report.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a></p>
<p>2. Company discloses its policies and practices that address supplier/contractor selection procedures</p>	<p align="center"><b>COMPLIANT</b></p>	<p>Identify policies, programs and practices that address supplier/contractor selection procedures or provide link/reference to a document containing the same.</p>	<p>The Company adopts Parent Bank's strict standards and procedures on the selection, qualification, accreditation and supervision of its suppliers/contractors. This is covered by the Parent Bank's General Procurement Guidelines.</p> <p>These include, among others, the following:</p> <p>A. Sourcing of Vendors/Suppliers/Contractors</p> <p>1. As a general rule, vendors, suppliers, and contractors shall be sourced through research via trade organizations, publications (including the internet), professional bodies, and other external entities, and through market consultation.</p> <p>2. The Parent Bank's Procurement unit, the Procurement and Supply Management Division (PSMD), shall accept walk-in vendors/suppliers/contractors and entertain referral from units as possible sources of goods or services.</p>

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B. Vendor Accreditation

Criteria shall include the following items:

- a. financial, credit, and technical capability
- b. track record / reputation in the industry
- c. availability of capacity /network
- d. cost competitiveness
- e. business reciprocity with the Bank

C. Competitive Processes  
Canvassing/Bidding

The Parent Bank invites a certain number of vendors/suppliers. They have to meet certain criteria before they can bid for work or a supply contract. The Bank awards the Contract to the one who offers the most advantageous commercial terms and who can demonstrate cost effectiveness, competence, and reliability.

**Principle 15:** A mechanism for employee participation should be developed to create a symbiotic environment, realize the company's goals and participate in its corporate governance processes.

**Recommendation 15.1**

<p>1. Board establishes policies, programs and procedures that encourage employees to actively participate in the realization of the company's goals and in its governance.</p>	<p align="center">COMPLIANT</p>	<p>Provide information on or link/reference to company policies, programs and procedures that encourage employee participation.</p>	<p>See page 37 Section 15. Encouraging Employees Participation of the Revised Corporate Governance Manual.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf">https://www.bdo.com.ph/sites/default/files/pdf/Revised-Manual-on-Corporate-Governance.pdf</a></p>
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**INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT**

**Supplement to Recommendation 15.1**

<p>1. Company has a reward/compensation policy that accounts for the performance of the company beyond short-term financial measures.</p>	<p align="center">COMPLIANT</p>	<p>Disclose if company has in place a merit-based performance incentive mechanism such as an employee stock option plan (ESOP) or any such scheme that awards and incentivizes employees, at the same time aligns their interests with those of the shareholders.</p>	<p>The Employee Stock Option Plan has been in place since 2005. Please see page 26 of the 2019 SEC 17 - Annual Report – Employee Compensation Policy</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a></p>
<p>2. Company has policies and practices on health, safety and welfare of its employees.</p>	<p align="center">COMPLIANT</p>	<p>Disclose and provide information on policies and practices on health, safety and welfare of employees. Include statistics and data, if any.</p>	<p>See page 20-21 of Management Report to Stockholders in the 2019 Definitive Information Statement which details the policies and programs related to Employee Welfare, Health &amp; Safety including pertinent data in 2019.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%20Definitive%20Information%20Statement%20for%202019%20Annual%20Stockholders%20Meeting.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%20Definitive%20Information%20Statement%20for%202019%20Annual%20Stockholders%20Meeting.pdf</a></p>
<p>3. Company has policies and practices on training and development of its employees.</p>	<p align="center">COMPLIANT</p>	<p>Disclose and provide information on policies and practices on training and development of employees. Include information on any training conducted or attended.</p>	<p>See page 19 of Management Report to Stockholders in the 2019 Definitive Information Statement which detail the various in-house and external training programs conducted in 2019 and related data on training hours.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%20Definitive%20Information%20Statement%20for%202019%20Annual%20Stockholders%20Meeting.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%20Definitive%20Information%20Statement%20for%202019%20Annual%20Stockholders%20Meeting.pdf</a></p>

**INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT**

**Recommendation 15.2**

<p>1. Board sets the tone and makes a stand against corrupt practices by adopting an anti-corruption policy and program in its Code of Conduct.</p>	<p align="center">COMPLIANT</p>	<p>Identify or provide link/reference to the company's policies, programs and practices on anti-corruption</p>	<p>This is embodied in the Revised Code of Conduct and Business Ethics on Conduct Relating to Customers and External Constituencies and Acceptance/Solicitation of Gifts, Bribery and Corruption. See page 1 and 3 of the Code.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/BDO%20CODE%20OF%20CONDUCT%20AND%20BUSINESS%20ETHICS.pdf">https://www.bdo.com.ph/sites/default/files/BDO%20CODE%20OF%20CONDUCT%20AND%20BUSINESS%20ETHICS.pdf</a></p>
<p>2. Board disseminates the policy and program to employees across the organization through trainings to embed them in the company's culture.</p>	<p align="center">COMPLIANT</p>	<p>Identify how the board disseminated the policy and program to employees across the organization</p>	<p>The Revised Code of Conduct and Business Ethics is published in the Company's website and intranet to be accessible to all covered individuals. The implementation of the Code was announced bankwide in the e-Newsgram. Covered individuals were required to sign an Acknowledgment Receipt Form signifying that they have read and understood the policies and programs enunciated in the Code.</p> <p><a href="https://www.bdo.com.ph/sites/default/files/BDO%20CODE%20OF%20CONDUCT%20AND%20BUSINESS%20ETHICS.pdf">https://www.bdo.com.ph/sites/default/files/BDO%20CODE%20OF%20CONDUCT%20AND%20BUSINESS%20ETHICS.pdf</a></p>

**Supplement to Recommendation 15.2**

<p>1. Company has clear and stringent policies and procedures on curbing and penalizing employee involvement in offering, paying and receiving bribes.</p>	<p align="center">COMPLIANT</p>	<p>Identify or provide link/reference to the company policy and procedures on penalizing employees involved in corrupt practices.</p> <p>Include any finding of violations of the company policy.</p>	<p>See Sanctions &amp; Penalties of the Revised Code of Conduct and Business Ethics at:</p> <p><a href="https://www.bdo.com.ph/sites/default/files/BDO%20CODE%20OF%20CONDUCT%20AND%20BUSINESS%20ETHICS.pdf">https://www.bdo.com.ph/sites/default/files/BDO%20CODE%20OF%20CONDUCT%20AND%20BUSINESS%20ETHICS.pdf</a> which we quote:</p>
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**INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT**

“Failure to comply with the requirements of the Code may lead to disciplinary measures commensurate to the violations.

The Company will use principles of fair accountability and due process in investigating and making decisions on all matters pertaining to failure to abide by the Code.

The Company reserves the right to impose corresponding sanctions and/or penalties for violation of the Code, which includes dismissal from service or from the Board of Directors, as the case may be, without prejudice to further legal, administrative or criminal charges depending on the offense.”

**Recommendation 15.3**

1. Board establishes a suitable framework for whistleblowing that allows employees to freely communicate their concerns about illegal or unethical practices, without fear of retaliation

COMPLIANT

Disclose or provide link/reference to the company whistle-blowing policy and procedure for employees.

See Policy on Disclosure of Sensitive or Confidential Matters to Management at:

<https://www.bdo.com.ph/sites/default/files/pdf/Policy-on-Disclosure-on-Sensitive-Information.pdf>

COMPLIANT

Indicate if the framework includes procedures to protect the employees from retaliation.

Yes. This is clearly stated in the section on Protecting the Whistle Blower.

COMPLIANT

Provide contact details to report any illegal or unethical behavior.

Reporting Process  
Reporting may be done thru any available means such as but not limited to SMS text (e.g. BDO Watch), letter, email or phone call

**INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT**

			<p>directly to the Office of the President (OP) or the appropriate Head of the Unit concerned. For concerns directly involving the President and the other Executive Directors, the report should be addressed to the Board of Directors thru the Office of the Chairperson. For RPT-related concerns, the report should be addressed to the Chairman, Related Party Transactions Committee.</p>
<p>2. Board establishes a suitable framework for whistleblowing that allows employees to have direct access to an independent member of the Board or a unit created to handle whistleblowing concerns.</p>	<p align="center">COMPLIANT</p>		<p>See Reporting Process above.</p>
<p>3. Board supervises and ensures the enforcement of the whistleblowing framework.</p>	<p align="center">COMPLIANT</p>	<p>Provide information on how the board supervised and ensured enforcement of the whistleblowing framework, including any incident of whistleblowing.</p>	<p>The Compliance Unit of BDOLF is responsible for overseeing the implementation of this policy. The Head of the Cases Review Committee Secretariat will submit a monthly report to the Compliance Officer, Cases Review Committee and the Audit Committee covering the number of reports received, actions taken and its latest status. The Audit Committee, at its discretion, may periodically report the whistle blower cases to the Board of Directors.</p>

**INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT**

**Principle 16:** The company should be socially responsible in all its dealings with the communities where it operates. It should ensure that its interactions serve its environment and stakeholders in a positive and progressive manner that is fully supportive of its comprehensive and balanced development.

**Recommendation 16.1**

<p>1. Company recognizes and places importance on the interdependence between business and society, and promotes a mutually beneficial relationship that allows the company to grow its business, while contributing to the advancement of the society where it operates.</p>	<p align="center">COMPLIANT</p>	<p>Provide information or reference to a document containing information on the company's community involvement and environment-related programs.</p>	<p>See 22 - 23 Environmental Responsibilities in the 2019 Definitive Information Statement</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%20Definitive%20Information%20Statement%20for%202019%20Annual%20Stockholders%20Meeting.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%20Definitive%20Information%20Statement%20for%202019%20Annual%20Stockholders%20Meeting.pdf</a></p>
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**Optional: Principle 16**

<p>1. Company ensures that its value chain is environmentally friendly or is consistent with promoting sustainable development</p>	<p align="center">COMPLIANT</p>	<p>Identify or provide link/reference to policies, programs and practices to ensure that its value chain is environmentally friendly or is consistent with promoting sustainable development.</p>	<p>See BDOLF's sustainable development programs published in the 2019 Sustainability Report attached to 2019 17 – Annual Report</p> <p><a href="https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf">https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf</a></p>
<p>2. Company exerts effort to interact positively with the communities in which it operates</p>	<p align="center">COMPLIANT</p>	<p>Identify or provide link/reference to policies, programs and practices to interact positively with the communities in which it operates.</p>	<p>See pages 23-24 for the Corporate Social Responsibility of BDOLF in the Sustainability Report attached to its SEC 17-Annual Report for its community involvement. On environment-related programs, the Company has in place a Social and Environmental Management Systems Policy (SEMS Policy) to ensure that environmental and social consciousness are incorporated in the day-to-day operations of the Company for the benefit of all its stakeholders, employees, and the community in which it operates. It has</p>

**INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT**

also a provision that will limit the Company's exposure to certain industries that have an adverse impact on the environment and this is included in the evaluation of credit proposals. The Company also joined the "Go Green Program" of the BDO Group to raise awareness on environmental issues, promote good environmental practices in the workplace.

<https://www.bdo.com.ph/sites/default/files/pdf/BDOLF%202019%20SEC%20Form%2017-A.pdf>

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**BDO Leasing and Finance, Inc.**  
**2019 Integrated Annual Corporate Governance Report (IACGR)**

IN WITNESS WHEREOF, we have hereunto set our hands this \_\_\_\_ day of July, 2020 at Makati City, Philippines.

  
TERESITA T. SY  
Chairperson

  
ROBERTO E. LAPID  
VICE CHAIRMAN/PRESIDENT

  
JESSE H.T. ANDRES  
INDEPENDENT DIRECTOR

  
MA. LEONORA V. DE JESUS  
INDEPENDENT DIRECTOR

  
JOSEPH JASON M. NATIVIDAD  
CORPORATE SECRETARY

  
ANGELITA C. TAD-Y  
COMPLIANCE OFFICER

**SUBSCRIBED AND SWORN** to before me this 22 JUL 2020, affiants exhibiting to me competent proofs of their identity, to wit:

Affiant

Competent Evidence of Identity

Roberto E. Lapid	Passport No. <u>060044024</u> , valid up to April 30, 2028; TIN <u>109-150-015</u>
Jesse H. T. Andres	Passport No. <u>045260400</u> , valid up to September 27, 2022; TIN <u>122-173-322</u>
Ma. Leonora V. De Jesus	Passport No. <u>061450770</u> , valid up to February 21, 2028; TIN <u>144-291-116</u>
Angelita C. Tad-y	Passport No. <u>040007700</u> , valid up to March 25, 2029; TIN <u>101-902-349</u>
Joseph Jason M. Natividad	Passport No. <u>000007000</u> , valid up to October 5, 2028; TIN <u>008-730-000</u>

known to me and to me known to be the same persons who executed the foregoing instrument and acknowledged to me that the same is their free and voluntary act and deed.

Doc No. 72  
Page No. 16  
Book No. CXXXV  
Series of 2020.

NOTARY PUBLIC  
**KIM BRIGUERA-DACARA**  
NOTARY PUBLIC FOR THE CITY OF MANDALUYONG  
APPOINTMENT NO. 020420  
UNTIL DECEMBER 31, 2021  
IBP LIFETIME ROLL NO. 1010007  
PTR NO. 4324453 / 1-2-20 / MANDALUYONG  
MCLE NO. VI-0004637  
29TH FLR., BDO CORPORATE CENTER ORTIGAS  
18 ADB AVE., MANDALUYONG



## 2019 Integrated Annual Corporate Governance Report (I-ACGR)

### Annexes and Exhibits

Annexes	Subject
Annex A	2019 SEC 17-Annual Report
Annex B	Revised Corporate Governance Manual
Annex C	Certificate of Attendance of Atty. Joseph Jason M. Natividad in the BDO Corporate Governance Seminar last 24 July 2019
Annex D	Transmittal to directors on the distribution of board materials
Annex E	Page 23 of the 2019 SEC 17-Annual Report for the Compliance Officer profile and qualifications
Annex F	Certificate of Attendance of Ms. Angelita C. Tad-y in the BDO Corporate Governance Seminar last 24 July 2019
Annex G	Certificate of attendance of Board meetings and committee meetings

Exhibits	Subject
Exhibit 1	Policy on Retirement of Directors approved by the Board of Directors
Exhibit 2	2019 Definitive Information (DIS)
Exhibit 3	Related Party Transaction Policy
Exhibit 4	2019 Annual Stockholders' Meeting minutes
Exhibit 5	Internal Audit Charter
Exhibit 6	Revised Code of Business Conduct and Ethics
Exhibit 7	Personal Trading Policy to all directors, officers and employees of BDO Unibank, Inc. and its subsidiaries
Exhibit 8	Summary of Material Related Party Transactions
Exhibit 9	Terms of Reference of the Audit Committee
Exhibit 10	SEC 17-Q Report for 1 <sup>st</sup> Quarter 2020
Exhibit 11	BDOLF Regulatory Compliance Manual
Exhibit 12	BDOLF Dividend Policy Statement
Exhibit 13	Policy on Disclosure of Sensitive/Confidential Matters to Management



**Annex A**  
2019 SEC 17-Annual Report

# COVER SHEET

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S.E.C. Registration Number

B	D	O	.	L	E	A	S	I	N	G		A	N	D	.	F	I	N	A	N	C	E		I	N	C	.				
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(Company's Full Name)

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M	A	N	D	A	L	U	Y	O	N	G		C	I	T	Y		P	H	I	L	I	P	P	I	N	E	S	.			
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(Business address: No. Street City / Town / Province)

ELMER B. SERRANO	
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Contact Person

(632) 8688-1288
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Company Telephone Number

1	2	3	1
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Month                  Day  
Fiscal Year

SEC FORM 17-A ANNUAL REPORT
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FORM TYPE

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Annual Meeting

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Secondary License Type, If Applicable

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Dept. Requiring this Doc.

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Amended Articles Number/Section

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Total No. of Stockholders

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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LCU

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\_\_\_\_\_  
CASHIER

STAMPS														
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**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-A**

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

1. For the fiscal year ended: December 31, 2019
2. SEC Identification Number: 97869                      3. BIR Tax Identification No.: 000-486-050-000
4. Exact name of issuer as specified in its charter: BDO LEASING AND FINANCE, INC.
5. Manila    6.  (SEC Use Only)  
Province, Country or other jurisdiction of                      Industry Classification Code:  
incorporation or organization
7. No. 12 ADB Avenue, Ortigas Center  
Ortigas Center, Mandaluyong City, Philippines  
Address of principal office
8. (632) 8688-1288  
Issuer's telephone number, including area code
9. N/A  
Former name, former address, and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA



	<u>Subscribed and Outstanding</u>	
<b>Title of Each Class</b>	<b>No. of Shares</b>	<b>Amount in Pesos</b>
<b>Common</b>	<b>2,162,475,312</b>	<b>Php 2,162,475,312.00</b>
<b>Total</b>	<b>2,162,475,312</b>	<b>Php 2,162,475,312.00</b>
 	<b>Authorized</b>	<b>Outstanding</b>
<b>Short Term Commercial Paper</b>	<b>Php 15,000,000,000.00</b>	<b>6,752,100,000.00</b>
<b>Total</b>	<b><u>Php 15,000,000,000.00</u></b>	<b>6,752,100,000.00</b>

11. Are any or all of these securities listed on a Stock Exchange.  
Yes     No [ ]  
If yes, state the name of such stock exchange and the classes of securities listed therein:

**The Philippine Stock Exchange, Inc.                      Common Shares only**

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

registrant was required to file such reports);

Yes []      No []

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

Yes []      No []

13. Aggregate market value of the voting stock held by non-affiliates: **Php 463,031,803.30**

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### SIGNATURES

### EXHIBITS AND ANNEXES

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

### **ITEM 1. BUSINESS**

**BDO LEASING AND FINANCE, INC.** (the **Company**) is a domestic corporation incorporated in 1981. Its shares were listed in the Philippine Stock Exchange (PSE) on January 6, 1997. The 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 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 the Company, is registered with the 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.

As a subsidiary of BDO Unibank, the Company is considered a non-bank financial institution whose operations are regulated and supervised by the *Bangko Sentral ng Pilipinas* (**BSP**). In this regard, the Company is required to comply with the rules and regulations of the BSP.

The 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, 2019, the Company 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.

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

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

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

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

#### **Leasing Products:**

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

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



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

*Sale-Leaseback* - The Company purchases an asset from a client based on appraised value. The Company then “leases back” the asset to the client. This type of lease arrangement simultaneously provides liquidity to the client and continued use of the asset.

#### Financing Products:

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

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

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

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

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

As of December 31, 2019, the Company’s leasing and financing products contributed 57.24% and 33.69% to its gross revenues, respectively, vis-a-vis 2019 ratios of 59.47% and 31.94% respectively.

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

There were no publicly announced new products or services.

#### ***Sales Contracts***

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

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

#### ***Government Approval***

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

principal products and services.

### ***Market Position***

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

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

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

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

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

### ***Competition***

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

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

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

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

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

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


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

The Company has established policies and procedures on related party transactions in compliance with BSP and SEC regulations, embodied in its duly adopted Material Related Party Transactions Policy. These

include definition of related parties, coverage of RPT policy, guidelines in ensuring arm’s-length terms of covered transactions, identification, prevention and management of potential or actual conflict of interests, adoption of materiality thresholds, internal limits for individual and aggregate exposures, whistle-blowing mechanisms, and restitution of losses and other remedies for abusive RPTs. The RPT Committee, composed of independent and non-executive directors, reviews and endorses to the Board of Directors for final approval all material RPTs. The Material Related Party Transactions Policy covers both the Company and its Subsidiary, as applicable, intended to ensure that every covered related party transaction is conducted in a manner that will protect the Company and the Subsidiary from conflict of interest which may arise between the Company, the Subsidiary and their Related Parties; and proper review, approval, ratification and disclosure of transactions between the Company and any of its related party/ies as required in compliance with legal and regulatory requirements. The Policy also requires that any member of the RPT Committee who has a potential interest in any related party transaction shall abstain from the discussion and endorsement of the related party transaction and any member of the Board who has interest in the transaction must abstain from the deliberation and approval of any related party transaction. Related party transactions, whose value exceed 10% of the Company’s total assets, require review of an external independent party to evaluate the fairness of its terms and conditions and the approval of 2/3 vote of the Board, with at least a majority of the independent directors voting affirmatively. The full version of the Material Related Party Transactions Policy is published in our corporate website at [https://www.bdo.com.ph/leasing/corporate governance/company policies](https://www.bdo.com.ph/leasing/corporate%20governance/company%20policies).

***Intellectual Property***

As of December 31, 2019, the Company has no existing or expiring patents, copyrights, licenses, franchises, concessions, and royalty agreements. As of even date, the Company is the licensee from BDO Unibank of the following registered trademark with the Philippine Intellectual Property Office:

Trademarks	Validity of Registration
	May 4, 2014 to May 4, 2024

***Governmental Regulation***

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

***Research and Development***

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

***Employees***

As of December 31, 2019, the Company had 195 employees – 17 senior officers, 79 junior officers and 99 rank & file employees. Of the total personnel, Executive Office is composed of two employees; 126 under the Marketing group; 56 under the Operations group (Comptrollership and Operations); six under Risk and Compliance; three under Treasury; and two under the Company's subsidiary, BDO Rental.

The Company believes that it has maintained a good relationship with its employees. Rank & file employees receive benefits similar to those granted to the rank & file employees of BDO Unibank, under the terms of a Collective Bargaining Agreement (**CBA**) between BDO Unibank and BDOEA-ALU, a legitimate labor organization duly registered with the Department of Labor and Employment. The CBA expires on October 31, 2020. The CBA covers wage increases, allowances, bonuses, loans and other benefits.

## **Risk Factors**

### **Portfolio Concentration Risks**

As of December 31, 2019, 50% of the Company's leasing and financing portfolio consisted of exposure in firms in the following sectors: transportation, construction, food and beverage, consumer products, and other community services. The Company maintains a general policy of avoiding excessive exposure in any particular sector of the Philippine economy. The Company actively seeks to increase its exposure in industry sectors, which it believes possess attractive growth opportunities. Conversely, it actively seeks to reduce its exposure in industry sectors where growth potential is minimal. Although the Company's leasing and financing portfolio is composed of transactions with a wide variety of businesses, the results of operations and financial condition of the Company may be adversely affected by any downturn in these sectors as well as in the Philippine economy in general.

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

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

### **Risk Management**

With its culture of managing risk prudently within its capacity and capabilities, the Company will pursue its strategy and business plans to provide consistent quality service to its customers, to achieve its desired long-term target returns to its shareholders and satisfy or abide by the needs of its other stakeholders, including its depositors and regulators.

The Company believes that, as there are opportunities, there are associated risks and the objective is not to totally avoid risks, but to adequately and consistently evaluate, manage, control, and monitor the risks and ensure that the Company is adequately compensated for all the risks taken. Good risk management involves making informed and rational decisions about the level of risks the institution wants to take, in the pursuit of its objectives, but with consideration to return commensurate with the risk-taking activity.

The Company's goal is to remain a strong bank that is resilient to possible adverse events. Hence, the Company ensures:

- strong financial position by maintaining capital ratios in excess of regulatory requirements;
- sound management of liquidity; and,
- ability to generate sustainable earnings commensurate with the risks taken.

For credit risk, market risk, and liquidity risk, the Company ensures that these are within Board-approved operating limits. For operational risk (which includes legal, regulatory, compliance risks), and reputational risks, these are invariably managed by the development of both a strong "control culture" and an effective internal control system that constantly monitors and updates operational policies and procedures with respect to the Company's activities and transactions.

Risk management begins at the highest level of the organization. At the helm of the risk management infrastructure is the BOD who is responsible for establishing and maintaining a sound risk management system. The BOD assumes oversight over the entire risk management process and has the ultimate responsibility for all risks taken. It regularly reviews and approves the institution's tolerance for risks as well as its business strategy and risk philosophy.

The BOD has constituted the Risk Management Unit (RMU) as the Board-Level Committee responsible for the development and oversight of the risk management program. Considering the importance of appropriately addressing credit risk, the BOD has also constituted the Credit Committee. The Credit Committee is responsible for approving credit-specific transactions, while the RMU is responsible for approving credit portfolio risk-related policies and limits, as well as, market, liquidity, and operational risk policies and limits.

Within Company's overall risk management system is the Assets and Liabilities Committee (ALCO), which is responsible for managing the Company's statement of financial position, including the Company's liquidity, interest rate and foreign exchange related risks. In addition, ALCO formulates investment and financial policies by determining the asset allocation and funding mix strategies that are likely to yield the targeted financial results.

The Company operates an integrated risk management system to address the risks it faces in its banking activities, including credit, market (foreign exchange, interest rate, and price risks), liquidity, and operational risks. The RMU is mandated to adequately and consistently evaluate, manage, control, and monitor the overall risk profile of the Company's activities across the different risk areas (i.e., credit, market, liquidity and operational risks) to optimize the risk-reward balance and maximize return on capital. RMU also has the responsibility for recommending to the appropriate body, risk policies across the full range of risks to which the Company is exposed.

The evaluation, analysis, and control performed by the Risk Function, in conjunction with the Risk Takers, constitute the risk management process. The risk management process is applied at three levels: the transaction level, the business unit level, and the portfolio level. This framework ensures that risks are properly identified, quantified and analyzed, in the light of its potential effect on the Company's business. The goal of the risk management process is to ensure rigorous adherence to the Company's standards for precision in risk measurement and reporting and to make possible, in-depth analysis of the deployment of capital and the returns that are delivered to the shareholders.

### **Foreign Currency Sensitivity**

Most of the Company'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 Company's leasing and financing portfolio, cash and cash equivalents and lease deposits which are denominated in United States (U.S.) dollars.

### **Interest Rate Risk**

The Company is exposed to changes in market interest rates through its bills payable and a portion of Company's loans and other receivables, which are subject to periodic interest rate repricing. All other financial assets and financial liabilities have fixed rates.

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

## **Credit Risk**

Credit risk is the risk that the counterparty in a transaction may default and arises from lending, treasury, and other activities undertaken by the Company. The Risk Management Unit (RMU) of the Company 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 Company'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 Company 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.

## **Liquidity Risk**

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

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

The Company believes that it currently has adequate debt funding from banks and other financial institutions. This is notwithstanding the Company's non-renewal last January 2020 of its license from the SEC to issue a total of ₱15 billion CPs.

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

## ***Taxation***

### **Relevant Tax Regulations**

The Company is governed by the National Internal Revenue Code (**NIRC** or the **Tax Code**) and abides with all the relevant provisions of the NIRC. The following are the significant Revenue Regulations (**RR**) that were issued in 2018 that apply to the Company.

- a) On January 4, 2018, RR No. 1-2018 was issued which provides the rules and regulations implementing the documentary stamp tax rate adjustment under Republic Act No. 10963 (the **TRAIN Law**).
- b) On January 19, 2018, RR No. 6-2018 revoked RR No. 12-2013 relative to the requirements for

deductibility of certain expenses, thereby reinstating the provisions of Section 2.58.5 of RR No. 14-2002, as amended by RR No. 17-2003.

c) On February 20, 2018, RR No. 8-2018 was issued which implements the amended provisions on income taxation pursuant to the TRAIN Law.

d) RR No. 11-2018, issued on March 15, 2018, amends certain provisions of RR No. 2-98, as amended, to implement further amendments introduced by the TRAIN Law relative to withholding of income tax.

e) RR No. 13-2018, issued on March 15, 2018, prescribes the regulations implementing the value-added tax (VAT) provisions under the TRAIN Law, which further amends RR No. 16-2005 (Consolidated VAT Regulations of 2005), as amended.

f) On April 5, 2018, RR No. 14-2018 was issued which amends the provisions of RR No. 11-2018, particularly Sections 2 and 14 relative to withholding of income tax.

g) RR No. 15-2018, issued on April 5, 2018, amends RR No. 8-2018 particularly on the due date for updating registration from VAT to Non-VAT.

h) RR No. 19-2018, issued on August 9, 2018, amends RR No. 13- 2018 particularly on the use of invoices/receipts of previously registered VAT taxpayers who are now non-VAT taxpayers.

i) On September 14, 2018, RR No. 21-2018 was issued which implements Section 249 (Interest) of the Tax Code as amended under the TRAIN Law.

j) RR No. 01-2019, issued on February 8, 2019, further amends certain provisions of RR No. 2-98 as Amended by RR No. 11-2015, which implemented the provisions of the TRAIN Law, relative to some changes in the rate of creditable Withholding Tax on certain Income Payments.

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

Beginning January 1, 2003, the imposition of VAT on banks and financial institutions became effective pursuant to the provisions of Republic Act No. 9010. The Company became subject to VAT based on its gross receipts, in lieu of the gross receipts tax (GRT) under Sections 121 and 122 of NIRC, which was imposed on banks, non-banks financial intermediaries and finance companies in prior years.

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

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

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

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

## **ITEM 2. PROPERTIES**

The Company leases its head office premises from BDO Unibank under an agreement with a term of five years until September 30, 2021. Monthly rental amounts to P869,000.00. The Company's Cagayan de Oro, Davao, Iloilo, Pampanga, and Cebu branches also lease their premises from the BDO Unibank.

The Company's principal or head office address is at the 39<sup>th</sup> Floor BDO Corporate Center Ortigas, 12 ADB Avenue, Ortigas Center, Mandaluyong City.

Below on the other hand are details on the Company's branches:

### **Cagayan:**

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

### **Iloilo:**

- Operates at the 2<sup>nd</sup> Floor, BDO Corporate Center, BDO Valeria Branch, Valeria St., Iloilo City for a period of five years and will expire on November 17, 2023. Monthly rental amounts to P11,708.00 with no escalation clause.

### **Davao:**

- Operates at the 4<sup>th</sup> Flr., BDO Davao-Claveria No. 30 C.M. Recto Avenue, Poblacion, Davao City for a period of five years and will expire on May 31, 2023. Gross monthly rental amounts to P58,836.00 with no escalation clause.

### **Cebu**

- Operates at the Mezzanine Floor, BDO Bldg., Gorordo Ave., Lahug, Cebu City for a period of five years and will expire on May 31, 2024. Monthly rental amounts to P28,228.00 with no escalation clause.

### **Pampanga:**

- Operates at the 4<sup>th</sup> Flr., BDO Angeles-Balibago Branch Building, Ramon Tang Avenue, Diamond Subdivision, Balibago, Angeles City for a period of five years and will expire on December 14, 2023. Gross monthly rental amounts to P82,496.00 with no escalation clause

The Company facilities, office furniture, fixtures and equipment are in good condition. The distribution of office furniture, fixture and equipment are as follows: Head office – P44.1 million; Cebu – P0.7 million; Davao – P0.7 million; Cagayan – P1.3 million; Iloilo – P0.6 million; Pampanga – P1.6 million.

## **ITEM 3. LEGAL PROCEEDINGS**

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

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

There were no matters submitted to the vote of stockholders of the Company during the fourth quarter of the calendar year covered by this report.



## **PART II - OPERATIONAL AND FINANCIAL INFORMATION**

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

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

The total treasury shares of the Company as of December 31, 2019 is 62,693,718 shares or a total value of ₱81,776,628.

#### **Dividends**

The Company recognizes the importance of providing a stable and sustainable dividend stream consistent with its commitment to shareholders.

All declarations of cash dividends require prior Board approval of dividend record and payment dates, based on recommendations by Management in consideration of pertinent rules and regulations of the BSP, PSE, and SEC on record and payment dates as well as the amount of allowable dividends. Upon Board approval, necessary disclosures are made in compliance with regulatory requirements. The necessary trading blackout on BDO shares is also imposed upon BDO Directors and Officers. Dividends are then paid within 30 days from record date. The full dividend policy statement of the Company is published in its corporate website.

#### **Market Information**

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

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

<b>2020</b>	<b>High</b>	<b>Low</b>	<b>2019</b>	<b>High</b>	<b>Low</b>
January 24, 2020 (Last trading date)	3.35	3.00	1 <sup>st</sup> quarter	2.29	2.22
			2 <sup>nd</sup> quarter	2.42	2.32
			3 <sup>rd</sup> quarter	2.02	2.00
			4 <sup>th</sup> quarter	2.02	1.84
<b>2018</b>	<b>High</b>	<b>Low</b>	<b>2017</b>	<b>High</b>	<b>Low</b>
1 <sup>st</sup> quarter	3.21	2.23	1 <sup>st</sup> quarter	3.96	3.95
2 <sup>nd</sup> quarter	2.84	2.83	2 <sup>nd</sup> quarter	4.05	3.90
3 <sup>rd</sup> quarter	2.58	2.57	3 <sup>rd</sup> quarter	4.08	4.05
4 <sup>th</sup> quarter	2.20	2.19	4 <sup>th</sup> quarter	3.89	3.78

As of January 24, 2020 and December 27, 2019, the closing prices of the Company's shares are at P3.16 and P1.87, respectively.

The total number of stockholders of the Company as of January 31, 2020 is one thousand one hundred five (1,105) and as of December 31, 2019 was one thousand one hundred six (1,106). Common shares outstanding as of January 31, 2020 and December 31, 2019 totaled 2,162,475,312.

## Holders

The Company's common stockholders, with their respective shareholdings as of January 31, 2020 are as follows:

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

The top 20 stockholders of the Company as of January 31, 2020 are as follows:

<b><i>Name of Stockholders</i></b>	<b><i>Securities</i></b>	<b><i>Shares Held</i></b>	<b><i>Total Outstanding</i></b>
BDO Unibank, Inc./Banco De Oro Unibank Inc.*	Common	1,914,711,807	88.542597%
PCD Nominee Corporation (Filipino)	Common	247,604,243	11.45003%
Samuel Uy Chua	Common	21,000,000	0.971109%
Equitable Computer Services, Inc. A/C Cequit11	Common	12,320,000	0.569717%
Marylen Castro Mateo	Common	3,795,000	0.175493%
Jesselen Castro Verzosa	Common	3,795,000	0.175493%
Samuel Uy Chua	Common	3,011,150	0.139246%
Constantino Chua	Common	2,497,200	0.115479%
Equitable Computer Services, Inc.	Common	2,070,200	0.095733%
Mercury Group of Companies, Inc.	Common	1,089,165	0.050367%
Constantino Chua &/or Willington Chua &/or George W. Chua	Common	1,020,000	0.047168%
Nardo R. Leviste	Common	759,000	0.035099%
PCD Nominee Corporation (Foreign)	Common	594,821	0.027506%
Willington/Constantino Chua	Common	584,430	0.027026%
Willington Chua	Common	508,530	0.023516%
Pablo Son Keng Go	Common	455,400	0.023516%
Wilson Go	Common	438,625	0.020283%
Lim Chin Ben	Common	425,040	0.019655%
Sysmart Corporation	Common	358,835	0.016594%
Abacus Capital & Investment Corp.	Common	303,000	0.014012%

\* Includes shares of affiliate, BDO Capital & Investment Corporation. Number of shares reflects both direct and indirect shareholdings.

The top 20 stockholders of the Company as of December 31, 2019 are as follows:

<b>Name of Stockholders</b>	<b>Securities</b>	<b>Shares Held</b>	<b>Total Outstanding</b>
BDO Unibank, Inc./Banco De Oro Unibank Inc.*	Common	1,914,711,807	88.542597%
PCD Nominee Corporation (Filipino)	Common	247,593,400	11.44954%
Samuel Uy Chua	Common	21,000,000	0.971109%
Equitable Computer Services, Inc. A/C Cequit11	Common	12,320,000	0.569717%
Marylen Castro Mateo	Common	3,795,000	0.175493%
Jesselen Castro Verzosa	Common	3,795,000	0.175493%
Samuel Uy Chua	Common	3,011,150	0.139246%
Constantino Chua	Common	2,497,200	0.115479%
Equitable Computer Services, Inc.	Common	2,070,200	0.095733%
Mercury Group of Companies, Inc.	Common	1,089,165	0.050367%
Constantino Chua &/or Wellington Chua &/or George W. Chua	Common	1,020,000	0.047168%
Nardo R. Leviste	Common	759,000	0.035099%
Wellington/Constantino Chua	Common	584,430	0.027026%
PCD Nominee Corporation (Foreign)	Common	567,714	0.026253%
Wellington Chua	Common	508,530	0.023516%
Pablo Son Keng Go	Common	455,400	0.021059%
Wilson Go	Common	438,625	0.020283%
Lim Chin Ben	Common	425,040	0.019655%
Sysmart Corporation	Common	358,835	0.016594%
Abacus Capital & Investment Corp.	Common	303,000	0.014012%

\*Includes shares of affiliate, BDO Capital & Investment Corporation. Number of shares reflects both direct and indirect shareholdings.

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

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

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

### **2019 Compared to 2018**

Gross income for the year ended December 31, 2019 was P3,031.9 million, a decrease of P183.6 million, or 5.7% from P3,215.5 million in 2018. Interest and discounts for the year ended December 31, 2019 were P1,984.5 million, up by P17.4 million or 0.9% from P1,967.1 million in 2018. Rent Income for the year decreased to P844.6 million, a decline of P93.7 million or 10% from P938.3 million in 2018 due to the implementation of PFRS 16 in 2019. The Company's leasing and financing portfolio as of December 31, 2019 was at P24.78 billion.

Interest and financing charges for 2019 amounted to P1,399.2 million, consisting mainly of finance charges from borrowings of P1,389.3 million, interest expense on lease deposits of P7.7 million and interest expense on lease liability of P2.2. The increase of P224.7 million in financing charges is attributed to the

increase in borrowing rate in 2019. Interest expense on leased deposits in 2019 amounted to P7.7 million or an increase of P2.1M from 2018's P5.6 million. Interest expense on lease liability amounting P2.2 arises from the implementation of PFRS 16.

Total provision for impairment losses increased from P1.0 million in 2018 to P63.2 million in 2019. This was due to the higher NPL as of the end of 2019. Accounts written off in 2019 amounted to P19.6 million.

Taxes and licenses amounted to P309.5 million for the year ended December 31, 2019, a decline of P35.7 million, or 10.3% from the P345.2 million reported for the year ended December 31, 2018. The decrease was attributable to lower levels of Bills Payable in 2019.

Salaries and employee benefits expense amounted to P244.2 million in 2019 as compared to P235.7 million in 2018. Occupancy and equipment related expenses for the year ended December 31, 2018 amounted to P811.9 million, a decrease of P99.9 million, or 11% from December 2018's P911.8 million.

Litigation/assets acquired expenses amounted to P12.4 million in 2019, a slight decrease of P1.9 million from P14.3 million in 2018.

Other expenses decreased slightly to P111.1 million in 2019 as compared to P117.0 million in 2018.

The Company registered a net income of P46.8 million for the year ended December 31, 2019.

Total assets amounted to P30.9 billion in December 31, 2019, a decrease of P10.6 billion from P41.5 billion as of December 2018. Financial assets at fair value through OCI (FVOCI) decreased from P3.6 last year to P3.2 billion this year due to investment maturities. Leasing and Financing portfolio amounted to P25.2 billion in 2019 from P34.6 billion in 2018, a decrease of P9.4 billion due to sale of part of the company's lower yielding portfolio. Property and Equipment-net amounted to P1.9 billion as of 2019, a decrease from last year's P2.3 billion. Investment properties-net slightly increased to P393.8 million. Other assets amounted to P381.9 million in 2019 mainly due to sale of the company's investment in an associate, MMPC Auto Financial Services Corporation.

Income tax payable, accounts payable, and other liabilities decreased to P459.6 million from P587.1 million last year.

Lease deposits, amounting to P4.74 billion in 2019, decreased by P1.9 billion or 28.6% from last year's P6.63 billion consistent with the decline in volumes.

Stockholders' equity increased by P271.3 million or 5.1%.

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

	<u>December 2019</u>	<u>December 2018</u>
Current Ratio	0.36:1	0.42:1
Quick asset ratio	0.36:1	0.41:1
Debt to Equity Ratio	4.51:1	6.77:1
Net Profit Margin	1.54%	10.29%
Return on Equity	0.85%	6.13%

The Current Ratio (computed as current assets divided by current liabilities) and Quick Asset Ratio (quick asset divided by current liabilities) decrease from last year's 0.42:1 and 0.41:1, respectively. Debt to equity ratio, computed as total liabilities divided by total equity, decreased from 6.77:1 in 2018 to 4.51:1 in 2019. Net Profit Margin which is computed as net income over gross revenue, declined due to higher operating expenses. Return on Equity, which is net income over average equity, declined to 0.85% in 2019.

## 2018 Compared to 2017

Gross income for the year ended December 31, 2018 was P3,215.5 million, an increase of P59.0 million, or 1.9% from P3,156.5 million in 2017. Interest and discounts for the year ended December 31, 2018 were P1,967.1 million, up by P48.8 million or 2.5% from P1,918.3 million in 2017. Rent Income for the year stood at P938.3 million, an increase of P16.1 million or 1.7% from P922.2 million in 2017. The Company's leasing and financing portfolio as of December 31, 2018 was at P34.55 billion.

Interest and financing charges for 2018 amounted to P1,170.2 million, consisting mainly of finance charges from borrowings of P1,164.6 million and interest expense on lease deposits of P5.6 million. The increase of P320.1 million in financing charges is attributed to the increase in borrowing rate in 2018. Interest expense on lease deposits in 2018 amounted to P5.6 million or an increase of P1.7 million from 2017's P3.9 million.

Total provision for impairment losses decreased from P63.5 million in 2017 to P1.0 million in 2018. This was due to the implementation of PFRS 9. Accounts written off in 2018 amounted to P0.3 million.

Taxes and licenses amounted to P345.2 million for the year ended December 31, 2018, an increase of P74.3 million, or 27.5% from the P270.8 million reported for the year ended December 31, 2017. The increase was mainly the result of higher Documentary Stamp Taxes in 2018 vis a vis 2017, attributed to the implementation of the TRAIN law.

Salaries and employee benefits expense amounted to P235.7 in 2018 as compared to P227.0 million in 2017. Occupancy and equipment related expenses for the year ended December 31, 2018 amounted to P911.8 million, an increase of P46.4 million, or 5.4% from December 2017's P865.4 million.

Litigation/assets acquired expenses amounted to P14.3 million in 2018, a decrease by P27.3 million from P41.6 million in 2017.

Other expenses decreased slightly to P117.0 million in 2018 as compared to P120.5 million in 2017.

The Company registered a net income of P330.7 million for the year ended December 31, 2018.

Total assets amounted to P41.5 billion in December 31, 2018, a decrease of P1.3 billion from P42.8 billion as of December 2017. Following PFRS 9, Available-for-sale securities (AFS) were reclassified to Financial assets at fair value through OCI (FVOCI) in 2018. FVOCI decreased from P3.5 billion (AFS) last year to P3.6 billion this year due to investment maturities. Leasing and Financing portfolio amounted to P34.6 billion. Property and Equipment-net amounted to P2.2 billion as of 2018, a slight decrease from last year's P2.3 billion. Investment properties-net slightly increased to P354.5 million. Other assets amounted to P711.7 million in 2018.

Income tax payable, accounts payable, and other liabilities decreased to P587.1 million from P932.4 million last year.

Lease deposits, amounting to P6.63 billion in 2018, increased by P643.7 million or 10.7% from last year's P5.99 billion.

Stockholders' equity decreased by P99.3 million or 1.8%.

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

	<u>December 2018</u>	<u>December 2017</u>
Current Ratio	0.42:1	0.38:1
Quick asset ratio	0.41:1	0.37:1
Debt to Equity Ratio	6.77:1	6.87:1

Net Profit Margin	10.29%	18.08%
Return on Equity	6.13%	10.57%

The Current Ratio (computed as current assets divided by current liabilities) and Quick Asset Ratio (quick asset divided by current liabilities) decrease from last year's 0.38:1 and 0.37:1, respectively. Debt to equity ratio, computed as total liabilities divided by total equity, decreased from 6.87:1 in 2017 to 6.77:1 in 2018. Net Profit Margin which is computed as net income over gross revenue, declined due to higher operating expenses. Return on Equity, which is net income over average equity, declined to 6.13% in 2018.

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

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

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

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

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

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

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

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

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

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

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

There were no material commitments for capital expenditures.

## **ITEM 7. FINANCIAL STATEMENTS**

The financial statements of the Company included in the 2019 Annual Report to Stockholders are incorporated herein by reference. The schedules listed in the accompanying Index to Supplementary Schedules are filed as part of this Form 17-A.

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

### Information on Independent Accountant and Other Related Matters

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

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

The aggregate fees billed for each of the last two (2) fiscal years for professional services rendered by the external auditor was P1.486 million for the year 2019 and P1.009 million for the year 2018. These fees cover services rendered by the external auditor for audit of the financial statements and other services in connection with statutory and regulatory filings for fiscal year 2019 and 2018.

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

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

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

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

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

In 2019 and 2018, the auditing firm of P&A has been appointed as the Company's Independent Public Accountant. There was no event in the past where P&A and the Company had any disagreement with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope and procedures.

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

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

#### **1. Directors and Corporate Officers**

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

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

The Board meets every month to discuss the Company's operations and approve matters requiring its

approval. Materials containing matters to be taken up during the Board meeting are distributed to the directors at least five days prior to the scheduled Board meeting.

Below is the list of the incumbent members of the Board and all persons nominated to be part of the Board, and the corporate officers and their business profiles for the past five years:

**TERESITA T. SY**

Chairperson  
69 years old, Filipino

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

Ms. Sy is the Vice Chairperson of SM Investments Corporation (PLC) and Adviser to the Board of SM Prime Holdings, Inc. (PLC). She also sits as Chairperson of SM Retail, Inc. A graduate of Assumption College with a Bachelor of Arts and Science degree in Commerce major in Management, she brings to the board her diverse expertise in banking and finance, retail merchandising, mall and real estate development.

**ROBERTO E. LAPID**

Vice Chairman and President  
63 years old, Filipino

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

**ANTONIO N. COTOCO**

Director  
71 years old, Filipino

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

**JECI A. LAPUS**

Non-Executive Director  
66 years old, Filipino

Hon. Lapus was first elected as to the Board of Directors of the Company on April 23, 2014 and is presently a member of the Company's Related Party Transactions Committee. Mr. Lapus also serves as a Trustee and Acting Administrator of the Local Water Utilities Administration. From 2005 to 2006, he was an Independent Director of PCI Leasing and Finance, Inc. (now BDO Leasing and Finance, Inc.). He was formerly a Director of BDO Network Bank, Inc. and PNOC-Exploration Corp.; President of TODO Foundation, Inc.; and Vice President & OIC – Finance Administration of the National Agri-Business Corporation. Mr. Lapus was a member of House of Representatives, representing the third district of Tarlac



from 2007 – 2013, and he also served as a Reserved Officer with rank of Lieutenant Colonel in the Philippine Air Force. Mr. Lapus holds a Bachelor of Science degree in Civil Engineering from the Mapua Institute of Technology and passed the CE Board in 1975.

**LUIS S. REYES, JR.**

Director & Treasurer  
62 years old, Filipino

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

**NESTOR V. TAN**

Director  
61 years old, Filipino

Mr. Tan was first elected to the Board of Directors of the Company on January 23, 2007. He is the President and Chief Executive Officer of BDO Unibank, Inc., and concurrently holds Chairmanship of the following BDO Unibank subsidiaries: BDO Strategic Holdings Inc. and BDO Network Bank, Inc. He also concurrently holds vice chairmanships and/or directorships in the following subsidiaries of BDO Unibank, Inc.: BDO Capital & Investment Corporation, BDO Finance Corporation, BDO Insurance Brokers, Inc., BDO Life Assurance Company, Inc., BDO Private Bank, Inc., BDO Remit (USA), Inc., and SM Keppel Land, Inc. He is also a Trustee of BDO Foundation, Inc. and Chairman of the De La Salle University Board of Trustees. He is also the Chairman of Bancnet, the operator of the electronic payment system, Instapay, and the ATM switching utility for Philippine banks. He previously served as Chairman and President of the Bankers Association of the Philippines, in addition to being the previous Chairman and Director of Philippine Dealing System Holding Corp.

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

**EXEQUIEL P. VILLACORTA, JR.**

Non-Executive Director  
74 years old, Filipino

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

**WALTER C. WASSMER**

Director

62 years old, Filipino

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

**JESSE H.T. ANDRES**

Independent Director

55 years old, Filipino

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

**MA. LEONORA V. DE JESUS**

Independent Director

69 years old, Filipino

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

**VICENTE S. PÉREZ, JR.**

Independent Director  
61 years old, Filipino

Mr. Pérez was first elected to the Board of Directors of the Company on April 7, 2017, and is the Chairman of the Company's Risk Management Committee. He is currently an Independent Director of BDO Unibank, Inc., BDO Capital & Investment Corporation, BDO Finance Corporation, and Double Dragon Properties Corp. He is also a Non-Executive Director of Singapore Technologies Telemedia Pte Ltd. Mr. Pérez is currently the Chairman of the Alternergy Group, Philippine renewable power companies in wind, hydro and solar. He was Philippine Energy Secretary from 2001 to 2005. Mr. Pérez briefly served in early 2001 as Undersecretary at the Department of Trade and Industry and as Managing Head of the Board of Investments. Prior to his government service, Mr. Pérez had 17 years banking experience, first in Latin America debt restructuring at Mellon Bank in Pittsburg, and later in debt capital markets in emerging countries at Lazard in London, New York and Singapore. At 35, he became General Partner at New York investment bank Lazard Frères as head of its Emerging Markets Group. He was Managing Director of Lazard Asia in Singapore from 1995 until 1997, when he co-founded Next Century Partners, a private equity firm based in Singapore. In 2005, he was briefly a government appointed director of Philippine National Bank until its privatization. Mr. Pérez obtained his Masters in Business Administration from the Wharton Business School of the University of Pennsylvania in 1983 and a Bachelor's degree in Business Economics from the University of the Philippines in 1979. He was a 2005 World Fellow at Yale University where he lectured an MBA class on renewable power at the Yale School of Management.

**JOSEPH JASON M. NATIVIDAD**

Corporate Secretary  
47 years old, Filipino

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

***Independent Directors***

The independent directors of the Company are Atty. Jesse H.T. Andres, Mr. Vicente S. Pérez, Jr., and Ms. Ma. Leonora V. De Jesus.

***Senior Executive Officers:***

The members of senior management, subject to control and supervision of the Board, collectively have direct charge of all business activities of the Company. They are responsible for the implementation of the policies set by the Board. The following is a list of the Company's key officers, and their business experiences for the past five (5) years:

**ANGELITA C. TAD-Y**

First Vice President/Chief Risk & Compliance Officer  
Filipino, 55 years old

Ms. Tad-y was appointed as Chief Risk and Compliance Officer of the Company on December 16, 2017. She is concurrently the Company's Data Privacy and Information Security Officer. She joined the Asset Management Group of BDO Unibank in 2008 and transferred to Risk Management Group from 2010 to

December 15, 2017. Prior to BDO Unibank, Ms. Tad-y worked for Philamlife Insurance Company as Associate Controller, Asset Management & Compliance Officer for five years, and for JP Morgan Chase Bank as Credit Officer for 12 years. Ms. Tad-y earned her Bachelor of Science Degree major in Accounting from De La Salle University.

**AGERICO MELECIO S. VERZOLA**

First Vice President & Marketing Head  
Filipino, 62 years old

Mr. Verzola was appointed as First Vice President & Marketing Head of the Company on October 1, 2014. He is a Director of BDO Rental. Mr. Verzola has been involved in Credit, Corporate Banking, Commercial Banking, Branch Banking and Branch Lending, and Investment Banking over the past 38 years. He graduated with a degree of AB Economics from the University of the Philippines School of Economics, Diliman, and finished a six-month Advanced Senior Management Course at the Asian Institute of Management.

**ROSARIO C. CRISOSTOMO**

First Vice President  
Filipino, 51 years old

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

**MA. THERESA M. SORIANO**

First Vice President  
Filipino, 50 years old

Ms. Soriano is the current Head of Metro Manila Marketing Unit 2 of the Company, and has been with the Company for the last 25 years (since its predecessor PCI Leasing and Finance Inc.) where she rose from the ranks from being an Account Officer to a Unit Head. She obtained her baccalaureate degrees in Economics and Management of Financial Institutions as well as Masteral Degree in Business Administration from De La Salle University.

**COSME S. TRINIDAD JR.**

First Vice President  
Filipino, 55 years old

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

***Board and Senior Management Performance***

An annual self-assessment is conducted focusing on the performance of the Board, Directors, Committees and Senior Management, through the Corporate Governance Committee, using an approved set of questionnaires. The performance evaluation process begins with sending out customized Board Evaluation Questionnaires to each director and adviser. They are required to complete the questionnaire explaining the rationale and objectives of the performance evaluation. Based on the returns from each respondent, the ratings and responses are tabulated and consolidated. The Corporate Governance Officer prepares the overall report and presents this to the Corporate Governance Committee for discussion and endorsement to the Board, including the recommended actions and focus areas to improve effectiveness.

For 2019, the Company commissioned the Institute of Corporate Directors (ICD) to facilitate the Board Effectiveness Evaluation in compliance with the SEC Code of Corporate Governance in order to further align its governance framework with the principles of the said Code and global best practices. Part of the engagement of ICD is to facilitate a self and peer evaluation process on the Board, Board Committees, and individual directors. The results thereof are validated through focused interviews with individual directors.

### ***Significant Employee***

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

### ***Family Relationships***

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

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

To the Company's knowledge, none of the directors or executive officers is named or is involved during the last five (5) years up to January 31, 2020 in any legal proceedings which will have any material effect on the Company, its operations, reputation, or financial condition.

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

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

## **ITEM 10. EXECUTIVE COMPENSATION**

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

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

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

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

compensation details of the directors and key executive officers of the Company:

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

in million pesos	Year	Salary	Bonuses	Other Annual Compensation
President and four most highly compensated executive officers	2020 (estimate)	18.40	9.14	none.
	2019	17.52	8.70	none
	2018	16.64	8.36	none
<b>Year</b>	<b>Name</b>		<b>Position/Title</b>	
2019	Roberto E. Lapid		President	
	Agerico Melecio S. Verzola		First Vice President	
	Ma. Theresa M. Soriano		First Vice President	
	Rosario C. Crisostomo		First Vice President	
	Angelita C. Tad-y		First Vice President	
2018	Roberto E. Lapid		President	
	Agerico Melecio S. Verzola		First Vice President	
	Ma. Theresa M. Soriano		First Vice President	
	Rosario C. Crisostomo		First Vice President	
	Angelita C. Tad-y		First Vice President	

The above compensation includes the usual bonus paid to bank officers. Except for salaries, allowances, retirement benefits provided under BDO's retirement plan, and company-wide benefit extended to all qualified employees under BDO's stock option plan, there is no separate stock option, stock warrant or other security compensation arrangement between BDO and its individual officers.

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

in million pesos	Year	Salary	Bonuses	Other Annual Compensation
All other officers and directors	2020 (estimate)	108.76	33.04	n.a.
	2019	103.58	31.47	n.a.
	2018	105.23	39.08	n.a.

**B. Compensation of Directors**

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

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

The Company may grant to the directors any compensation other than *per diem* by the approval of the

shareholders representing at least a majority of the outstanding capital stock.

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

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

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

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

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

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

As of January 31, 2020, the following are known to the Company to be directly or indirectly the record and/or beneficial owners of more than 5% of the Company's voting securities:

Title of class	Name and Address of Record Owner & Relationship with Issuer	Name of Beneficial Owner & Relationship with Record Owner	Citizenship	Number of Shares Held	Percentage
Common	BDO Unibank, Inc. BDO Corporate Center 7899 Makati Avenue, Makati City  <b><i>BDO Unibank, Inc. is the parent company of the Company</i></b>	Record and beneficial (affiliate and majority stockholder)	Filipino	1,914,711,807	88.54%
Common	PCD Nominee Corp. (PCD) G/F Makati Stock Exchange Building, 6767 Ayala Avenue, Makati City  <b><i>PCD has no relationship with the Registrant except as stockholder.</i></b>  <b><i>PCD, being a nominee corporation, only holds legal title, not beneficial ownership of the lodged shares.</i></b>	Various shareholders  No stockholder owns more than 5% of the Company's voting securities through PCD	Filipino  Non-Filipino	247,604,243  594,821	11.45%  0.03%

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

As of January 31, 2020, the following stockholders own more than 5% of BDO Unibank:

Title of Class	Name & Address of Record Owner	Citizenship	No. of BDO Shares Held	Percentage
Common and Preferred	<b>SM Investments Corporation</b> 10 <sup>th</sup> Floor, One E-com Center, Harbour Drive, Mall of Asia Complex, CBP-I-A, Pasay City	Filipino	1,910,780,649*	39.02%
Common	<b>PCD Nominee Corp. (Non-Filipino)</b> 37 <sup>th</sup> Floor, The Enterprise Center Ayala Avenue, Makati City	Foreign	1,276,925,177	26.08%
Common and Preferred	<b>Sybase Equity Investments Corporation</b> 10 <sup>th</sup> Floor L.V. Locsin Building 6752 Ayala Avenue, Makati City	Filipino	631,410,292*	12.90%
Common	<b>PCD Nominee Corp. (Filipino)</b> 37 <sup>th</sup> Floor, The Enterprise Center Ayala Avenue, Makati City	Filipino	581,623,331**	11.88%
Common	<b>Multi-Realty Development Corporation</b> 10 <sup>th</sup> Floor L.V. Locsin Building 6752 Ayala Avenue, Makati City	Filipino	291,513,036*	5.95%
<b>TOTAL (COMMON &amp; PREFERRED)</b>			<b>4,896,486,774</b>	<b>95.83%</b>

\*Inclusive of PCD-lodged shares

\*\*Exclusive of PCD-lodged shares of SM Investments Corporation, Multi-Ready Development Corporation and Sybase Equity Investments Corporation

**There are no voting trust shares or shares issued pursuant to a Voting Trust Agreement registered with the Company nor has there been any change in control of the Company.**

### **Security Ownership of Management**

As of January 31, 2020, the total number of shares owned by the directors and management of the Company as a group is 107,375 Common Shares, which is equivalent to 0.0049651% of the total outstanding Common Shares of the Company. The Company's directors and officers own the following Common Shares:

Title of Class	Name of Beneficial Owner	Position	Citizenship	No. of Shares	Percentage
Common	<b>Teresita T. Sy</b> Chairperson	Chairperson	Filipino	100 (R)	0.0000046%
Common	<b>Roberto E. Lapid</b> Vice Chairman & President	Vice-Chairman & President	Filipino	100 (R)	0.0000046%
Common	<b>Jesse H.T. Andres</b>	Independent Director	Filipino	100 (R)	0.0000046%
Common	<b>Antonio N. Cotoco</b>	Director	Filipino	115 (R)	0.0000053%
Common	<b>Ma. Leonora V. De Jesus</b>	Independent Director	Filipino	100 (R)	0.0000046%
Common	<b>Jeci A. Lapus</b>	Director	Filipino	100 (R)	0.0000046%
Common	<b>Vicente S. Pérez, Jr.</b>	Independent Director	Filipino	100 (R)	0.0000046%
Common	<b>Luis S. Reyes Jr.</b>	Director	Filipino	100 (R)	0.0000046%
Common	<b>Nestor V. Tan</b>	Director	Filipino	100 (R)	0.0000046%
Common	<b>Exequiel P. Villacorta, Jr.</b>	Director	Filipino	100 (R)	0.0000046%
Common	<b>Walter C. Wassmer</b>	Director	Filipino	100 (R)	0.0000046%
Common	<b>Rosario C. Crisostomo</b>	Vice President	Filipino	106,260 (R)	0.0049138%
	<b>Total</b>			<b>107,375</b>	<b>0.0049651%</b>

Directors and officers of the Company are required to report to the Company any acquisition or disposition of the Company's shares within three business days from the date of the transaction. As prescribed



by the Disclosure Rules of the PSE, the Company shall disclose to the PSE any acquisition or disposition of its shares by its directors and officers within five (5) trading days from the transaction. Under Section 23 of the Securities Regulation Code (**SRC**), the Company shall likewise disclose to SEC within ten (10) days after the close of each calendar month thereafter, if there has been a change in such ownership of shares by directors and officers at the close of the calendar month and such changes in his ownership as have occurred during such calendar month.

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

The Company has adopted a comprehensive and extensive policy for its related party transactions in compliance with the regulatory requirements of not only the SEC, but also of the BSP, the Company being majority-owned by a bank. Pursuant to the SEC Memorandum Circular No. 10, series of 2019 (Rules on Material Related Party Transactions for Publicly-listed Companies), the Company adopted a **Material Related Party Transactions Policy** on October 2019. A copy of the Policy is available in the Company's website.

Related Parties broadly refer to the following: Directors, Officers, Stockholders, Related Interest (DOSRI) as defined under regulations, Subsidiaries, Affiliates and Other Related Parties acting for themselves, as representatives or agents for others, or as guarantors, sureties, endorsers, mortgagors, pledgors, assignors, or in any capacity in which (i) they become obligated or may be obligated to the Company and to its subsidiary BDO Rental to pay or its equivalent or by any means whatsoever or (ii) there is a transfer of resources, services, or obligations between the Company and its subsidiary and the Related Party. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

In ordinary course of business, the Company and its subsidiary BDO Rental, enter into transactions with BDO Unibank and other affiliates. These transactions are made substantially on the same terms as with other individuals and businesses of comparable risks.

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

The Company discloses details of material related party transactions in its Annual Stockholders' meeting and in its Annual Report, and likewise submits advisement reports thereof to regulators as necessary.

As disclosed, the Company's Board of Directors has approved, for confirmation of the stockholders during a special stockholders' meeting, the transfer of the Company's assets to BDO Unibank and other affiliates. The Company, consistent with its Material Related Party Transactions Policy, shall refer transactions breaching materiality thresholds to an external independent third party evaluation, to ensure that the disposition of assets are made on an arm's length basis. These third party consultants may include accredited independent auditing/accounting and appraisal firms which will be engaged by the Company upon stockholder approval of the asset transfer.

The consideration for the transfer of assets will at least be equal to the book value of these assets and on arms' length terms.

The transfer of assets is part of the restructuring of the leasing business of BDO group which is being undertaken to optimize the financial needs of clients in light of new accounting regulations covering lease transactions.

- 1) The related parties of the Group (defined as the Company and BDO Rental) include BDO Unibank, related party under common ownership, key management personnel and the retirement benefit fund as described below and in the succeeding pages.

The summary of the Group's transactions with its related parties in 2019, 2018 and 2017 and the related outstanding balances as of December 31, 2019 and 2018 are shown below and in the succeeding pages.

<u>Related Party Category</u>	<u>Notes</u>	<u>Amount of Transaction</u>		
		<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Ultimate parent company (BDO Unibank)</b>				
Interest income on savings and demand deposits	(a)	P 0.4	P 0.6	P 0.8
Interest expense on bills payable	(b)	58.0	120.6	141.5
Interest expense on lease liability	(c)	2.2	-	-
Rent expense	(c)	-	13.6	12.3
Depreciation	(c)	13.0	-	-
Management fees	(d)	16.0	16.0	13.8
Sale of receivables	(e)	5,801.3	1,611.6	-
Service charges and fees	(e)	13.4	1.4	-
Service fees	(f)	0.1	0.1	-
Employee stock option plan		14.8	8.7	6.3
<b>Subsidiary (BDO Rental)</b>				
Dividend income	(j)	-	35.0	120.0
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)	3.7	4.3	5.0
Interest expense on bills payable	(l)	203.3	145.0	94.1
Operating lease income	(n)	54.6	47.1	-
Insurance expense	(m)	0.8	0.3	-
Sales of receivables	(o)	516.0	-	-
Gains on sale of receivables	(o)	2.7	-	-
<b>Other related parties</b>				
Loans	(p)	198.7	52.7	1,542.1
<b>Key management personnel</b>				
Short-term benefits	(h)	57.4	58.6	47.5
Loans to officers	(h)	3.7	1.7	3.8
<b>Outstanding Balance</b>				
<u>Related Party Category</u>	<u>Notes</u>	<u>2019</u>	<u>2018</u>	
<b>Ultimate parent company (BDO Unibank)</b>				
Savings and demand deposits	(a)	P 125.7	P 269.8	
Right-of-use	(c)	27.0	-	
Bills payable	(b)	229.0	2,146.0	
Lease Liability	(c)	27.8	-	

Employee stock option plan		-	8.7
<b>Under common ownership</b>			
Accounts receivable	(k)	<b>0.9</b>	0.8
Bills payable	(l)	<b>997.1</b>	1,988.8
<b>Other related Parties</b>			
Loans	(p)	<b>497.7</b>	1,256.9
<b>Key management personnel</b>			
Loans to officers	(h)	<b>5.9</b>	5.1
<b>Retirement benefit fund</b>			
Shares of stock	(i)	<b>1.0</b>	1.1

- a) The Group maintains savings and demand deposit accounts with BDO Unibank. As of December 31, 2019 and 2018, savings and demand deposit accounts maintained with BDO Unibank are included under Cash and Cash Equivalents account in the statements of financial position. These deposits generally earn interest at annual rates of 0.25% in 2019, 2018 and 2017. Interest income earned on these deposits in 2019, 2018 and 2017 is included as part of Interest and Discounts account under Revenues in the statements of income.
- b) The Group obtains short-term borrowings from BDO Unibank with annual interest rates ranging from 4.6% to 6.8% in 2019, 2.2% to 6.5% in 2018 and 2.2% to 3.5% in 2017. Total availments and payments amounted to P15,466.0 and P17,383.0, respectively, in 2019, P34,050.6 and P36,715.7, respectively, in 2018, and P33,288.2 and P31,087.9, respectively, in 2017. These borrowings are secured by certain financial assets at FVOCI with fair value of P617.4 and P1,240.1 as of December 31, 2019 and 2018, respectively. The amount outstanding from borrowings as of December 31, 2019 and 2018 is presented under Bills Payable account in the statements of financial position. Interest expense incurred on these bills payable in 2019, 2018 and 2017 is included as part of Interest and Financing Charges account under Operating Costs and Expenses in the statements of income.
- c) The Company leases its head office premises and certain branch offices from BDO Unibank for terms ranging from three (3) to five (5) years, renewable for such period and under such terms and conditions as may be agreed upon with the Company and BDO Unibank. Related rent expense incurred in 2018 and 2017 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 Company charges BDO Rental for the spaces that the latter occupies in the head office premises. Rent charged to BDO Rental in 2018 and 2017 is presented as part of Other Income-net account in the Company's statements of income. There are no outstanding receivables and payables on these transactions as of the end of 2018. In 2019, due to the adoption of PFRS 16, the Company recognizes right-of-use asset which is included as part of Property, Plant and Equipment-net, and lease liability which is included as part of Accounts Payable and Other Liabilities in the statement of financial position. Related interest expense incurred on lease liability and depreciation are included as part of Interest and Financing Charges and Occupancy and equipment-related expenses, respectively, under Operating Costs and Expenses account in the statement of income.
- d) In 2013, the Company entered into a service level agreement with BDO Unibank wherein BDO Unibank will charge the Company for certain management services that the former provides to the latter. Management fees paid by the Company to BDO Unibank are shown as part of Other Expenses account under Operating Costs and Expenses in the statements of income. Also, the 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 Company's statements of income. There

are no outstanding receivables and payables on these transactions as of the end of 2019 and 2018.

- e) In 2019 and 2018, the Company sold a portion of its receivables to BDO Unibank to help mitigate the impact of margin compression from the rise in interest rates since late 2018. The Company charged BDO for service charges and fees which are presented as part of Other Income-net account in the statements of income. There are no outstanding receivables and payables on these transactions as of the end of 2019 and 2018.
- f) In 2018, the Company entered into an agreement with BDO Unibank where BDO Unibank will charge the Company for stock transfer service. Service fees paid by the 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 2019 and 2018.
- g) The Company engaged the services of BDO Capital & Investment Corporation (BDO Capital), a wholly owned subsidiary of BDO Unibank for underwriting services related to the Company's issuance of short term commercial papers. Service charges and fees paid by the Company to BDO Capital amounting to P2.1 for 2019, P2.0 for 2018 and P3.2 for 2017 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 2019 and 2018.
- h) 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. Short-term employee benefits amounting to P57.4 in 2019, P58.6 in 2018 and P47.5 in 2017, 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 P8.3 in 2019, P8.7 in 2018 and P7.0 in 2017.

The Group also granted loans to officers, which are secured by mortgage on the property, bear interest with a range of 7.0% to 9.0% per annum and have terms ranging from three (3) to five (5) years. Outstanding loans to officers are presented as part of Accounts receivable under Loans and Other Receivables account. The Group assessed that these loans are not impaired as of December 31, 2019 and 2018.

- i) The retirement fund holds, as an investment, 519,915 shares of stock of the Company as of December 31, 2019 and 2018, which has a market value of P1.87 and P2.19 per share as of December 31, 2019 and 2018, respectively. The retirement fund does not hold any shares of stock of BDO Unibank.
- j) In 2018 and 2017, BDO Rental declared cash dividends amounting to P35.0 (received in 2018), and P120.0 (received in 2017), respectively. There was no declaration of cash dividends in 2019. As of the end of 2019 and 2018, no outstanding receivable on this transaction.
- k) In 2016, the Company earned from BDO Insurance Brokers, Inc. (BDO Insurance) service charges and fees for accounts referred and are included as part of Miscellaneous-net under Other Income-net account in the statements of income. This resulted to the outstanding receivable of the Company from BDO Insurance in 2019 and 2018, which is recorded as part of Accounts receivables under Loans, and Other Receivables account in the statements of financial position. 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 2018, the Company obtains unsecured, short-term bills payable from BDO Strategic Holdings Inc. and SM Prime Holdings, Inc with annual interest rates ranging from 4.9% to 6.4% and 3.9% to 6.3%, respectively, in 2019, and 2.6% to 5.3% and 3.3% to 6.7%, respectively, in 2018. Total bill availments and payments amounted to P5,324.3 and P6,323.8, respectively, in 2019 and

P4,244.2 and P4,155.4, respectively, in 2018 for BDO Strategic Holdings Inc. Total bill availments and payments amounted to P34,500.0 and P34,500.0, respectively, in 2019 and P18,000.0 and P20,000.0, respectively, in 2018 for SM Prime Holdings, Inc. The amount outstanding from borrowings is presented under Bills Payable account in the statements of financial position. Interest expense incurred on these bills payable is included as part of Interest and Financing Charges account under Operating Costs and Expenses in the statements of income.

- m) In 2018, the Company paid BDO Life Assurance Company, Inc. (BDO Life) for Group Life Insurance of the Company's employees. Insurance paid by Company is presented as part of Occupancy and Equipment Related Expense under Operating Costs and Expenses in the 2019 and 2018 statement of income. No outstanding receivable and payable on this transaction as of the end of 2019 and 2018.
  - n) In 2017, BDO Rental, entered into Operating Lease Agreement with BDO Nomura which commenced in 2018. 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 are presented as part of Rent account in the Group's statements of income. No outstanding receivable on these transactions as of the end of 2019 and 2018.
  - o) In 2019, the Company sold a portion of its receivables to BDO Life for the same reason cited in (e). The related gain on sale of receivables is included as part of Other income-net account under Revenues in the statement of income. There is no outstanding receivable and payable on this transaction as of the end of 2019.
  - p) The Group also granted loans to other related parties, which bear interest with a range of 4.2% to 11.0% per annum, 4.2% to 9.1% per annum and 4.2% to 9.2% per annum in 2019, 2018 and 2017, respectively. Outstanding loans to other related parties are presented as part of Loans and Other Receivables-net account in the statements of financial position.
- 2) The Company, to finance its lending requirements, borrows funds from BDO Unibank at prevailing market rates. As of end of December 31, 2019, the Company has a total dollar borrowing amounting to USD 9,454,000.00. The Company's credit line with BDO Unibank stood at P20 billion for the year ended December 31, 2019, 2018 and 2017.
  - 3) The Company maintains current and savings accounts with BDO Unibank. Current accounts are non-interest earning while savings accounts earned interest of 0.25% per annum.
  - 4) The Company, in need of IT services to operate its systems, entered into a Service Level Agreement (**SLA**) with BDO Unibank, who has the IT facilities and technical competence to develop, maintain, and modify IT application software and to direct, supervise, and run the operating system software. IT is also included in the Company's approved SLA which it pays a monthly fee inclusive of all services extended by BDO Unibank.

Under the SLA, BDO Unibank shall provide the Company with the following IT services:

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

## **PART IV - CORPORATE GOVERNANCE**

### **ITEM 13. CORPORATE GOVERNANCE**

The Company's corporate governance practices, in consonance with its parent company, BDO Unibank, hinges on effective oversight, voluntary compliance and sustainable value creation to promote the best interest of its various stakeholders. The Company affirms its deep commitment to a high standard of corporate governance practice firmly anchored on the principles of accountability, fairness, integrity, transparency and performance consistently applied throughout the institution that supports our corporate objective of delivering long-term value. The Company's good market reputation has been built on the solid foundation of an ethical corporate culture and responsible business conduct, underpinned by a well-structured and effective system of governance.

The Company has continued to comply, where appropriate, with the SEC Code of Corporate Governance for Publicly-Listed Companies and provisions of BSP Circular 970 on Enhanced Corporate Governance Guidelines for BSP-Supervised Financial Institutions in its Corporate Governance Manual, which form part of its continuing commitment to comply with the latest rules and regulations. It has also continued to follow, where appropriate, the international best practices of corporate governance issued by globally recognized standards setting bodies such as the Organization for Economic Cooperation and Development (OECD) and the ASEAN Corporate Governance Scorecard which serve as essential points of reference.

This report describes the highlights of our corporate governance practices throughout the financial year ended December 31, 2019.

1. **Composition of the Board** - The Board of Directors is composed of eleven (11) members and aided by one (1) Adviser to the Board. The members of the Board are all professionals with expertise in banking, accounting and finance, law, merchandise marketing, strategy formulation, bank regulations, and risk management. It is led by a Non-Executive Chairperson with 3 Independent Directors, 2 Non-Executive Directors and 5 Executive Directors. Non-Executive Directors including Independent Directors comprise 55% of board strength, meeting the requirement of the SEC and the BSP as well as standards of global best practices.
2. **Revision of Corporate Governance Manual** – The Company's Corporate Governance Manual was enhanced by incorporating provisions that further demonstrate the strong commitment of our Board of Directors in upholding consumer protection in the institution. The Material Related Party Transaction Policy of the Company was appended to the Corporate Governance Manual to signify the arm's length dealing with related parties is interwoven with our corporate governance framework;
3. **Composition of the Committees** - The Board has established six committees to help in discharging its duties and responsibilities. These committees derive their authority from and report directly to the Board. Their mandates and scopes of responsibility are set forth in their respective Terms of Reference, which are subjected to annual review and may be updated or changed in order to meet the Board's needs or for regulatory compliance. The number and membership composition of committees may be increased or decreased by the Board as it deems appropriate, consistent with applicable laws or regulations specifically on the majority membership and chairmanship of independent directors in various committees. As of December 31, 2019, five (5) of six (6) board-level committees are chaired by independent directors.
4. **Audited financial statements** were disclosed to the public on February 19, 2019 within 60 days from year end, following the best practice recommendation of the ASEAN Corporate Governance Scorecard, for five (5) consecutive years already.
5. **Executive Sessions of Independent/Non-Executive Directors** – The Independent and Non-Executive Directors, headed by Lead Independent Director Ma. Leonora V. De Jesus, conducted 2

executive sessions with the External Auditor, Chief Risk Officer and Compliance Officer and Chief Internal Auditor without the presence of Management to discuss various matters/issues outside of the regular committee meetings of the Audit and Risk Management Committees. The results of these session were discussed with Company's Executive Directors; and

6. Annual performance self-assessment - On Board performance self-assessment for year 2019, the Company commissioned the Institute of Corporate Directors (ICD) to facilitate the Board Effectiveness Evaluation in compliance with the SEC Code of Corporate Governance in order to further align its governance framework with the principles of the said Code and global best practices. Part of the engagement of ICD is to facilitate a self and peer evaluation process on the Board, Board Committees, and individual directors. The results thereof are validated through focused interviews with individual directors.

This report sets out the main corporate governance practices of the Company in relation to the following OECD guiding principles:

## **Rights of Equitable Treatment of Stakeholders**

### **Shareholders**

The Company respects the inherent rights and recognizes the roles of various stakeholders in accordance with law. To this end, it has put in place various governance practices, policies and programs for the protection of shareholders' rights and promotion for exercising those rights in accordance with OECD principles, such as the right to buy, sell or transfer securities held, the right to receive dividend, the right to vote for the appointment of the external auditor, the right to participate in the decision-making for corporate matters, the right to propose agenda item in the shareholders' meeting and the right to attend the shareholders' meeting. As a matter of policy, all stockholders (retail and institutional) on record are encouraged to attend, personally or by proxy, the annual stockholders' meeting to ensure their participation and active involvement in the affairs of the Company. Shareholders will be given equal opportunities to raise questions, make suggestions and recommendations pertaining to the operations of the Company. They can appoint proxies to vote on their behalf if shareholders could not personally attend the stockholders' meeting.

For the convenience of shareholders to exercise their right to attend the stockholders meeting, the venue, date, time and agenda of the annual meeting, explanation and rationale of each agenda item requiring shareholders' approval, and the manner of tabulating votes are made available to all stockholders prior to the meeting. In 2019, the Notice of Annual Stockholders' Meeting, which contains details and rationale of each agenda item was released on January 30, 2019, or 71 days prior to the date of the meeting.

The Annual Stockholders' Meeting was held on April 19, 2019 and was attended by the Board Chairperson, President & Chief Executive Officer, Directors and chairpersons of various Board Committees. The shareholders were allowed to cast their votes on each director and on each agenda item presented to them for approval. They were also given the opportunity to ask questions, express opinion and make suggestions on various issues. Please see the minutes of the 2019 Annual Stockholders' Meeting for detailed Questions and Answers, the voting results showing the Approving, Dissenting and Abstaining Votes cast by the shareholders on each agenda item, made available within twenty-four (24) hours from adjournment of the meeting in the Company's website at <https://www.bdo.com.ph/BDOLF2019ASMMMinutes>.

During this meeting, the President reports to the stockholders the financial performance of the Company for the year. In addition, the Company files with the PSE and SEC quarterly reports on its financial performance.

The Company recognizes and ensures that all shareholders should be treated fairly and equally whether they are controlling or minority, local or foreign.

Policies and procedures have been put in place to manage potential conflicts of interests arising from related party transactions such as credit accommodations, products or services extended by the Company to directors and officers in their personal capacity, immediate members of their family up to the second degree of consanguinity or affinity or to their company. In compliance with BSP Circular 969, the Board approved the revised Terms of Reference of the Related Party Transactions Committee to align with the requirements of the new regulations. Further, pursuant to the SEC Memorandum Circular No. 10, series of 2019 (Rules on Material Related Party Transactions for Publicly-Listed Companies), the Company adopted a Material Related Party Transactions Policy on October 2019.

The RPT policy prohibits directors from participating in any discussion, deliberation, and decision-making concerning any issue or transaction where they may be conflicted. These transactions are then elevated to the Board for final approval. The details of the deliberations are included in the minutes of the Board meeting. Approved related party transactions are properly tagged for monitoring and reporting of exposures. The material Related Party Transactions are reported to the BSP after the end of every quarter. The Company also discloses details of material related party transactions in its Annual Stockholders' Meeting and in its Annual Report, and likewise submits advisement reports thereof to regulators as necessary.

### **Investors**

The Company adopts a pro-active relationship with its stockholders through Investors Relations' comprehensive engagement program. Relative information is also shared through official disclosures posted via PSE Edge and company website. In 2019, the Investor Relations coordinated with the Corporate Secretary's Office and Marketing Communications to ensure the timely and accurate dissemination of public, material and relevant information about the Company.

The Company directly liaises with its stock transfer agent on matters relating to stockholders' claim for cash dividends, updating of contact information and requests for documents and/or information regarding their stockholdings.

It also recognizes the need for accurate and updated information of the Company's financial condition and all matters affecting the Company by appropriate timely disclosures in the corporate website, regulators, annual reports and announcements. Shareholders could request relevant information from the Corporate Secretary or Investors Relations Unit through the contact details provided in the Company's official website. The minutes of the 2019 Annual Stockholders' Meeting is available in our corporate website at <https://www.bdo.com.ph/BDOLF2019ASMMminutes>.

### **Customers**

Our clients provide the Company the business for which we are most thankful. The Company is committed to meet their client needs by providing them with high quality customer service and relevant products and services.

The Company is committed to treat clients fairly. The minimum standards to ensure that clients are treated fairly are the following:

- Communications are fair and not misleading.
- Ensure that clients are given clear and concise information, including the risks involved before they enter into financial products and services.
- Products and service are suitable and appropriate, taking into account the needs of the clients, their financial and risk profile and objectives.
- Complaints should be handled in a prompt, friendly, fair and effective manner.

As a continuing compliance with BSP Circular 857 which is the Regulations on Financial



Consumer Protection in the Philippines, the Company has monitored and profiled the client inquiries/requests/complaints together with resolutions/actions taken. The Company has been proactive in resolving with complaints. The Company has established a Consumer Assistance Management System to address customers concerns. Effective recourse is one of the five (5) areas of BSP's Consumer Protection Framework, and the Company has been seriously devoting resources to ensure that customer issues are resolved in a timely manner. It has also implemented the Framework and Policy on Social Media Risk Management in Compliance with BSP Circular 949. The Company also appointed a Data Protection Officer and adopted an Enterprise Privacy Policy to incorporate the provisions of the Data Privacy Act (RA 10173).

### **Creditors, Counterparties and Suppliers**

The Company is committed to meet its contractual obligations with all creditors and counterparties based on the covenants agreed with them. In 2019, the Company renewed its license from the SEC for the issuance of Php1.5 Billion in Short-term Commercial Papers.

In the conduct of its business dealings, the Company undertakes to honor all binding trade-related agreements and conditions on the basis of widely accepted industry practices, mutual understanding and cooperation with counterparties. In accordance with law, they will be given priority in payment of the Company's obligations in the normal course of business and in the event of liquidation.

For suppliers, it has established appropriate policies that govern the vendor accreditation, selection, bidding and approval process. The Company strictly prohibits the solicitation and acceptance, directly or indirectly, of any gift (including entertainment services and activities), gratuity, commission or any form of payment from client, business partners, suppliers and third party service providers in exchange for unnecessary favorable treatment.

### **Employees**

The Company puts high value to its human resources. To ensure protection and well-being of the employees, the Company has implemented policies and programs that cover the following areas:

#### **a. Code of Conduct and Business Ethics**

As a financial institution, The Company believes in practicing right conduct and ethical behavior inspires and strengthens the confidence of all its stakeholders.

The Code outlines the principles and policies that govern the activities of the institution, sets forth the rules and conduct in our work place and the standards of behavior of its directors, officers and employees in their activities and relationship with external shareholders. Those reflect the core values the institution subscribes to and promises.

The Code applies at all times to all members of the Board of Directors and employees in their dealings with clients, suppliers, business partners and service providers. It covers the Company's commitment to gender friendly workplace, concern for occupational health, safety and environment, transparency, integrity and accountability, compliance with laws and regulations, standards of behavior and personal conduct and ethics of doing business.

#### **b. Training and Development**

The continuing education program for directors is an ongoing process to ensure the enhancement of their skills and knowledge. Every year, all directors and key officers are given updates and briefings, and are required to attend a corporate governance seminar on appropriate topics to ensure that they are continuously informed of the developments in the business and regulatory environments, including emerging opportunities and risks in the banking industry and finance companies. In 2019, the annual corporate governance seminar for directors concentrated on

cybersecurity in the Philippines and blockchain technology/cryptocurrencies, to equip themselves on emerging risks as banks move to the era of digital banking.

c. Employee Welfare

The Company is committed to promote physical, social and mental well-being of its employees. It aims to provide a workplace free from discrimination and all forms of physical, sexual and psychological abuse including harassment, bullying and intimidation. The Company established the Policy on Disclosure of Sensitive/Confidential Matters to Management to give employees the opportunity to communicate, with protection from reprisal, legitimate concerns about illegal, unethical or questionable practices in the workplace.

d. Health and Safety

The Company is committed to maintain a positive, harmonious and professional work environment with due importance accorded to occupational health and safety of the employees and related external constituencies.

The continuing activities to promote health and safety are the following:

- No Smoking Policy in all head offices and branches is strictly enforced;
- No firearms allowed in all offices and branch premises;
- Use of CCTV as a deterrent to possible criminal activities such as hold-ups/robberies;
- Fire prevention measures and safety/evacuation drills for fire and earthquakes;
- Installation of access ramps for persons with disability in our buildings and branches to make our offices safe and accessible to PWDs;
- Regular safety inspections in corporate offices and branches nationwide to rectify immediately all noted unsafe conditions; and
- Emergency Response Teams to ensure availability of emergency response personnel in time of disaster.

In 2019, the Company was part of the following initiatives of its parent company, BDO Unibank Inc., to improve the safety of BDO Group employees and customers inside the premises:

1. The BDO Group hired additional Safety Officers tasked to conduct safety trainings, safety inspections and fire drills.
2. The BDO Group inspected various facilities and the Safety Officers are required to render written reports addressed to various stakeholders. These reports are flagged areas of concern that were eventually resolved.
3. The BDO Group launched a training module on accident prevention.
4. The BDO Group conducted fire drills and formal reports were rendered to highlight areas of strength and other issues that must be addressed.
5. The BDO Group established a Health and Safety Committee that meets once a month to review the progress on the implementation of its programs. The Committee is composed of a mix of officers of BDO Group and headed by senior vice-presidents in Central Operations Group and Human Resources Group of BDO Unibank, Inc.

The BDO Group clinics are manned by occupational health practitioners and nurses. BDO Group maintains nine medical clinics located in strategic areas in Metro Manila, one of which is in BDO Corporate Center Ortigas where the Company's head office is located.

Aside from the clinics, employees have option to go to any medical facility accredited by the health maintenance organizations supporting the Company.

The Company is active in promoting a healthy lifestyle for its employees with the adequate and well maintained gym facilities in BDO Corporate Center Ortigas where various group exercises are also

being held.

Employees are required to undergo an annual medical check-up. As of the close of 2019, all employees of the company have complied with this mandate. The Company also conducts a random drug testing on a continuing basis. Pre-employment medical examinations are required and the cost is fully shouldered by the Company.

## **Society, Community and the Environment**

### ***Corporate Social Responsibility***

The Company pursues its corporate citizenship initiatives through BDO Foundation, the BDO Group's corporate social responsibility arm. Backed by the BDO Group's community, the foundation develops and implements programs designed to address the needs of the under privileged and marginalized members of society.

BDO Foundation's advocacies fall under two pillars: disaster response, which includes relief, rehabilitation and reconstruction programs; and financial inclusion, which was launched in 2017. In 2019, the foundation – supported by stakeholders, BDO Group volunteers, its partners and donors – fulfilled these advocacies.

### **Environmental Initiatives**

The Company imposes limits and monitors exposure to certain industries, e.g. Gaming, Tobacco and Alcohol, as well as restricts lending to other sectors under the Exclusion List (those deemed to have adverse and harmful effects to the community and the environment).

The Company is one with the BDO Group in maintaining "Go Green Program" to raise awareness on environmental issues, promote good environmental practices in the workplace, mobilize volunteers for conservation programs. Its Green initiatives focuses on energy conservation using LED lights, water management using waterless urinals, air quality by tree planting in support of "Grow a Million Trees" campaign, water disposal and other cleanup projects.

The Company's head office is housed in BDO Corporate Center Ortigas which has earned certification on Leadership in Energy and Environmental Design (LEED), two years after the 47-storey office structure was formally unveiled. It is the first high-rise office-commercial building in the Philippines to achieve a LEED Gold "New Construction Category" Certification. Various sustainable methods were implemented in the construction of the building that steered its LEED accreditation. These include the installation of automated monitoring and control systems as CO2 sensors, occupancy sensors, daylight dimming and timer switches.

- With the help of the CO2 sensors, indoor pollutants are mitigated and help the building steer away from catching the sick building syndrome.
- By deciding to go automated, energy is saved from mechanically turning off or dimming the lights when it does not sense any human activity and when sufficient natural light enters the room.
- Sustainable effort was done by employing dual piping in the plumbing system. Grey water, harvested rainwater and condensate water are recycled and re-used for flushing. The combination of efficient water fixtures and grey water flushing were keys in reducing the total building potable water use by approximately 5,700,000 liters annually.

### **Sustainability, climate change and wildlife protection**

Equally important to the Company is its commitment to enhance sustainability of the environment through information, education and advocacies. The Company is part of the BDO Group which is a

Corporate Partner of the World Wide Fund for Nature (WWF) Philippines, a member of the World Wide Fund for Nature, the world's largest conservation organization. This has allowed BDO Group to support the organization's various programs since 2010 such as the Bancas for the Philippines, Earth Hour, environmental education, sustainable fisheries in Ilocos and Palawan, marine conservation and research in Tubbataha Reefs, agroforestry in the Sierra Madre, whale shark ecotourism in Donsol, sustainable tourism in the fabled Ticao Pass in Masbate, and the Tamaraw Conservation Program in Mindoro, forests for water campaign, Calaguas development, and anti-plastic project.

### **Business Competitors**

The Company is committed to treat business competitors fairly and professionally in all dealings with them. It will avoid making references or discussions that may have a negative impact on the Company's competitors.

### **Government and Regulators**

The Company supports the compliance with the spirit, not just the letter, of the laws and regulations of the jurisdictions it operates. All business deals and transactions shall adhere to regulatory requirements and applicable laws particularly on data privacy and protection, anti-money laundering and other financial crimes, anti-corruption and bribery, insider trading and consumer protection. In 2019, the Company continued to be active in giving comments on various proposed regulations.

### **Transparency and Disclosures**

The Company is fully committed to provide its investors and other stakeholders full transparency and timely information disclosure through filing of the following reports with the SEC and the PSE:

- General Information Sheet (GIS)
- Definitive Information Sheet (DIS)
- SEC Form 17-A
- SEC Form 17-C (current reports-material information)
- SEC Form 17-Q (Quarterly Report)
- SEC Form 23-A/B (Statement of Beneficial Owners)
- Audited Financial Statements (AFS)

Required disclosures relating to:

- Financial information is stated in the AFS, SEC Form 17-Q and the DIS
- Shareholder matters are provided in the DIS
- Executive compensation policy is stated in the DIS
- Directors' fees are found in the DIS
- Corporate actions, among others, are provided in the PSE official website [www.pse.com.ph](http://www.pse.com.ph)
- Covered related party transactions are reported through Advisement Reports.

In particular, the Company released its 2019 audited financial statements on February 28, 2020 or within 60 days after close of the financial year to promote transparency and full disclosure of the results of the operations of the Company.

Other key information disclosed by the Company included the composition of the Board, role and activities of board committees, meetings held and attendance of directors, director continuing education records, remuneration policy, shareholding structure, annual performance, self-assessment of Board of Directors as a collective body, directors, committees and senior management, Code of Conduct and Business Ethics, Corporate Governance Manual, SEC Annual Corporate Governance Report, Company organizational structure, and important corporate governance policies such as whistle blowing, term limit of independent directors, personal trading, conflict of interest, dividend, Board

diversity policy and related party transactions.

To ensure even wider access by the investors and the public, these disclosures and other corporate information are also uploaded in the Company's website [www.bdo.com.ph/leasing](http://www.bdo.com.ph/leasing). The details of established corporate governance policies are found in the Revised Corporate Governance Manual.

### **Evaluation System**

Under the Company's Corporate Governance Manual, all Board level committees shall report regularly to the Board of Directors in compliance with the Manual's policies and procedures. The Company supports the principle and regulatory mandate of check and balances across the entire Company by its observance of the segregation of powers, independence of audit, compliance and risk management functions. In the context of independent checks and balances, the Board has appointed the Chief Internal Auditor, Chief Risk and Compliance Officer to assist the Board in its oversight functions.

### **Audit Committee**

The Audit Committee is empowered by the Board to oversee the financial reporting process, system of internal control and risk management, internal and external audit functions, and compliance with governance policies, applicable laws and regulations. Their oversight function covers the following areas:

On financial reporting, the committee reviews the integrity of the reporting process to ensure the accuracy and reliability of financial statements and compliance with financial reporting standards and disclosure requirements set for listed companies.

On internal and external audit, it recommends the appointment, reappointment and removal of the internal and external auditors, remuneration, approval of terms of audit engagement and payment of fees. It reviews non-audit work, if any, ensuring that it would not conflict with their duties as external auditors or may pose a threat to their independence. It approves the annual audit plan and reviews audit results including the BSP Report of Examination focusing on significant findings with financial impact and its resolution. It reviews the implementation of corrective actions to ensure that these are done in a timely manner to address deficiencies, non-compliance with policies, laws and regulations.

On compliance, it recommends the approval of the Compliance Charter and reviews the performance of the Chief Compliance Officer. It also reviews the annual plans of the Compliance Office including the Anti-Money Laundering Unit, and evaluates the effectiveness of the regulatory compliance framework and governance policies and practices of the Company to ensure that these are consistently applied and observed throughout the institution.

In this context, the following were done during the year:

On financial reporting, the Committee reviewed and recommended for approval to the Board the quarterly unaudited and annual audited financial statements ensuring compliance with accounting standards and tax regulations. On February 19, 2019, it endorsed for approval of the Board the audited financial statements as of December 31, 2018 including the Notes to the Financial Statements. This was approved by the Board and disclosed to the public on February 20, 2019, 51 days from the financial year-end following the best practice requirement of the ASEAN Corporate Governance Scorecard (ACGS). It believes that the financial statements are fairly presented in conformity with the relevant financial reporting standards in all material aspects. The related internal controls on financial reporting process, compliance with accounting standards, more specifically the changes brought about by the adoption of the Philippine Financial Reporting Standards 9 and 16, were likewise reviewed.

In overseeing the internal audit function, it reviewed and approved the Internal Audit Charter and risk-based audit plan after a thorough review of its scope, audit methodology, risk assessment and rating processes, financial budget, manpower resources, as well as changes to the plan during the year. It

reviewed audit reports focusing on high and moderate risk findings relating to operational, financial and compliance controls including risk assessment systems with impact to financial, reputation and information security. It regularly tracked the timely resolution of findings and asked for Management's action plans on items that needed more time to be addressed. It ensured the Internal Audit's independence and unfettered access to all records, properties and information to be able to fully carry out its function. It also assessed the performance of the Chief Internal Auditor and key audit officers. The Committee is satisfied that the internal audit function has adequate resources to perform its function effectively.

On external audit, it ensured the independence, qualification, and objectivity of the appointed external auditor, which is accredited by the BSP. It reviewed and discussed the content of the engagement letter, audit plan, scope of work, focus areas, composition of engagement team among others, prior to the commencement of audit work. It comprehensively discussed the external audit reports, focusing on internal controls, risk management, governance and matters with financial impact particularly on the changes in accounting and reporting standards. It reviewed Management's Letter as well as Management's response and action taken on the external auditor's findings and recommendations.

On regulatory compliance, it reviewed and approved the annual plans and independent compliance testing roadmaps of the Compliance and Anti-Money Laundering (AML) units. It endorsed for approval of the Board of Directors the revised Regulatory Compliance and Management Manual and Money Laundering Prevention Program Manual of the Company, which incorporates new and amended regulations as well as directives by the BSP in its examinations. It monitored the progress and reviewed the results of the independent compliance and AML testing, timely submission of regulatory and prudential reports, compliance to mandatory ratios, as well as continuous improvement of the compliance and AML systems. It discussed in detail the BSP Report of Examination including the results of regulatory examinations of the Company's foreign subsidiaries and reviewed Management's replies, thereby ensuring implementation of corrective actions. It also reviewed legislation and regulatory compliance reports to ensure that the Company scrupulously complies with the relevant regulatory requirements. In 2019, the Committee reviewed the performance of the automated system being used by the Compliance Office for its AML function. It also discussed and assessed the Company's guidelines on regulatory and AML emerging risks such as online gaming business and investment scams.

Reports on cases in operations, whistle blower accounts as well as non-loan related cases with impact to financials, internal controls, information systems and reputation were deliberated on focusing on risk assessment, legal handling, and fraud prevention.

As part of its commitment to excellent corporate governance, the Committee conducted a self-assessment for its 2019 performance based on its Terms of Reference. The BAC, likewise evaluated the performance of Internal Audit, Compliance and Anti-Money Laundering Units and External Audit to ensure their effectiveness and achievement of objectives.

The Board Audit Committee reports its evaluation of the effectiveness of the internal controls, financial reporting process, risk management systems and governance processes of the Company based on the report and unqualified opinion obtained from the External Auditor, the overall assurance provided by the Chief Internal Auditor and additional reports and information requested from Senior Management, and found that these are generally adequate across BDO Leasing and Finance Inc.

The Board Audit Committee is chaired by Ma. Leonora V. de Jesus (Lead Independent Director). Its other members are Atty. Jesse H.T. Andres (Independent Director) and Vicente S. Pérez, Jr. (Independent Director).

The Board Audit Committee held 12 meetings in 2019 with Ma. Leonora V. De Jesus and Atty. Jesse H.T. Andres attending all meetings; and Mr. Vicente S. Pérez attending 10 meetings.

## **Corporate Governance Committee**

The Corporate Governance Committee (**CGC**) is primarily tasked to assist the Board in formulating the governance policies and overseeing the implementation of the governance practices of the Company as well as its subsidiary. Annually, it also conducts the performance evaluation of the Board of Directors, its committees, executive management, peer evaluation of directors, and conducts a self-evaluation of its performance. It provides an assessment of the outcome and reports to the Board the final results of the evaluation including recommendations for improvement and areas to focus to enhance effectiveness. It also oversees the continuing education program for directors and key officers and proposes relevant trainings for them.

During the year, the CGC spearheaded the annual Board evaluation survey covering the performance in 2018 of the Board of Directors, Board Committees, Senior Management, each Director, and Board Advisors. The tabulated results were then referred to the Board. The overall assessment showed that the Board continues to operate on a very high standard of independence, committees function effectively and senior management has the relevant professional experience, necessary skills and ability to manage the Company while the directors have rigorously maintained independence of views and the relationship between the Board and committee members remain strong.

Focus in 2019 was directed on the review of the Company's Integrated Annual Corporate Governance Report that was submitted to the Securities and Exchange Commission, and the independent validation of the Company's representations in the ASEAN Corporate Governance Scorecard (ACGS). It facilitated the compliance of the directors of the Company and its subsidiary to the regulatory requirement for an annual corporate governance seminar for Directors. In 2019, BDO Leasing and Finance, Inc. and BDO Unibank Inc. were granted the Golden Arrow award by the Institute of Corporate Directors in recognition of their strong corporate governance practices based on their ACGS scores.

The Independent and Non-Executive Directors, chaired by Lead Independent Director Leonora V. De Jesus conducted three (3) executive sessions with the External Auditor, Chief Risk Officer, Chief Compliance Officer and Chief Internal Auditor without the presence of management to discuss various matters or issues outside the audit committee and risk management committee meetings. The results of these sessions were discussed with the Company's Executive Directors.

The Committee held 5 meetings in 2019 with Ma. Leonora V. De Jesus and Atty. Jesse H.T. Andres attending all meetings; and Mr. Vicente S. Pérez, Jr. attending 4 meetings.

### **Measures on leading practices of good corporate governance**

The Company is constantly aligning its corporate governance system with the international practice taking into account the continuous developments in national regulations. The Board approved the amendment of the Corporate Governance Manual in 2018. It has also continued to follow, where appropriate the international best practices of corporate governance issued by globally recognized standards setting bodies such as the Organization for Economic Cooperation and Development (OECD) and the ASEAN Corporate Governance Scorecard which serve as essential points of reference.

### **Any Deviation from the Manual**

None

### **Improvement on Corporate Governance**

Following the footsteps of its parent company, BDO Unibank Inc., the Company is now in the era of digital transformation and we are looking at ways to optimize the use of the new technologies to strengthen our corporate governance practices while remaining vigilant on the risk of digitization to our business operations. In ensuring that the Company stays as the market leader in the Philippine financial

services industry, we are focused on maximizing the effectiveness of our corporate governance practices as a business enabler and driver of our performance in the proper context of risks and rewards, opportunities and prospects for the Company in this new era. This is essential in going forward into the future as we continue to compete and remain relevant to our various stakeholders. Globally, there is also an increasing call for companies to support the UN Sustainable Development Goals as part of sustainable business performance with emphasis on strategies that promote economic growth, environmental protection, efforts that address a range of social needs and a governance model that considers sustainability issues. The Company aligns itself with BDO Unibank as it continues to be mindful of contributing positive impact on sustainability.

## **PART V - EXHIBITS AND SCHEDULES**

### **ITEM 14. EXHIBITS AND SCHEDULES ON SEC FORM 17-C**

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

Below is a summary of the various disclosures reported by the Company under SEC Form 17-C for the year 2019.

<b>Date Reported</b>	<b>Items Reported</b>
<b><u>February 20, 2019</u></b>	<p><b><u>Press Release</u></b></p> <p><b>BDO Leasing earns P331 million in 2018</b></p> <p>BDO Leasing and Finance, Inc. (BDO Leasing) posted a net income of P331 million in 2018 from P571 million in 2017. Loans and releases were steady at P35 billion. However, the combination of increased funding costs with arising interest rates and higher documentary stamp tax (DST) under the TRAIN Law resulted in margin compression and elevated costs that dragged bottom line.</p> <p>The Company recently obtained SEC approval to issue P15 billion worth of commercial papers, the proceeds from which shall be used for relending as well as refinance maturing obligations. Reflective of its solid credit profile, BDO Leasing secured an issuer credit rating of PRS Aa (minus) and a stable outlook from the Philippine Rating Services Corp. (PhilRatings).</p> <p>Moving forward, the Company will continue to focus on its core business of leasing and finance, leveraging on the parent Bank’s extensive branch network to strengthen its provincial presence and support the growth sectors of the economy.</p>
<b><u>March 07, 2019</u></b>	<p><b><u>Press Release</u></b></p> <p><b>BDO Leasing sells stake in JV</b></p> <p>BDO Leasing and Finance, Inc. (BDOLF) has announced that it is selling its 40% stake in MMPC Auto Financial Services Corporation (MAFS) to JACCS CO. LTD. (JACCS). This will allow BDOLF to focus more on its core business of equipment leasing and finance.</p> <p>MAFS is a joint venture (JV) between BDOLF and JACCS, Sojitz Corporation, and Mitsubishi Motors Philippines Corporation (MMPC) that was established in 2016 to provide financing services to individual and corporate buyers of Mitsubishi motor vehicles. JACCS is a Japan-based company engaged in consumer credit services while Sojitz is a Japan-based general trading company.</p>



Date Reported	Items Reported
<p><u>April 12, 2019</u></p>	<p><b>Press Release</b></p> <p><b>BDO Leasing posts P331 million Profit in 2018</b></p> <p>BDO Leasing and Finance, Inc. (BDO Leasing) posted a net income of P331 million in 2018, marking a decline of 42% versus a year-ago. Gross revenues went up by 2 per cent to P3.2 billion, while net loan portfolio was steady at P34 billion. Higher funding costs, due to the increase in market interest rates, and increased documentary stamp taxes (DST) implemented under the TRAIN Law, adversely impacted on bottom line performance. The earning assets of BDO Leasing carry fixed interest rates for 3-5 years, which is customary for lease transactions, while funding is via short-term commercial papers and bank loans. Given the rapid, rise in interest rates last year, BDO Leasing experienced margin compression in the near-term as liabilities adjusted to the higher rates faster than its assets. This situation is seen to be temporary, as the company is able to eventually reprice its existing loans o current market rates.</p> <p>For 2019 and beyond, the company will continue to capitalize on its Parent Company's extensive market reach, strengthen client relationships, explore new and untapped markets and implement balanced growth while maintaining asset quality. To mitigate the margin compression experienced by BDOLF since last year, once balance sheet measure being considered is a partial sale of lower-yielding company assets. This sale of low-yielding loans, which were granted prior to the rise in market rates last year, will reduce the need for BDOLF to borrow at today's higher rate, This strategy coupled with the higher rates being applied on new loan bookings, is seen to gradually restore the interest margins of BDOLF and consequently improve its bottomline.</p>
<p><u>May 08, 2019</u></p>	<p><b>Press Release</b></p> <p><b>BDO Leasing Revenues Up 2% in 1Q 2019</b></p> <p>BDO Leasing and Finance, Inc. (BDOLF) posted a two (2) per cent growth in gross revenue to P795 million in 1Q 2019. However, margin compression resulting from the company's short-term liabilities adjusting faster to higher interest rates vis-à-vis its lease receivables (which carry rates fixed for three (3) to five (5) years, dragged the bottom line to a net loss of P24 million from P90 million net income in 1Q 2018.</p> <p>To mitigate the impact of higher funding costs, a portion of BDOLF's lower-yielding portfolio was sold, resulting in the ten (10) per cent contraction in its loans and receivables portfolio to P30.9 billion. This transaction eliminated the negative spread on that portion of the portfolio, and coupled with the application of prevailing interest rates to new loan bookings and loan re-pricing of existing loans, should restore margins and improve the bottom line.</p> <p>Moving ahead, the company will continue to capitalize on its Parent Company's extensive market reach, strengthen client relationships, explore new and untapped markets, and implement balance growth while maintaining asset quality.</p>
<p><u>July 31, 2019</u></p>	<p><b>Press Release</b></p> <p><b>BDO Leasing Posts Stable Revenues in 1H 2019</b></p> <p>BDO Leasing and Finance, Inc. (BDOLF) posted P1.54 billion revenues in 1H 2019 compared with P1.58 billion a year-ago. Loans and receivables amounted to P28.7 billion, largely due to the sale of a portion of its lower-yielding portfolio earlier this year o mitigate the impact of compressed margins. Theses resulted as funding costs, which increased</p>


Date Reported	Items Reported
	<p>substantially with the rapid rise in interest rates last year, adjusted faster than asset yields. It should be noted that the company's earning assets typically carry fixed interest rates for three (3) to five (5) years, which is customary for lease transactions, while funding is via short-term commercial papers and bank loans. As such, BDOLF registered a net loss of P28.8 million during the period.</p> <p>This is seen as a temporary situation, as the sale of the company's lower-yielding portfolio, combined with the application of prevailing interest rates to new loan bookings and re-pricing of existing loans, is expected to result in a recovery in margins in the second half of 2019.</p>
<p><b><u>November 06, 2019</u></b></p>	<p><b>Press Release</b></p> <p><b>BDO Leasing Initiatives Start Yielding Results</b></p> <p>BDO Leasing and Finance, Inc. (BDO Leasing) reported better numbers in 3Q19 on the back of measures to restore margins. Gross revenues in the three months ended September 2019 amounted to P720 million, led by income and discounts which yielded positive growth quarter-on-quarter (QoQ) to P501.7 million, on a loan and lease portfolio of P26.5 billion.</p> <p>Meanwhile, total expenses for the quarter fell by three (3) per cent QoQ to P724.1 million on the 17 per cent drop in interest and financing charges as funding costs normalized with lower interest rates. For the nine-month period, the company reported a net loss of P38.5 million, due to margin compression resulting from the company's short-term liabilities adjusting faster to higher interest rates vis-à-vis its earning assets, e.g., lease receivables (which carry interest rates fixed for three to five years, customary for lease transactions).</p> <p>The Company earlier this year sold a portion of its lower-yielding portfolio, as well as focused on re-pricing of existing loans and new loan bookings to address margin compression. This resulted in the company's margins gradually improving and eventually producing positive results.</p> <p>Moving forward, BDO Leasing hopes to sustain the recovery in margins and growth in earnings on the back of its initiatives, supported by a favorable macroeconomic environment.</p>


**SIGNATURES**


Pursuant to the requirements of Section 17 of the RSA and Section 141 of the Corporation Code, this is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Mandaluyong on April 14, 2020.

By:

  
 \_\_\_\_\_  
 ROBERTO E. LAPID  
 VICE CHAIRMAN & PRESIDENT

  
 \_\_\_\_\_  
 LUIS S. REYES JR.  
 TREASURER / DIRECTOR


  
 \_\_\_\_\_  
 ROSALISA B. KAPUNO  
 VICE PRESIDENT, COMPTROLLER

  
 \_\_\_\_\_  
 JOSEPH JASON M. NATIVIDAD  
 CORPORATE SECRETARY

APR 30 2020

**SUBSCRIBED AND SWORN** to before me this 14<sup>th</sup> day of April, 2020 affiant(s) exhibiting to me their Competent Evidence of Identity, as follows:

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

  
 NOTARY PUBLIC

**MICHAEL IAN F. RODULFO**  
 Notary Public for the City of Mandaluyong  
 Until December 31, 2021  
 Roll of Attorney No. 60508  
 PTR # 2970941 / 01.10.20 / Mandaluyong  
 IBP # 093178 / 10.14.19 / Quezon City

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 Page No. 89  
 Book No. LXI  
 Series of 2020.

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

The management of **BDO Leasing and Finance, Inc. and Subsidiary** (the Group) is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2019, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Signature:   
TERESITA T. SY  
Chairperson

Signature:   
ROBERTO E. LAPID  
Vice Chairman and President

Signature:   
ROSALISA B. KAPUNO  
Comptroller

Signed this 19<sup>th</sup> day of February 2020.

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

SUBSCRIBED and SWORN to me before this 03 MAR 2020 day of \_\_\_\_\_, 2020 affiant exhibiting to me his/her Social Security Number, as follows:

NAMES	SSS NUMBER
Teresita T. Sy	03-2832705-4
Roberto E. Lapid	03-5034078-2
Rosalisa B. Kapuno	03-5894505-3

JUR. NO. 20  
PAGE NO. 17  
BOOK NO. CXXI  
SERIES OF 200

**KIM BRIGUERA-DACARA**  
NOTARY PUBLIC FOR THE CITY OF MANDALUYONG  
APPOINTMENT NO. 0204-2  
UNTIL DECEMBER 31, 2021  
IBP LIFETIME ROLL NO. 1010007  
PTR NO. 4324453 / 1-2-20 / MANDALUYONG  
MCLE NO. VI-0004837  
29TH FLR., BDO CORPORATE CENTER ORTIGAS  
13 ADB AVE., MANDALUYONG





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**Punongbayan & Araullo**

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The Enterprise Center  
6766 Ayala Avenue  
1200 Makati City  
Philippines

T +63 2 988 2288

## **Report of Independent Auditors**

### **The Board of Directors and the Stockholders**

**BDO Leasing and Finance, Inc.**

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

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

12 ADB Avenue, Ortigas Center

Mandaluyong City

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

#### ***Opinion***

We have audited the accompanying financial statements of BDO Leasing and Finance, Inc. and subsidiary (the Group) and of BDO Leasing and Finance, Inc. (the Parent Company), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2019, 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, 2019 and 2018, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2019 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) Proper Valuation of Loans and Other Receivables**

##### *Description of the Matter*

The Group and the Parent Company are required to recognize allowance for impairment on their loans and other receivables that are subject to impairment. As of December 31, 2019, the Group and the Parent Company had loans and other receivables amounting to P24,977.7 million and P24,766.7 million, respectively, net of allowance for impairment of P594.7 million and P594.5 million, respectively. Loans and other receivables are the most significant assets of the Group and the Parent Company which account for 81% and 86% 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.

The Group and the Parent Company used the expected credit loss (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 forward-looking information (FLI) into both the assessment of whether the credit risk of an instrument has increased significantly from its initial recognition and the measurement of ECL. The Group and Parent Company have identified and documented key drivers of credit risk and credit losses for each loan portfolio, using an analysis of historical data and estimated relationships between macro-economic variables, 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**

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 calculation 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, *Financial instruments*;
- 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;
- evaluating the completeness of data provided by the Group and the Parent Company used in the determination of ECL;
- for FLI used, evaluating 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 reasonableness of the management's forecast of recoverable cash flows by evaluating payment terms as agreed with the borrowers and the actual payment received to date, valuation of collaterals, and estimates of recovery from other sources of collection.

***(b) Appropriateness of Disposals of Loans and Receivables***

*Description of the Matter*

As of December 31, 2019, the Group and Parent Company carries in its financial statements loans and receivable held under its hold-to-collect (HTC) business model, which are measured at amortized cost amounting to P24,977.7 million and P24,766.7 million, respectively. In 2019, the Parent Company disposed of certain loans and receivables with aggregate carrying amount of P6,317.3 million. The disposals were evaluated to be significant in value but infrequent.

Management assessed that such disposals remain consistent with the Parent Company's HTC business model with the objective of collecting contractual cash flows. The assessment to determine whether the disposal of the loans and receivables is consistent with the Parent Company's HTC business model is considered a key audit matter because the assessment involves significant judgment relative to the evaluation of the frequency and significance of the disposals that may impact the appropriateness of the Parent Company's business model in managing financial instruments and the classification of the remaining outstanding loans and receivable of the Parent Company as of December 31, 2019 as HTC. The disclosures in relation to this matter are included in Note 9 while the disclosures regarding the Parent Company's assessment of the business model applied in managing financial instruments are presented in Note 3 to the financial statements.

*How the Matter was Addressed in the Audit*

We determined the appropriateness of the Parent Company's disposals of loans and receivables by reviewing the documentation of the approval of the Parent Company's Board of Directors and Related Party Committee and ensured the sufficiency and appropriateness of the related disclosures in the notes to financial statements. We assessed whether the disposals were made consistent with the permitted sale events documented in the Parent Company's business model in managing financial assets manual and with the relevant requirements of the financial reporting standard. We also assessed the appropriateness and reasonableness of the underlying data used and the rationale documented by the Parent Company in the determination of the amount of loans and other receivables disposed.





**(c) Adoption of PFRS 16, Leases**

*Description of the Matter*

Effective January 1, 2019, the Group and the Parent Company adopted PFRS 16, *Leases*, which replace Philippine Accounting Standards (PAS) 17, *Leases*, and the related interpretations to PAS 17. The adoption of this new standard, which primarily affected the Group and the Parent Company's accounting for leases as a lessee by recognizing "right-of-use" assets and lease liabilities "on-balance sheet", is considered significant due to the complexities of the accounting requirements and significant judgements involved in determining the assumptions to be used in applying the new standard.

Further, the recognition of right-of-use assets and lease liabilities, which amounted to P26.9 million and P27.8 million for both the Group and the Parent Company, as at December 31, 2019 is considered a key audit matter as it involves significant judgment and estimates. The right-of-use assets and lease liabilities are presented as part of Property and Equipment and Accounts Payable and Other Liabilities, respectively, as at December 31, 2019.

The impact of adoption of PFRS 16 and the related changes in accounting policies, and basis of judgement and estimates are disclosed in Notes 2 and 3 to the financial statements. In addition, the new disclosure requirements of PFRS 16 are discussed in Note 12 to the financial statements.

*How the Matter was Addressed in the Audit*

Our audit procedures to address the significant risk of material misstatement relating to the adoption of PFRS 16 by the Group and the Parent Company include:

- understanding the accounting policies and procedures applied by the Group and the Parent Company in identifying leases that qualify under PFRS 16, and leases that qualify under the recognition exemptions on short-term leases and low-value leases, as well as compliance therewith;
- assessing the completeness of the lease contracts and verifying the accuracy of the lease information provided;
- evaluating the reasonableness of the inputs and assumptions used by the management in determining the lease term and incremental borrowing rate used, such as but not limited to, renewal and termination options, contractual terms of the lease, nature and quality of the security, and the economic environment in which the transaction occurs; and,
- evaluating the appropriateness of the adjustments as a result of the adoption of PFRS 16 on the recognition and measurement of right-of-use assets and lease liabilities and determining the adequacy of related financial statement disclosures, including changes in accounting policies and bases of judgments and estimates.

**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, 2019, 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.

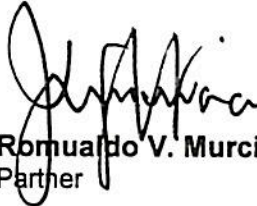
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation 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 Revised Securities Regulation Code Rule 68 of the SEC.

The engagement partner on the audits resulting in this independent auditors' report is Romualdo V. Murcia III.

### **PUNONGBAYAN & ARAULLO**



**By: Romualdo V. Murcia III**  
Partner

CPA Reg. No. 0095626  
TIN 906-174-059  
PTR No. 8116550, January 2, 2020, Makati City  
SEC Group A Accreditation  
Partner - No. 0628-AR-4 (until Sept. 4, 2022)  
Firm - No. 0002-FR-5 (until Mar. 26, 2021)  
BIR AN 08-002511-022-2019 (until Sept. 4, 2022)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

February 19, 2020

BDO LEASING AND FINANCE, INC. AND SUBSIDIARY  
(A Subsidiary of BDO Unibank, Inc.)  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2019 AND 2018  
(Amounts in Millions of Philippine Pesos)

	Notes	Group		Parent Company	
		2019	2018	2019	2018
<b><u>ASSETS</u></b>					
CASH AND CASH EQUIVALENTS	7	P 130.0	P 274.6	P 107.2	P 228.5
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)	8	3,190.9	3,591.9	3,190.9	3,591.9
LOANS AND OTHER RECEIVABLES - Net	9	24,977.7	34,352.6	24,766.7	34,187.5
PROPERTY AND EQUIPMENT - Net	10, 12	1,873.6	2,254.9	33.3	8.9
INVESTMENT PROPERTIES - Net	11	393.8	354.5	167.7	128.4
OTHER ASSETS - Net	13	381.9	711.7	656.7	936.7
<b>TOTAL ASSETS</b>		<b>P 30,947.9</b>	<b>P 41,540.2</b>	<b>P 28,922.5</b>	<b>P 39,081.9</b>
<b><u>LIABILITIES AND EQUITY</u></b>					
BILLS PAYABLE	15	P 20,137.8	P 28,977.8	P 18,304.4	P 26,723.9
ACCOUNTS PAYABLE AND OTHER LIABILITIES	16	459.6	587.1	377.6	472.6
LEASE DEPOSITS	17	4,736.2	6,632.3	4,626.2	6,542.4
Total Liabilities		25,333.6	36,197.2	23,308.2	33,738.9
CAPITAL STOCK	18	2,225.2	2,225.2	2,225.2	2,225.2
ADDITIONAL PAID-IN CAPITAL		571.1	571.1	571.1	571.1
TREASURY SHARES	18	( 81.8 )	( 81.8 )	( 81.8 )	( 81.8 )
NET ACCUMULATED ACTUARIAL LOSSES		( 72.0 )	( 60.8 )	( 72.0 )	( 60.8 )
NET UNREALIZED FAIR VALUE GAINS (LOSSES) ON FINANCIAL ASSETS AT FVOCI		41.1	( 195.0 )	41.1	( 195.0 )
ACCUMULATED SHARE IN OTHER COMPREHENSIVE INCOME OF AN ASSOCIATE	13	-	0.4	-	0.4
RETAINED EARNINGS	18	2,930.7	2,883.9	2,930.7	2,883.9
Total Equity		5,614.3	5,343.0	5,614.3	5,343.0
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>P 30,947.9</b>	<b>P 41,540.2</b>	<b>P 28,922.5</b>	<b>P 39,081.9</b>

See Notes to Financial Statements.

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2019, 2018, AND 2017**  
*(Amounts in Millions of Philippine Pesos, Except Per Share Data)*

	Notes	Group			Parent Company		
		2019	2018	2017	2019	2018	2017
<b>REVENUES</b>							
Interest and discounts	7, 8, 9, 20, 21	<b>P 1,984.5</b>	P 1,967.1	P 1,918.3	<b>P 1,984.2</b>	P 1,966.7	P 1,917.9
Rent	12	<b>844.6</b>	938.3	922.2	-	-	-
Other income - net	19	<b>202.8</b>	310.1	316.0	<b>142.6</b>	264.7	323.9
		<b>3,031.9</b>	3,215.5	3,156.5	<b>2,126.8</b>	2,231.4	2,241.8
<b>OPERATING COSTS AND EXPENSES</b>							
Interest and financing charges	15	<b>1,399.2</b>	1,170.2	850.3	<b>1,276.6</b>	1,074.8	784.0
Occupancy and equipment-related expenses	10, 11, 12, 13, 25	<b>811.9</b>	911.8	865.4	<b>53.4</b>	49.7	50.1
Taxes and licenses	22	<b>309.5</b>	345.2	268.9	<b>286.4</b>	320.2	246.6
Employee benefits	20	<b>244.2</b>	235.7	227.0	<b>244.2</b>	235.7	227.0
Litigation/assets acquired expenses		<b>12.4</b>	14.3	41.6	<b>12.4</b>	14.3	41.6
Impairment and credit losses	8, 9, 11, 14	<b>63.2</b>	1.0	63.5	<b>63.1</b>	0.8	63.5
Other expenses	11, 21	<b>111.1</b>	117.0	120.5	<b>110.7</b>	115.8	119.0
		<b>2,951.5</b>	2,795.2	2,437.2	<b>2,046.8</b>	1,811.3	1,531.8
<b>PROFIT BEFORE TAX</b>		<b>80.4</b>	420.3	719.3	<b>80.0</b>	420.1	710.0
<b>TAX EXPENSE</b>	22	<b>33.6</b>	89.6	148.8	<b>33.2</b>	89.4	139.5
<b>NET PROFIT</b>		<b>P 46.8</b>	P 330.7	P 570.5	<b>P 46.8</b>	P 330.7	P 570.5
<b>Basic and Diluted Earnings Per Share</b>	23	<b>P 0.02</b>	P 0.15	P 0.26	<b>P 0.02</b>	P 0.15	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, 2019, 2018, AND 2017**  
*(Amounts in Millions of Philippine Pesos)*

	Notes	Group			Parent Company		
		2019	2018	2017	2019	2018	2017
<b>NET PROFIT</b>		<b>P 46.8</b>	P 330.7	P 570.5	<b>P 46.8</b>	P 330.7	P 570.5
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>							
<b>Items that will not be reclassified subsequently to profit or loss</b>							
Fair valuation of equity investments at fair value through other comprehensive income (FVOCI):							
Fair value gains (losses) during the year	8	194.8 (	450.5)	-	194.8 (	450.5)	-
Fair value losses on redemption of financial assets at FVOCI	8	( 3.9)	135.7	-	( 3.9)	135.7	-
Remeasurements of post-employment defined benefit plan	20	( 15.7)	( 1.6)	( 24.2)	( 15.7)	( 1.6)	( 24.2)
Share in other comprehensive income (loss) of an associate accounted for under equity method	13	( 0.4)	0.4	-	( 0.4)	0.4	-
		<u>174.8</u>	( 316.0)	( 24.2)	<u>174.8</u>	( 316.0)	( 24.2)
Tax income	22	<u>7.2</u>	<u>4.6</u>	<u>7.3</u>	<u>7.2</u>	<u>4.6</u>	<u>7.3</u>
		<u>182.0</u>	( 311.4)	( 16.9)	<u>182.0</u>	( 311.4)	( 16.9)
<b>Item that will be reclassified subsequently to profit or loss</b>							
Fair value losses on debt instruments at FVOCI	8	42.5 (	54.5)	-	42.5 (	54.5)	-
Fair valuation of available-for-sale (AFS) financial assets:							
Fair value losses during the year		-	-	( 28.2)	-	-	( 28.2)
Fair value gains on matured and disposed AFS financial assets reclassified to profit or loss		<u>-</u>	<u>-</u>	<u>( 0.2)</u>	<u>-</u>	<u>-</u>	<u>( 0.2)</u>
		<u>42.5</u>	( 54.5)	( 28.4)	<u>42.5</u>	( 54.5)	( 28.4)
Tax income	22	<u>-</u>	<u>-</u>	<u>0.1</u>	<u>-</u>	<u>-</u>	<u>0.1</u>
		<u>42.5</u>	( 54.5)	( 28.3)	<u>42.5</u>	( 54.5)	( 28.3)
<b>Other Comprehensive Income (Loss) - net of tax</b>		<u>224.5</u>	( 365.9)	( 45.2)	<u>224.5</u>	( 365.9)	( 45.2)
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>		<b>P 271.3</b>	( P 35.2)	P 525.3	<b>P 271.3</b>	( P 35.2)	P 525.3

*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, 2019, 2018, AND 2017**  
*(Amounts in Millions of Philippine Pesos)*

Notes	Group																					
	Net Unrealized Fair Value Gains (Losses) on										Total Equity											
	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	Retained Earnings														
							Reserves	Free	Total													
Balance at January 1, 2019	P	2,225.2	P	571.1	(P	81.8)	(P	60.8)	(P	195.0)	P	-	P	0.4	P	147.0	P	2,736.9	P	2,883.9	P	5,343.0
Total comprehensive income (loss)		-		-		-	(	11.2)		236.1		-	(	0.4)		-		46.8		46.8		271.3
Appropriation	18	-		-		-		-		-		-	(	5.3)		5.3		-		-		-
Balance at December 31, 2019	<b>P</b>	<b>2,225.2</b>	<b>P</b>	<b>571.1</b>	<b>(P</b>	<b>81.8)</b>	<b>(P</b>	<b>72.0)</b>	<b>P</b>	<b>41.1</b>	<b>P</b>	<b>-</b>	<b>P</b>	<b>-</b>	<b>P</b>	<b>141.7</b>	<b>P</b>	<b>2,789.0</b>	<b>P</b>	<b>2,930.7</b>	<b>P</b>	<b>5,614.3</b>
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		2,225.2		571.1	(	81.8)	(	59.7)		170.2		-		-		142.6		2,626.8		2,709.4		5,594.4
Total comprehensive income (loss)		-		-		-	(	1.1)	(	365.2)		-		0.4		-		330.7		330.7	(	35.2)
Cash dividends	18	-		-		-		-		-		-		-		-	(	216.2)	(	216.2)	(	216.2)
Appropriation	18	-		-		-		-		-		-		4.4	(	4.4)		-		-		-
Balance at December 31, 2018	<b>P</b>	<b>2,225.2</b>	<b>P</b>	<b>571.1</b>	<b>(P</b>	<b>81.8)</b>	<b>(P</b>	<b>60.8)</b>	<b>(P</b>	<b>195.0)</b>	<b>P</b>	<b>-</b>	<b>P</b>	<b>0.4</b>	<b>P</b>	<b>147.0</b>	<b>P</b>	<b>2,736.9</b>	<b>P</b>	<b>2,883.9</b>	<b>P</b>	<b>5,343.0</b>
Balance at January 1, 2017																						
As previously reported	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
Effects of adoption of PFRS 9		-		-		-	(	16.9)		-	(	28.3)		-		-		570.5		570.5		525.3
As restated		2,225.2		571.1	(	81.8)	(	42.8)		-		169.0		-		-		2,480.5		2,480.5		5,349.5
Total comprehensive income (loss)		-		-		-		-		-		-		-		-		432.5	(	432.5)	(	432.5)
Cash dividends	18	-		-		-		-		-		-		-		-	(	432.5)	(	432.5)	(	432.5)
Balance at December 31, 2017	<b>P</b>	<b>2,225.2</b>	<b>P</b>	<b>571.1</b>	<b>(P</b>	<b>81.8)</b>	<b>(P</b>	<b>59.7)</b>	<b>P</b>	<b>-</b>	<b>P</b>	<b>169.0</b>	<b>P</b>	<b>-</b>	<b>P</b>	<b>-</b>	<b>P</b>	<b>2,618.5</b>	<b>P</b>	<b>2,618.5</b>	<b>P</b>	<b>5,442.3</b>

*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, 2019, 2018, AND 2017**  
*(Amounts in Millions of Philippine Pesos)*

		Parent Company																					
		Net Unrealized Fair Value Gains (Losses) on																					
					Financial Assets at Other Comprehensive Income		Available-for- Sale Financial Assets		Accumulated Share in Other Comprehensive Income of Associate		Retained Earnings		Total Equity										
Notes		Capital Stock	Additional Paid-in Capital	Treasury Shares, At Cost	Net Accumulated Actuarial Losses					Reserves	Free	Total											
		P	2,225.2	P	571.1	(P	81.8)	(P	60.8)	(P	195.0)	P	-	P	0.4	P	147.0	P	2,736.9	P	2,883.9	P	5,160.2
			-		-	(	11.2)		236.1		-	(	0.4)		-		-		46.8		46.8		271.3
	17		-		-		-		-		-		-	(	5.3)		5.3		-		-		-
		<b>P</b>	<b>2,225.2</b>	<b>P</b>	<b>571.1</b>	<b>(P</b>	<b>81.8)</b>	<b>(P</b>	<b>72.0)</b>	<b>P</b>	<b>41.1</b>	<b>P</b>	<b>-</b>	<b>P</b>	<b>-</b>	<b>P</b>	<b>141.7</b>	<b>P</b>	<b>2,789.0</b>	<b>P</b>	<b>2,930.7</b>	<b>P</b>	<b>5,431.5</b>
		P	2,225.2	P	571.1	(P	81.8)	(P	59.7)	P	41.1	P	169.0	P	-	P	141.7	P	2,618.5	P	2,618.5	P	5,442.3
			-		-	(	-	(	129.1)	(	169.0)		8.3		9.2		-		8.3		9.2		(30.7)
			2,225.2		571.1	(	81.8)	(	59.7)		170.2		-		142.6		2,626.8		2,769.4		2,769.4		5,411.6
			-		-	(	1.1)	(	365.2)		-		0.4		-		330.7		330.7		330.7		(35.2)
	18		-		-		-		-		-		-		-		216.2	(	216.2)	(	216.2)		(216.2)
	18		-		-		-		-		-		-		4.4		(	4.4)		-		-	
		<b>P</b>	<b>2,225.2</b>	<b>P</b>	<b>571.1</b>	<b>(P</b>	<b>81.8)</b>	<b>(P</b>	<b>60.8)</b>	<b>(P</b>	<b>195.0)</b>	<b>P</b>	<b>-</b>	<b>P</b>	<b>0.4</b>	<b>P</b>	<b>147.0</b>	<b>P</b>	<b>2,736.9</b>	<b>P</b>	<b>2,883.9</b>	<b>P</b>	<b>5,160.2</b>
		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
			-		-	(	16.9)		-	(	28.3)		-		-		570.5		570.5		570.5		525.3
	18		-		-		-		-		-		-		-		(	432.5)	(	432.5)	(	432.5)	
		<b>P</b>	<b>2,225.2</b>	<b>P</b>	<b>571.1</b>	<b>(P</b>	<b>81.8)</b>	<b>(P</b>	<b>59.7)</b>	<b>P</b>	<b>-</b>	<b>P</b>	<b>169.0</b>	<b>P</b>	<b>-</b>	<b>P</b>	<b>-</b>	<b>P</b>	<b>2,618.5</b>	<b>P</b>	<b>2,618.5</b>	<b>P</b>	<b>5,442.3</b>

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, 2019, 2018, AND 2017**  
*(Amounts in Millions of Philippine Pesos)*

	Notes	Group			Parent Company		
		2019	2018	2017	2019	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Profit before tax		<b>P 80.4</b>	P 420.3	P 719.3	<b>P 80.0</b>	P 420.1	P 710.0
Adjustments for:							
Interest received		<b>2,104.4</b>	2,000.8	1,911.5	<b>2,104.4</b>	2,000.4	1,911.5
Interest and discounts	7, 8, 9, 20	<b>( 1,984.5 )</b>	( 1,967.1 )	( 1,918.3 )	<b>( 1,984.2 )</b>	( 1,966.7 )	( 1,917.9 )
Interest and financing charges paid		<b>( 1,489.7 )</b>	( 1,167.5 )	( 850.8 )	<b>( 1,367.6 )</b>	( 1,076.3 )	( 784.5 )
Interest and financing charges	15	<b>1,399.2</b>	1,170.2	850.3	<b>1,276.6</b>	1,074.8	784.0
Depreciation and amortization	10, 11, 13	<b>793.7</b>	881.5	836.2	<b>36.0</b>	20.1	21.7
Dividend income	19	<b>( 159.4 )</b>	( 206.0 )	( 215.2 )	<b>( 159.4 )</b>	( 206.0 )	( 215.2 )
Impairment and credit losses	8, 9, 11, 13	<b>63.2</b>	1.0	63.5	<b>63.1</b>	0.8	63.5
Gain or loss on sale of property and equipment and investment properties	19	<b>( 54.7 )</b>	( 42.2 )	( 65.1 )	<b>( 4.7 )</b>	( 17.4 )	( 59.1 )
Equity share in net loss of a subsidiary and an associate	13	<b>41.6</b>	39.0	13.5	<b>40.6</b>	49.5	( 6.8 )
Loss on sale of investment in an associate	13, 19	<b>27.6</b>	-	-	<b>27.6</b>	-	-
Day-one gains - net	19	<b>9.9</b>	( 13.2 )	( 4.8 )	<b>0.1</b>	( 4.5 )	6.1
Reversal of impairment losses	14	<b>( 1.3 )</b>	( 10.4 )	-	<b>( 1.3 )</b>	( 10.4 )	-
Operating profit before changes in operating assets and liabilities		<b>830.4</b>	1,106.4	1,340.1	<b>111.2</b>	284.4	513.3
Decrease (increase) in loans and other receivables		<b>9,173.5</b>	95.2	( 2,992.7 )	<b>9,219.2</b>	142.3	( 2,664.0 )
Decrease (increase) in other assets		<b>220.0</b>	( 49.7 )	( 8.8 )	<b>5.2</b>	( 45.9 )	( 36.1 )
Increase (decrease) in accounts payable and other liabilities		<b>( 64.3 )</b>	( 294.7 )	222.7	<b>( 31.3 )</b>	( 203.0 )	256.2
Increase (decrease) in lease deposits		<b>( 1,907.9 )</b>	654.2	413.2	<b>( 1,918.2 )</b>	630.2	398.6
Cash generated from (used in) operations		<b>8,251.7</b>	1,511.4	( 1,025.5 )	<b>7,386.1</b>	808.0	( 1,532.0 )
Cash paid for income taxes		<b>( 14.4 )</b>	( 112.0 )	( 163.2 )	<b>( 14.4 )</b>	( 112.0 )	( 163.2 )
Net Cash From (Used in) Operating Activities		<b>8,237.3</b>	1,399.4	( 1,188.7 )	<b>7,371.7</b>	696.0	( 1,695.2 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Proceeds from redemption of financial assets at fair value through other comprehensive income	8	<b>637.1</b>	680.0	251.2	<b>637.2</b>	680.0	251.2
Acquisitions of property and equipment	10	<b>( 488.1 )</b>	( 895.1 )	( 782.6 )	<b>( 2.2 )</b>	( 6.2 )	( 6.1 )
Proceeds from disposal of property and equipment and investment properties	10, 11	<b>189.2</b>	169.6	224.6	<b>6.0</b>	37.8	135.0
Receipt of cash dividends	8, 21	<b>175.0</b>	194.4	209.7	<b>175.0</b>	229.4	269.7
Addition in investment properties	11	<b>( 44.4 )</b>	( 14.7 )	( 4.7 )	<b>( 44.4 )</b>	( 14.7 )	( 4.7 )
Proceeds from disposal of investment in an associate	13	<b>-</b>	-	-	<b>165.6</b>	-	-
Acquisition of available-for-sale financial assets	8	<b>-</b>	-	( 1,400.0 )	<b>-</b>	-	( 1,400.0 )
Net Cash From (Used in) Investing Activities		<b>468.8</b>	134.2	( 1,501.8 )	<b>937.2</b>	926.3	( 754.9 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>							
Payments of bills payable	15	<b>( 170,266.1 )</b>	( 174,115.4 )	( 163,410.9 )	<b>( 157,200.6 )</b>	( 161,900.3 )	( 156,127.7 )
Availments of bills payable	15	<b>161,426.1</b>	172,614.9	166,621.1	<b>148,781.1</b>	160,345.9	159,093.9
Payments on lease liabilities		<b>( 10.7 )</b>	-	-	<b>( 10.7 )</b>	-	-
Payments of cash dividends	18	<b>-</b>	( 216.2 )	( 432.5 )	<b>-</b>	( 216.2 )	( 432.5 )
Net Cash From (Used in) Financing Activities		<b>( 8,850.7 )</b>	( 1,716.7 )	2,777.7	<b>( 8,430.2 )</b>	( 1,770.6 )	2,533.7
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>( 144.6 )</b>	( 183.1 )	87.2	<b>( 121.3 )</b>	( 148.3 )	83.6
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>274.6</b>	457.7	370.5	<b>228.5</b>	376.8	293.2
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	7	<b>P 130.0</b>	P 274.6	P 457.7	<b>P 107.2</b>	P 228.5	P 376.8

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

- The Group and the Parent Company recognized Right of Use assets as part of Property and Equipment, and Lease liabilities as part of Accounts Payable and Other Liabilities in accordance with PFRS 16, *Leases*, amounting to P26.9 and P27.8, respectively, as of December 31, 2019 (see Note 12).
- In 2019 and 2018, the Group reclassified certain items of Investment Property account to Non-current assets held for sale under Other Assets - Net account amounting to P0.7 and P0.4, respectively (see Notes 11 and 13).

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
*(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.

As a subsidiary of BDO Unibank, the Parent Company is considered a non-bank financial institution whose operations are regulated and supervised by the Bangko Sentral ng Pilipinas (BSP). In this regard, the Parent Company is required to comply with the rules and regulations of the BSP.

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, 2019, 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, 2019 (including the comparative financial statements as of December 31, 2018 and for the years ended December 31, 2018 and 2017) were authorized for issue by the Parent Company's Board of Directors (BOD) on February 19, 2020.

## 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 allowed the Group and the Parent Company not to restate its prior periods' financial statements. The impact of the adoption of PFRS 9 resulted to an increase (decrease) in the balances as of January 1, 2018 of Net Unrealized Fair Value Gains (Losses) (NUGL) on Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI), NUGL on Available-For-Sale Financial Assets, Retained Earnings – Reserve, Retained Earnings – Free, and Total Equity amounting to P170.2, (P169.0), P142.6, P8.3 and P152.1, respectively, both for the Group and Parent Company.

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

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

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

## 2.2 Adoption of New and Amended PFRS

(a) *Effective in 2019 that are Relevant to the Group*

The Group and the Parent Company 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, 2019:

PAS 19 (Amendments)	:	Employee Benefits – Plan Amendment, Curtailment or Settlement
PAS 28 (Amendments)	:	Investment in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures
PFRS 9 (Amendments)	:	Financial Instruments – Prepayment Features with Negative Compensation
PFRS 16	:	Leases
International Financial Reporting Interpretations Committee (IFRIC) 23	:	Uncertainty over Income Tax Treatments
Annual Improvements to PFRS (2015-2017 Cycle)	:	
PAS 12 (Amendments)	:	Income Taxes – Tax Consequences of Dividends
PFRS 23 (Amendments)	:	Borrowing Costs – Eligibility for Capitalization
PFRS 3 (Amendments)	:	Business Combinations and Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation

Discussed below are the relevant information about these pronouncements.

- (i) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement*. The amendments clarify that past service cost and gain or loss on settlement is calculated by measuring the net defined benefit liability or asset using updated actuarial assumptions and comparing the benefits offered and plan assets before and after the plan amendment, curtailment or settlement but ignoring the effect of the asset ceiling that may arise when the defined benefit plan is in a surplus position. Further, the amendments now require that if an entity remeasures its net defined benefit liability or asset after a plan amendment, curtailment or settlement, it should also use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the change to the plan. The application of these amendments had no significant impact on the Group's and the Parent Company's financial statements.
- (ii) PAS 28 (Amendments), *Investment in Associates and Joint Ventures – Long-term Interest in Associates and Joint Ventures*. 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. The application of these amendments had no significant impact on the Group's and the Parent Company's financial statements.

- (iii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation*. The amendments clarify that prepayment features with negative compensation attached to financial assets 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. The application of these amendments had no significant impact on the Group’s and the Parent Company’s financial statements.
- (iv) PFRS 16, *Leases*. The new standard replaced PAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, Standard Interpretations Committee (SIC) 15, *Operating Leases – Incentives* and SIC 27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. For lessees, it requires an entity to account for leases “on-balance sheet” by recognizing a “right-of-use” asset and lease liability arising from contract that is, or contains, a lease.

For lessors, the definitions of the type of lease (i.e., finance and operating leases) and the supporting indicators of a finance lease are substantially the same with the provisions under PAS 17. In addition, basic accounting mechanics are also similar but with some different or more explicit guidance related to variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

The Group and the Parent Company have adopted PFRS 16 using the modified retrospective approach as allowed under the transitional provisions of the standard, where the amount of right-of-use assets and lease liabilities is the same as of January 1, 2019. The adoption of the standard has resulted in adjustments to the amounts recognized in the financial statements as at January 1, 2019 but has not resulted to any adjustment to the opening balance of the Retained Earnings account. Accordingly, comparative information was not restated.

The new accounting policies of the Group and the Parent Company as a lessee are disclosed in Note 2.15(a), while the accounting policies of the Group as a lessor, as described in Note 2.15(b), were not significantly affected.

Discussed below are the relevant information arising from the Group’s and the Parent Company’s adoption of PFRS 16 and how the related accounts are measured and presented on the Group’s financial statements as at January 1, 2019.

- a. For contracts in place at the date of initial application, the Group and the Parent Company has elected to apply the definition of a lease from PAS 17 and IFRIC 4 and has not applied PFRS 16 to arrangements that were previously not identified as leases under PAS 17 and IFRIC 4.
- b. The Group and the Parent Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under PAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group’s incremental borrowing rate as of January 1, 2019. The Group’s and Parent Company’s weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 6.5%.

- c. The Group and the Parent Company have elected not to include initial direct costs in the measurement of right-of-use assets at the date of initial application. The Group also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid lease payments and estimated cost to restore the leased asset that existed as at January 1, 2019.
- d. The Group and the Parent Company have also used the following practical expedients, apart from those already mentioned above, as permitted by the standard:
  - i. application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
  - ii. reliance on its historical assessments on whether leases are onerous as an alternative to performing an impairment review on right-of-use assets. As at January 1, 2019, the Group has no onerous contracts; and,
  - iii. use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

A reconciliation of the opening lease liabilities of the Group and the Parent Company recognized at January 1, 2019 and the total operating lease commitments determined under PAS 17 at December 31, 2018 is shown below.

	<u>Notes</u>		
Operating lease commitments, December 31, 2018 (PAS 17)	25.2	P	43.0
Discount using incremental borrowing rate	2.2(a)(iv)(b)	(	<u>4.5)</u>
Lease liabilities, January 1, 2019 (PFRS 16)	12	P	<u>38.5</u>

As of January 1, 2019 the amount of right-of-use assets is also at P38.5.

- (v) IFRIC 23, *Uncertainty over Income Tax Treatments*. This 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. The application of this interpretation had no significant impact on the Group's and Parent Company's financial statements.
- (vi) Annual Improvements to PFRS 2015-2017 Cycle. Among the improvements, the following amendments, which are effective from January 1, 2019, are relevant to the Group and the Parent Company but had no material impact on the financial statements:
  - PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that an entity should recognize the income tax consequence of dividend payments in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits.

- PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that if any specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, such borrowing is treated as part of the entity's general borrowings when calculating the capitalization rate.
- 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 and the Parent Company obtain joint control of the business.

(b) *Effective Subsequent to 2019 but not Adopted Early*

There are amendments to existing standards effective for annual periods subsequent to 2019, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Group's financial statements:

- (i) PAS 1 (Amendments), *Presentation of Financial Statements* and PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material* (effective from January 1, 2020). The amendments provide a clearer definition of 'material' in PAS 1 by including the concept of 'obscuring' material information with immaterial information as part of the new definition, and clarifying the assessment threshold (i.e., misstatement of information is material if it could reasonably be expected to influence decisions made by primary users, which consider the characteristic of those users as well as the entity's own circumstances). The definition of material in PAS 8 has been accordingly replaced by reference to the new definition in PAS 1. In addition, amendment has also been made in other standards that contain definition of material or refer to the term 'material' to ensure consistency.
- (ii) Revised Conceptual Framework for Financial Reporting (effective from January 1, 2020). The revised conceptual framework will be used in standard-setting decisions with immediate effect. Key changes include (a) increasing the prominence of stewardship in the objective of financial reporting, (b) reinstating prudence as a component of neutrality, (c) defining a reporting entity, which may be a legal entity, or a portion of an entity, (d) revising the definitions of an asset and a liability, (e) removing the probability threshold for recognition and adding guidance on derecognition, (f) adding guidance on different measurement basis, and, (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements. No changes will be made to any of the current accounting standards. However, entities that rely on the framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised framework from January 1, 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised framework.



- (iii) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *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, 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 or 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.

### **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 an 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 13).

#### ***2.4 Segment Reporting***

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's Strategic Steering Committee (SSC), its chief operating decision-maker. The SSC 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 and the Parent Company measure 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***

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 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 and the Parent Company'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 and the Parent Company assess 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 and the Parent Company'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 and Parent Company 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 and Parent Company 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.

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 NUGL on Financial Assets at FVOCI account in equity. When the asset is disposed of, the cumulative gain or loss previously recognized in NUGL 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 and the Parent Company'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 and the Parent Company 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 and Parent Company's business model will take effect only at the beginning of the next reporting period following the change in the business model.

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

Interest income is recorded using the effective interest rate (EIR) method for all financial instrument measured at amortized cost and interest-bearing financial instruments at FVOCI. 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 and the Parent Company 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 statement of financial position with an increase (reduction) in Interest income. The adjustment is subsequently amortized through interest and similar income in the statement of income.

The Group and the Parent Company calculate 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(c)], 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 EIR 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.

(c) *Impairment of Financial Assets*

At the end of the reporting period, the Group and the Parent Company assess its expected credit losses (ECL) on a forward-looking basis associated with its financial assets carried at amortized cost and debt instruments measured at FVOCI. No impairment loss is recognized on equity investments. The Group and the Parent Company consider a broader range of information in assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The Group and the Parent Company measure 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). When 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 also 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 and Parent Company'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, unless the drawdown after default will be mitigated by the normal credit risk management actions and policies of the Group.

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.

(d) *Derecognition of Financial Assets*

(i) *Modification of Loans*

When the Group and the Parent Company derecognize a financial asset through renegotiation or modification of contractual cash flows of loans to customers, the Group and Parent Company assesses whether or not the new terms are substantially different to the original terms. The Group and Parent Company 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 and the Parent Company derecognize 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 and the Parent Company also assess 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 recognized 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 EIR of the existing financial asset.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group and the Parent Company recalculate 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 EIR (or credit-adjusted EIR 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 and the Parent Company neither transfer nor retain 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.

(e) *Classification and Measurement of Financial Liabilities*

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

Financial liabilities are recognized when the Group and the Parent Company become 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.

(f) *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(f)].

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 and Parent Company 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 10 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 and Parent Company 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 Parent Company 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 and Parent Company 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.

NUGL losses on financial assets at FVOCI pertain to cumulative mark-to-market valuation.

Accumulated share in other comprehensive income of an 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 ECL on 'Stage 1' loan accounts computed under the requirements of PFRS 9 is less than the 1% General Loan Loss Provision (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***

Revenue is recognized only when (or as) the Group and the Parent Company satisfy 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 and Parent Company's financial statements may be partially within the scope of PFRS 9 and partially within the scope of PFRS 15, *Revenues*. In such case, the Group and the Parent Company first apply 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 and the Parent Company also earn service fees related to the Group's and the Parent Company's factoring receivables which are supported by contracts and approved by the parties involved. These revenues are accounted for by the Group and the Parent Company 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 Lessee*

(i) *Accounting for Leases in Accordance with PFRS 16 (2019)*

For any new contracts entered into on or after January 1, 2019, the Group considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, the Group assesses whether the contract meets three key evaluations, which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Group recognizes a right-of-use asset as part of Property and Equipment, and a lease liability as part of Accounts Payable and Other Liabilities in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Group depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.17).

On the other hand, the Group measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

*(ii) Accounting for Leases in Accordance with PAS 17 (2018)*

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.

*(b) 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.

***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 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.

Except for intangible assets with indefinite useful life, 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 for expected benefit payments using a discount rate derived from the interest rates of zero coupon government bonds [using the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL)], that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL provides evaluated prices that are based on market observations from contributed sources.

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, unless there is a plan amendment, curtailment or settlement during the reporting period. The calculation also takes into account any changes in the net defined benefit liability or asset during the period as a result of contributions to the plan or benefit payments. Net interest is reported 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 16 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.

Transactions amounting to 10% or more of the total assets based on the latest audited consolidated financial statements that were entered into with related parties are considered material.

All individual material related party transactions shall be approved by at least two-thirds vote of the board of directors, with at least a majority of the independent directors voting to approve the material related party transactions. In case that a majority of the independent directors' vote is not secured, the material related party transaction may be ratified by the vote of stockholders representing at least two-thirds of the outstanding capital stock. For aggregate related party transactions within a 12-month period that breaches the materiality threshold of 10% of the Group's total assets based on the latest audited consolidated financial statements, the same board approval would be required for the transaction(s) that meets and exceeds the materiality threshold covering the same related party.

### ***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) *Determination of Lease Term of Contracts with Renewal and Termination Options (2019)*

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option or not exercise a termination option. Renewal options and/or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated.

The lease term is reassessed if an option is actually exercised or not exercised or the Group becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Group.

(b) *Application of ECL to Financial Assets at Amortized Cost and Financial Assets at FVOCI*

The Group uses a three-stage general approach to calculate ECL for all financial assets at amortized cost (except for receivables with no significant financing component which uses simplified approach) and debt instruments classified as financial assets at FVOCI together with loan commitments. The allowance for credit losses is based on the ECLs associated with the probability of default 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*

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.

If more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, 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 necessarily inconsistent with the HTC 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.

In 2019, the Parent Company disposed of certain loans and receivables to manage its low-yielding loan portfolio and has, in its evaluation process, assessed the disposal to be permitted sales as it is an infrequent disposal, in accordance with PFRS 9 and consistent with the Group's HTC business model (see Note 9).

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

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 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.

(e) *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.

*(f) 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.

*(g) Distinction Between Operating and Finance Leases for Contracts where the Group is the Lessor*

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.

*(h) 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) *Determination of Appropriate Discount Rate in Measuring Lease Liabilities (2019)*

The Group measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed by management equal to the Group's incremental borrowing rate. In determining a reasonable discount rate, management considers the term of the leases, the underlying asset and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

(b) *Estimation of Allowance for ECL*

The measurement of the allowance for ECL on financial assets at amortized cost and debt instruments classified as financial assets at FVOCI 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 14, respectively.

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

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.

(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 13, respectively. Based on management's assessment as of December 31, 2019 and 2018, 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 other assets are presented in Notes 13 and 14. No impairment loss is recognized for property and equipment and investment properties (see Note 10 and 11).

(f) *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.

(g) *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, 2019 and 2018 may be recoverable.

The carrying value of the deferred tax assets (netted against deferred tax liabilities) as at December 31, 2019 and 2018 is disclosed in Note 22.

(h) *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 and financing. 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.

##### ***4.3 Intersegment Transactions***

Intersegment transactions in 2019, 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>Total</u>
<b><u>For the Year Ended December 31, 2019</u></b>			
<b>Statement of Income</b>			
Segment revenues	P 1,735.6	P 1,021.6	P 2,757.2
Segment expenses	( <u>1,689.6</u> )	( <u>994.5</u> )	( <u>2,684.1</u> )
	<u>P 46.0</u>	<u>P 27.1</u>	73.1
Others			<u>5.5</u>
Segment results			78.6
Tax expense			( <u>33.6</u> )
Net profit			<u>P 45.0</u>

#### **December 31, 2019**

##### **Statement of Financial Positions**

Segment assets	P 15,271.1	P 11,202.8	P 26,474.9
Unallocated assets			<u>4,474.0</u>
Total assets			<u>P 30,947.9</u>
Segment liabilities	P 13,611.3	P 11,262.7	P 24,874.0
Unallocated			<u>459.6</u>
Total liabilities			<u>P 25,333.6</u>
Other segment information			
Capital expenditures	<u>P 485.9</u>	<u>P -</u>	<u>P 485.9</u>
Depreciation and amortization	<u>P 757.8</u>	<u>P -</u>	<u>P 757.8</u>

#### **For the Year Ended December 31, 2018**

<b>Statement of Income</b>			
Segment revenues	P 1,833.5	P 998.4	P 2,831.9
Segment expenses	( <u>1,593.8</u> )	( <u>867.9</u> )	( <u>2,461.7</u> )
	<u>P 239.7</u>	<u>P 130.5</u>	370.2
Others			<u>85.1</u>
Segment results			455.3
Tax expense			( <u>89.6</u> )
Net profit			<u>P 365.7</u>

	<u>Leasing</u>	<u>Financing</u>	<u>Total</u>
<u>December 31, 2018</u>			
Statement of Financial Positions			
Segment assets	P 22,254.8	P 14,024.5	P 36,279.3
Unallocated assets			<u>5,260.9</u>
Total assets			<u>P 41,540.2</u>
Segment liabilities	P 20,816.9	P 14,793.3	P 35,610.2
Unallocated			<u>587.0</u>
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>
Depreciation and amortization	<u>P 861.4</u>	<u>P -</u>	<u>P 861.4</u>
<u>For the Year Ended December 31, 2017</u>			
Statement of Income			
Segment revenues	P 1,775.7	P 979.3	P 2,755.0
Segment expenses	( <u>1,367.5</u> )	( <u>815.2</u> )	( <u>2,182.7</u> )
	<u>P 408.2</u>	<u>P 164.1</u>	572.3
Others			<u>267.0</u>
Segment results			839.3
Tax expense			( <u>148.8</u> )
Net profit			<u>P 690.5</u>
<u>December 31, 2017</u>			
Statement of Financial Positions			
Segment assets	P 20,498.1	P 15,606.7	P 36,104.8
Unallocated assets			<u>1,370.5</u>
Total assets			<u>P 37,475.3</u>
Segment liabilities	P 19,400.4	P 17,066.5	P 36,466.9
Unallocated			<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>
Depreciation and amortization	<u>P 814.5</u>	<u>P -</u>	<u>P 814.5</u>

Segment expenses are allocated on the basis of gross income.

#### 4.5 Reconciliation

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Revenues</b>			
Total segment revenues	P 78.6	P 455.3	P 839.3
Elimination of intersegment revenues	1.4	( 35.4)	( 120.4)
Elimination of intersegment expenses	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>
Net revenues as reported in profit or loss	<u>P 80.4</u>	<u>P 420.3</u>	<u>P 719.3</u>
<b>Profit or loss</b>			
Total net income	P 45.0	P 365.7	P 690.5
Elimination of intersegment profit	<u>1.8</u>	<u>( 35.0)</u>	<u>( 120.0)</u>
Group net profit as reported in profit or loss	<u>P 46.8</u>	<u>P 330.7</u>	<u>P 570.5</u>
<b>Other segment information:</b>			
Right-of-use assets	<u>P 26.9</u>	<u>P -</u>	<u>P -</u>
Capital expenditures – Leasing	P 485.9	P 888.9	P 776.5
Other capital expenditures	<u>2.2</u>	<u>6.2</u>	<u>6.1</u>
	<u>P 488.1</u>	<u>P 895.1</u>	<u>P 782.6</u>
Depreciation and amortization – Leasing	P 757.8	P 861.4	P 814.5
Other depreciation and amortization	<u>36.0</u>	<u>20.1</u>	<u>21.7</u>
	<u>P 793.8</u>	<u>P 881.5</u>	<u>P 836.2</u>

The Group's main operating businesses are organized and managed separately according to the nature of services provided and the different markets served, with each segment representing a strategic business unit. These are also the basis of Group in reporting to its chief operating decision-maker for its strategic decision-making activities.

Net segment assets are comprised of the following:

	<u>2019</u>	
	<u>Leasing</u>	<u>Financing</u>
Receivables	P 10,375.9	P 11,485.3
Residual value of leased assets	4,648.6	-
Unearned income	( 1,253.3)	( 19.6)
Client's equity	<u>-</u>	<u>( 37.7)</u>
	13,771.2	11,428.0
Equipment under lease	<u>1,840.3</u>	<u>-</u>
	15,611.5	11,428.0
Allowance for impairment	<u>( 340.4)</u>	<u>( 225.2)</u>
	<u>P 15,271.1</u>	<u>P 11,202.8</u>

	2018			
	Leasing		Financing	
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)
	<u>P</u>	<u>22,254.8</u>	<u>P</u>	<u>14,024.5</u>

The Group's bills payable, including payable to BDO Unibank, amounting to P20,137.8 and P28,977.8 as of December 31, 2019 and 2018, respectively, is allocated between the leasing and financing segments based on the carrying amounts of receivables of these segments. Deposits on lease amounting to P4,736.2 and P6,632.3 as of December 31, 2019 and 2018, respectively, are included in the leasing segment.

## 5. RISK MANAGEMENT

With its culture of managing risk prudently within its capacity and capabilities, the Group will pursue its strategy and business plans to provide consistent quality service to its customers, to achieve its desired long-term target returns to its shareholders and satisfy or abide by the needs of its other stakeholders, including its depositors and regulators.

The Group believes that, as there are opportunities, there are associated risks and the objective is not to totally avoid risks, but to adequately and consistently evaluate, manage, control, and monitor the risks and ensure that the Group is adequately compensated for all the risks taken. Good risk management involves making informed and rational decisions about the level of risks the institution wants to take, in the pursuit of its objectives, but with consideration to return commensurate with the risk-taking activity.

The Group's goal is to remain a strong bank that is resilient to possible adverse events. Hence, the Group ensures:

- strong financial position by maintaining capital ratios in excess of regulatory requirements;
- sound management of liquidity; and,
- ability to generate sustainable earnings commensurate with the risks taken.

For credit risk, market risk, and liquidity risk, the Group ensures that these are within Board-approved operating limits. For operational risk (which includes legal, regulatory, compliance risks), and reputational risks, these are invariably managed by the development of both a strong "control culture" and an effective internal control system that constantly monitors and updates operational policies and procedures with respect to the Group's activities and transactions.

Risk management begins at the highest level of the organization. At the helm of the risk management infrastructure is the BOD who is responsible for establishing and maintaining a sound risk management system. The BOD assumes oversight over the entire risk management process and has the ultimate responsibility for all risks taken. It regularly reviews and approves the institution's tolerance for risks, as well as, its business strategy and risk philosophy.

The BOD has constituted the Risk Management Unit (RMU) as the Board-Level Committee responsible for the development and oversight of the risk management program. Considering the importance of appropriately addressing credit risk, the BOD has also constituted the Credit Committee. The Credit Committee is responsible for approving credit-specific transactions, while the RMU is responsible for approving credit portfolio risk-related policies and limits, as well as, market, liquidity, and operational risk policies and limits.

Within Group's overall risk management system is the Assets and Liabilities Committee (ALCO), which is responsible for managing the Group's statement of financial position, including the Group's liquidity, interest rate and foreign exchange related risks. In addition, ALCO formulates investment and financial policies by determining the asset allocation and funding mix strategies that are likely to yield the targeted financial results.

The Group operates an integrated risk management system to address the risks it faces in its banking activities, including credit, market (foreign exchange, interest rate, and price risks), liquidity, and operational risks. The RMU is mandated to adequately and consistently evaluate, manage, control, and monitor the overall risk profile of the Group's activities across the different risk areas (i.e., credit, market, liquidity and operational risks) to optimize the risk-reward balance and maximize return on capital. RMU also has the responsibility for recommending to the appropriate body, risk policies across the full range of risks to which the Group is exposed.

The evaluation, analysis, and control performed by the Risk Function, in conjunction with the Risk Takers, constitute the risk management process. The risk management process is applied at three levels: the transaction level, the business unit level, and the portfolio level. This framework ensures that risks are properly identified, quantified and analyzed, in the light of its potential effect on the Group's business. The goal of the risk management process is to ensure rigorous adherence to the Group's standards for precision in risk measurement and reporting and to make possible, in-depth analysis of the deployment of capital and the returns that are delivered to the shareholders.

### ***5.1 Foreign Exchange Risk***

Most of the Group's and the Parent Company'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 and the Parent Company's leasing and financing portfolio, cash and cash equivalents and lease deposits which are denominated in United States (U.S.) dollars.

The Group and the Parent Company's foreign-currency denominated financial assets and financial liabilities translated into Philippine pesos at the closing rate at December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	P 4.9	P 5.0
Loans and other receivables	640.2	722.5
Bills payable	( 480.8)	( 565.6)
Lease deposits	( 126.4)	( 131.2)
	<u>P 37.9</u>	<u>P 30.7</u>

At December 31, 2019 and 2018, the currency exchange rates used to translate U.S. dollar denominated financial assets and financial liabilities to the Philippine pesos is approximately P50.64 and P52.58, respectively.

The following table illustrates the sensitivity of the net result for the year and equity with regard to the Group's and the Parent Company's financial assets and financial liabilities and the U.S. dollar – Philippine peso exchange rate. It assumes a +/-17.9% change and +/-11.8% change of the Philippine peso/U.S. dollar exchange rate at December 31, 2019 and 2018, 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>2019</u>		<u>2018</u>	
	<u>Depreciation of Peso</u>	<u>Appreciation of Peso</u>	<u>Depreciation of Peso</u>	<u>Appreciation of Peso</u>
Profit before tax	P 6.8	(P 6.8)	P 3.6	(P 3.6)
Equity	4.8	( 4.8)	2.5	( 2.5)

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 and the Parent Company's currency risk.

## 5.2 Interest Rate Risk

At December 31, 2019 and 2018, the Group is exposed to changes in market interest rates through its bills payable and a portion of Group'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 any time 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 +/-2.6% at December 31, 2019 and +/-1.6% at December 31, 2018 and variable rate loans and other receivables of +/-2.0% at December 31, 2019 and +/-2.9% at December 31, 2018. 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>2019:</b>		
Loans and other receivables	+2.6%	-2.6%
Bills payable	+2.0%	-2.0%
Increase (decrease) in:		
Profit before tax	P 31.7	(P 31.7 )
Equity	22.2	( 22.2 )
<b>2018:</b>		
Loans and other receivables	+2.9%	-2.9%
Bills payable	+1.5%	-1.5%
Increase (decrease) in:		
Profit before tax	P 11.7	(P 11.7 )
Equity	7.7	( 7.7 )

### **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. 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

#### (a) *Current*

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.

(ii) *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.

(iii) *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 and debt investment securities at FVOCI. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. In 2019 and 2018, the Group and the Parent Company have no financial instruments that are purchased or originated credit impaired assets.

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

**Group**

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
<b>2019</b>				
<b>Receivables from customers – corporate</b>				
Grades AAA to B : Current	P 15,144.0	P 72.3	P 25.2	P 15,241.5
Grade B- : Watchlisted	209.0	2.0	68.7	279.7
Grade C : LEM	-	113.0	93.4	206.4
Grade D : Substandard	-	-	192.9	192.9
Grade E : Doubtful	-	144.2	491.9	636.1
Grade F : Loss	-	-	261.0	261.0
	<u>15,353.0</u>	<u>331.5</u>	<u>1,133.1</u>	<u>16,817.6</u>
Expected credit loss allowance	( <u>44.5</u> )	( <u>11.5</u> )	( <u>418.4</u> )	( <u>474.4</u> )
Carrying amount	<u>P 15,308.5</u>	<u>P 320.0</u>	<u>P 714.7</u>	<u>P 16,343.2</u>

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
<b>Receivables from customers – consumer</b>				
Grades AAA to B : Current	P 7,989.2	P -	P 83.4	P 8,072.6
Grade B- : Watchlisted	-	-	-	-
Grade C : LEM	-	83.3	40.7	124.0
Grade D : Substandard	-	-	23.5	23.5
Grade E : Doubtful	-	-	78.5	78.5
Grade F : Loss	-	-	139.4	139.4
	<u>7,989.2</u>	<u>83.3</u>	<u>365.5</u>	<u>8,438.0</u>
Expected credit loss allowance	( <u>21.7</u> )	( <u>4.5</u> )	( <u>65.0</u> )	( <u>91.2</u> )
Carrying amount	<u>P 7,967.5</u>	<u>P 78.8</u>	<u>P 300.5</u>	<u>P 8,346.8</u>
<b>Other receivables</b>				
Grades AAA to B : Current	P 269.4	P -	P -	P 269.4
Grade B- : Watchlisted	-	-	-	-
Grade C : LEM	-	-	-	-
Grade D : Substandard	-	-	15.9	15.9
Grade E : Doubtful	-	-	11.5	11.5
Grade F : Loss	-	-	20.0	20.0
	<u>269.4</u>	<u>-</u>	<u>47.4</u>	<u>316.8</u>
Expected credit loss allowance	<u>0.2</u>	<u>-</u>	( <u>29.3</u> )	( <u>29.1</u> )
Carrying amount	<u>P 269.6</u>	<u>P -</u>	<u>P 18.1</u>	<u>P 287.7</u>
<b>Debt investment securities at FVOCI</b>				
Grades AAA to B : Current	<u>P 1,162.4</u>	<u>P -</u>	<u>P -</u>	<u>P 1,162.4</u>
<b>2018</b>				
Receivables from customers – corporate				
Grades AAA to B : Current	P 24,881.0	P 0.4	P 33.1	P 24,914.5
Grade B- : Watchlisted	539.9	33.4	22.1	595.4
Grade C : LEM	-	21.7	33.0	54.7
Grade D : Substandard	-	0.4	207.1	207.5
Grade E : Doubtful	-	-	283.9	283.9
Grade F : Loss	-	-	312.4	312.4
	<u>25,420.9</u>	<u>55.9</u>	<u>891.6</u>	<u>26,368.4</u>
Expected credit loss allowance	( <u>111.3</u> )	( <u>1.8</u> )	( <u>333.4</u> )	( <u>446.5</u> )
Carrying amount	<u>P 25,309.6</u>	<u>P 54.1</u>	<u>P 558.2</u>	<u>P 25,921.9</u>
Receivables from customers – consumer				
Grades AAA to B : Current	P 7,937.5	P -	P 36.9	P 7,974.4
Grade B- : Watchlisted	-	-	-	-
Grade C : LEM	-	70.7	11.1	81.8
Grade D : Substandard	-	-	33.2	33.2
Grade E : Doubtful	-	-	42.8	42.8
Grade F : Loss	-	-	116.9	116.9
	<u>7,937.5</u>	<u>70.7</u>	<u>240.9</u>	<u>8,249.1</u>
Expected credit loss allowance	( <u>23.7</u> )	( <u>3.2</u> )	( <u>47.0</u> )	( <u>73.9</u> )
Carrying amount	<u>P 7,913.8</u>	<u>P 67.5</u>	<u>P 193.9</u>	<u>P 8,175.2</u>

	Stage 1	Stage 2	Stage 3	Total
<b>Other receivables</b>				
Grades AAA to B : Current	P 243.0	P -	P -	P 243.0
Grade B- : Watchlisted	-	-	-	-
Grade C : LEM	-	-	-	-
Grade D : Substandard	-	12.4	4.6	17.0
Grade E : Doubtful	-	-	2.3	2.3
Grade F : Loss	-	-	23.6	23.6
	<u>243.0</u>	<u>12.4</u>	<u>30.5</u>	<u>285.9</u>
Expected credit loss allowance	( <u>0.7</u> )	( <u>0.3</u> )	( <u>29.4</u> )	( <u>30.4</u> )
Carrying amount	<u>P 242.3</u>	<u>P 12.1</u>	<u>P 1.1</u>	<u>P 255.5</u>
<b>Debt investment securities at FVOCI</b>				
Grades AAA to B : Current	<u>P 1,119.8</u>	<u>P -</u>	<u>P -</u>	<u>P 1,119.8</u>

**Parent**

	Stage 1	Stage 2	Stage 3	Total
<b>2019</b>				
<b>Receivables from customers – corporate</b>				
Grades AAA to B : Current	P 15,144.0	P 72.3	P 25.2	P 15,241.5
Grade B- : Watchlisted	209.0	2.0	68.7	279.7
Grade C : LEM	-	113.0	93.4	206.4
Grade D : Substandard	-	-	192.9	192.9
Grade E : Doubtful	-	144.2	491.9	636.1
Grade F : Loss	-	-	261.0	261.0
	<u>15,353.0</u>	<u>331.5</u>	<u>1,133.1</u>	<u>16,817.6</u>
Expected credit loss allowance	( <u>44.5</u> )	( <u>11.5</u> )	( <u>418.4</u> )	( <u>474.4</u> )
Carrying amount	<u>P 15,308.5</u>	<u>P 320.0</u>	<u>P 714.7</u>	<u>P 16,343.2</u>
<b>Receivables from customers – consumer</b>				
Grades AAA to B : Current	P 7,989.2	P -	P 83.4	P 8,072.6
Grade B- : Watchlisted	-	-	-	-
Grade C : LEM	-	83.3	40.7	124.0
Grade D : Substandard	-	-	23.5	23.5
Grade E : Doubtful	-	-	78.5	78.5
Grade F : Loss	-	-	139.4	139.4
	<u>7,989.2</u>	<u>83.3</u>	<u>365.5</u>	<u>8,438.0</u>
Expected credit loss allowance	( <u>21.7</u> )	( <u>4.5</u> )	( <u>65.0</u> )	( <u>91.2</u> )
Carrying amount	<u>P 7,967.5</u>	<u>P 78.8</u>	<u>P 300.5</u>	<u>P 8,346.8</u>
<b>Other receivables</b>				
Grades AAA to B : Current	P 58.2	P -	P -	P 58.2
Grade B- : Watchlisted	-	-	-	-
Grade C : LEM	-	-	-	-
Grade D : Substandard	-	-	15.9	15.9
Grade E : Doubtful	-	-	11.5	11.5
Grade F : Loss	-	-	20.0	20.0
	<u>58.2</u>	<u>-</u>	<u>47.4</u>	<u>105.6</u>
Expected credit loss allowance	<u>0.2</u>	<u>-</u>	( <u>29.1</u> )	( <u>28.9</u> )
Carrying amount	<u>P 58.4</u>	<u>P -</u>	<u>P 18.3</u>	<u>P 76.7</u>
<b>Debt investment securities at FVOCI</b>				
Grades AAA to B : Current	<u>P 1,162.4</u>	<u>P -</u>	<u>P -</u>	<u>P 1,162.4</u>

<u>2018</u>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Receivables from customers – corporate				
Grades AAA to B : Current	P 24,881.0	P 0.4	P 33.1	P 24,914.5
Grade B- : Watchlisted	539.9	33.4	22.1	595.4
Grade C : LEM	-	21.7	33.0	54.7
Grade D : Substandard	-	0.4	207.1	207.5
Grade E : Doubtful	-	-	283.9	283.9
Grade F : Loss	-	-	<u>312.4</u>	<u>312.4</u>
	<u>25,420.9</u>	<u>55.9</u>	<u>891.6</u>	<u>26,368.4</u>
Expected credit loss allowance	( <u>111.3</u> )	( <u>1.8</u> )	( <u>333.4</u> )	( <u>446.5</u> )
Carrying amount	<u>P 25,309.6</u>	<u>P 54.1</u>	<u>P 558.2</u>	<u>P 25,921.9</u>
Receivables from customers – consumer				
Grades AAA to B : Current	P 7,937.5	P -	P 36.9	P 7,974.4
Grade B- : Watchlisted	-	-	-	-
Grade C : LEM	-	70.7	11.1	81.8
Grade D : Substandard	-	-	33.2	33.2
Grade E : Doubtful	-	-	42.8	42.8
Grade F : Loss	-	-	<u>116.9</u>	<u>116.9</u>
	<u>7,937.5</u>	<u>70.7</u>	<u>240.9</u>	<u>8,249.1</u>
Expected credit loss allowance	( <u>23.7</u> )	( <u>3.2</u> )	( <u>47.0</u> )	( <u>73.9</u> )
Carrying amount	<u>P 7,913.8</u>	<u>P 67.5</u>	<u>P 193.9</u>	<u>P 8,175.2</u>
Other receivables				
Grades AAA to B : Current	P 80.8	P -	P -	P 80.8
Grade B- : Watchlisted	-	-	-	-
Grade C : LEM	-	-	-	-
Grade D : Substandard	-	9.4	4.6	14.0
Grade E : Doubtful	-	-	2.3	2.3
Grade F : Loss	-	-	<u>23.5</u>	<u>23.5</u>
	<u>80.8</u>	<u>9.4</u>	<u>30.4</u>	<u>120.6</u>
Expected credit loss allowance	( <u>0.7</u> )	( <u>0.3</u> )	( <u>29.2</u> )	( <u>30.2</u> )
Carrying amount	<u>P 80.1</u>	<u>P 9.1</u>	<u>P 1.2</u>	<u>P 90.4</u>
Debt investment securities at FVOCI				
Grades AAA to B : Current	<u>P 1,119.8</u>	<u>P -</u>	<u>P -</u>	<u>P 1,119.8</u>

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable institutions with high quality external credit ratings. For loan commitments, no ECL is recognized as the Group and the Parent Company have historically been able to hold the further drawdown of the loans for borrowers with heightened credit risk as mitigated in the Group's and the Parent Company's existing credit risk management actions and policies.

### 5.3.3 Concentrations of Credit Risk

The Group and the Parent Company monitor 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.

	2019			2018		
	Cash and Cash Equivalents	Loans and Other Receivables	Financial Assets at FVOCI*	Cash and Cash Equivalents	Loans and Other Receivables	Financial Assets at FVOCI*
<b>Group</b>						
Concentration by sector:						
Financial intermediaries	P 130.0	P 18.4	P -	P 274.6	P 842.2	P -
Manufacturing	-	2,229.9	-	-	3,587.3	-
Transportation, communication and energy	-	3,869.1	-	-	5,700.0	-
Wholesale and retail trade and personal activities	-	3,410.6	-	-	5,263.5	-
Real estate, renting and business activities	-	148.2	1,162.4	-	5,710.6	1,119.8
Agriculture, fishing and forestry	-	141.1	-	-	183.3	-
Other community, social and personal activities	-	15,160.4	-	-	13,065.7	-
	<b>P 130.0</b>	<b>P 24,977.7</b>	<b>P 1,162.4</b>	<b>P 274.6</b>	<b>P 34,352.6</b>	<b>P 1,119.8</b>
<b>Parent Company</b>						
Concentration by sector:						
Financial intermediaries	P 107.2	P 18.4	P -	P 228.5	P 842.2	P -
Manufacturing	-	2,229.9	-	-	3,587.3	-
Transportation, communication and energy	-	3,869.1	-	-	5,700.0	-
Wholesale and retail trade and personal activities	-	3,410.6	-	-	5,263.5	-
Real estate, renting and business activities-	-	148.2	1,162.4	-	5,710.6	1,119.8
Agriculture, fishing and forestry	-	141.1	-	-	183.3	-
Other community, social and personal activities	-	14,949.4	-	-	12,900.6	-
	<b>P 107.2</b>	<b>P 24,766.7</b>	<b>P 1,162.4</b>	<b>P 228.5</b>	<b>P 34,187.5</b>	<b>P 1,119.8</b>

\*Financial Assets at FVOCI 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:

	2019		2018	
	Credit Exposure	Collateral Value	Credit Exposure	Collateral Value
Receivable from customers – corporate				
Real property	P 693.1	P 5,975.9	P 1,851.5	P 5,742.6
Personal property	15,966.7	23,500.7	24,371.3	40,755.5
	<b>P 16,659.8</b>	<b>P 29,476.6</b>	<b>P 26,222.8</b>	<b>P 46,498.1</b>
Receivable from customers – consumer				
Real property	P 8,108.5	P 14,647.3	P 7,885.5	P 13,511.0
Personal property	329.6	522.4	363.7	539.6
	<b>P 8,438.1</b>	<b>P 15,169.7</b>	<b>P 8,249.2</b>	<b>P 14,050.6</b>
Other receivables –				
Real property	P 18.4	P 47.2	P 33.1	P 113.6

As of December 31, 2019 and 2018, 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, 2019 and 2018.

The general creditworthiness of a corporate or 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 corporate and individual 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 and individual 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 or valuations of collateral to provide input into determining the management credit risk actions.

*(a) Receivable from Customers – Corporate*

At December 31, 2019 and 2018, the net carrying amount of credit-impaired (loans under Stages 2 and 3) receivables from corporate customers amounted to P1,034.7 and P612.3, respectively, and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to P1,348.4 and P656.0, 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*

At December 31, 2019 and 2018, the net carrying amount of credit-impaired (loans under Stage 2 and 3) receivables to individual customers amounted to P379.3 and P261.4, respectively, and the value of identifiable collateral (chattel properties) held against those loans and advances amounted to P725.0 and P495.7, 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*

At December 31, 2019 and 2018, the net carrying amount of credit-impaired receivables to corporate and individual customers amounted to P18.2 and P10.3, respectively, and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to P29.3 and P4.5, 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 in the 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 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*

In 2019, the Group and the Parent Company performed recalibration of its existing ECL model to incorporate on the most-recent default and recovery experience of the Group and the Parent Company and developments in the macroeconomic environment. Independent macroeconomic variables used to forecast the probability of default could either be dictated by their statistical significance in the model or economic significance. Inputs are updated to ensure that models are robust, predictive and reliable.

The following tables show the reconciliation from the opening to the closing balance of the loss allowance by class of financial instrument.

**Group**

	2019			
	Stage 1	Stage 2	Stage 3	Total
<b>Receivables from customers – corporate</b>				
Balance at January 1	P 111.3	P 1.8	P 333.4	P 446.5
Transfer to:				
Stage 1	-	-	-	-
Stage 2	( 1.1)	1.1	-	-
Stage 3	( 1.8)	( 1.3)	3.1	-
Net remeasurement of loss allowance	( 26.3)	10.1	73.5	57.3
New financial assets originated	20.6	-	32.2	52.8
Derecognition of financial assets	( 58.2)	( 0.2)	( 4.2)	( 62.6)
Write-offs	-	-	( 19.6)	( 19.6)
Balance at December 31	<u>P 44.5</u>	<u>P 11.5</u>	<u>P 418.4</u>	<u>P 474.4</u>
<b>Receivables from customers – consumer</b>				
Balance at January 1	P 23.7	P 3.2	P 47.0	P 73.9
Transfer to:				
Stage 1	4.9	( 0.5)	( 4.4)	-
Stage 2	( 0.2)	0.9	( 0.7)	-
Stage 3	( 1.7)	( 2.6)	4.3	-
Net remeasurement of loss allowance	( 5.8)	2.9	32.0	29.1
New financial assets originated	3.6	0.8	2.1	6.5
Derecognition of financial assets	( 2.8)	( 0.2)	( 15.3)	( 18.3)
Balance at December 31	<u>P 21.7</u>	<u>P 4.5</u>	<u>P 65.0</u>	<u>P 91.2</u>
<b>Other receivables</b>				
Balance at January 1	P 0.7	P 0.3	P 29.4	P 30.4
Transfer to:				
Stage 1	( 0.2)	-	0.2	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Net remeasurement of loss allowance	-	-	( 0.4)	( 0.4)
New financial assets originated	-	-	0.2	0.2
Derecognition of financial assets	( 0.7)	( 0.3)	( 0.1)	( 1.1)
Balance at December 31	<u>(P 0.2)</u>	<u>P -</u>	<u>P 29.3</u>	<u>P 29.1</u>

	2018			
	Stage 1	Stage 2	Stage 3	Total
<b>Receivables from customers – corporate</b>				
Balance at January 1	P 129.0	P 22.7	P 324.8	P 476.5
Transfer 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)
New financial assets originated	46.0	-	0.6	46.6
Derecognition of financial assets	( 35.6)	( 6.6)	( 27.9)	( 70.1)
Write-offs	-	-	( 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>
<b>Receivables from customers – consumer</b>				
Balance at January 1	P 15.2	P 1.9	P 41.4	P 58.5
Transfer 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
New financial assets originated	4.9	6.9	3.4	15.2
Derecognition of financial assets	( 1.1)	-	( 7.3)	( 8.4)
Balance at December 31	<u>P 23.7</u>	<u>P 3.2</u>	<u>P 47.0</u>	<u>P 73.9</u>
<b>Other receivables</b>				
Balance at January 1	P 0.4	P 0.2	P 25.7	P 26.3
Transfer to:				
Stage 1	( 0.1)	-	0.1	-
Stage 2	-	( 0.2)	0.2	-
Stage 3	-	-	-	-
Net remeasurement of loss allowance	-	-	3.0	3.0
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>

**Parent Company**

	2019			
	Stage 1	Stage 2	Stage 3	Total
<b>Receivables from customers – corporate</b>				
Balance at January 1	P 111.3	P 1.8	P 333.4	P 446.5
Transfer to:				
Stage 1	-	-	-	-
Stage 2	( 1.1)	1.1	-	-
Stage 3	( 1.8)	( 1.3)	3.1	-
Net remeasurement of loss allowance	( 26.3)	10.1	73.5	57.3
New financial assets originated	20.6	-	32.2	52.8
Derecognition of financial assets	( 58.2)	( 0.2)	( 4.2)	( 62.6)
Write-offs	-	-	( 19.6)	( 19.6)
Balance at December 31	<u>P 44.5</u>	<u>P 11.5</u>	<u>P 418.4</u>	<u>P 474.4</u>

	2019			
	Stage 1	Stage 2	Stage 3	Total
<b>Receivables from customers – consumer</b>				
Balance at January 1	P 23.7	P 3.2	P 47.0	P 73.9
Transfer to:				
Stage 1	4.9	( 0.5)	( 4.4)	-
Stage 2	( 0.2)	0.9	( 0.7)	-
Stage 3	( 1.7)	( 2.6)	4.3	-
Net remeasurement of loss allowance	( 5.8)	2.9	32.0	29.1
New financial assets originated	3.6	0.8	2.1	6.5
Derecognition of financial assets	( 2.8)	( 0.2)	( 15.3)	( 18.3)
Balance at December 31	<u>P 21.7</u>	<u>P 4.5</u>	<u>P 65.0</u>	<u>P 91.2</u>
<b>Other receivables</b>				
Balance at January 1	P 0.7	P 0.3	P 29.2	P 30.2
Transfer to:				
Stage 1	( 0.2)	-	0.2	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Net remeasurement of loss allowance	-	-	( 0.2)	( 0.2)
New financial assets originated	-	-	-	-
Derecognition of financial assets	( 0.7)	( 0.3)	( 0.1)	( 1.1)
Balance at December 31	<u>(P 0.2)</u>	<u>P -</u>	<u>P 29.1</u>	<u>P 28.9</u>
2018				
	Stage 1	Stage 2	Stage 3	Total
<b>Receivables from customers – corporate</b>				
Balance at January 1	P 129.0	P 22.7	P 324.8	P 476.5
Transfer 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)
New financial assets originated	46.0	-	0.6	46.6
Derecognition of financial assets	( 35.6)	( 6.6)	( 27.9)	( 70.1)
Write-offs	-	-	( 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>
<b>Receivables from customers – consumer</b>				
Balance at January 1	P 15.2	P 1.9	P 41.4	P 58.5
Transfer 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
New financial assets originated	4.9	6.9	3.4	15.2
Derecognition of financial assets	( 1.1)	-	( 7.3)	( 8.4)
Balance at December 31	<u>P 23.7</u>	<u>P 3.2</u>	<u>P 47.0</u>	<u>P 73.9</u>
<b>Other receivables</b>				
Balance at January 1	P 0.4	P 0.2	P 25.7	P 26.3
Transfer to:				
Stage 1	( 0.1)	-	0.1	-
Stage 2	-	( 0.2)	0.2	-
Stage 3	-	-	-	-
Net remeasurement of loss allowance	-	-	3.0	3.0
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>

As of December 31, 2019 and 2018, the Group and the Parent Company have written-off certain accounts amounting to P19.6 and P0.3, respectively. The management assessed that the Group and the Parent Company still has enforceable right over these written-off accounts.

### 5.3.6 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). In 2019 and 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, 2019 and 2018 analyzed according to when these are expected to be recovered or settled.

	Group				Total
	One to Three Months	Three Months to One Year	One to Three Years	More Than Three Years	
<b>2019</b>					
Financial assets					
Cash and cash equivalents	P 130.0	P -	P -	P -	P 130.0
Financial assets at FVOCI	-	962.0	200.3	2,028.6	3,190.9
Loans and other receivables	<u>1,549.8</u>	<u>1,977.5</u>	<u>9,538.7</u>	<u>11,911.7</u>	<u>24,977.7</u>
	<b><u>P 1,679.8</u></b>	<b><u>P 2,939.5</u></b>	<b><u>P 9,739.0</u></b>	<b><u>P 13,940.3</u></b>	<b><u>P 28,298.6</u></b>
Financial liabilities					
Bills payable	P 12,805.0	P 2,606.4	P 4,726.4	P -	P 20,137.8
Accounts payable and other liabilities	379.9	9.2	15.5	0.1	404.7
Lease deposits	<u>607.4</u>	<u>604.7</u>	<u>2,526.8</u>	<u>997.3</u>	<u>4,736.2</u>
	<b><u>P 13,792.3</u></b>	<b><u>P 3,220.3</u></b>	<b><u>P 7,268.7</u></b>	<b><u>P 999.4</u></b>	<b><u>P 25,278.7</u></b>



	Parent Company				
	One to Three Months	Three Months to One Year	One to Three Years	More Than Three Years	Total
<b>Financial assets</b>					
Cash and cash equivalents	P 107.2	P -	P -	P -	P 107.2
Financial assets at FVOCI	-	962.0	200.3	2,028.6	3,190.9
Loans and other receivables	<u>1,532.5</u>	<u>1,783.6</u>	<u>9,538.7</u>	<u>11,911.9</u>	<u>24,766.7</u>
	<u>P 1,639.7</u>	<u>P 2,745.6</u>	<u>P 9,739.0</u>	<u>P 13,940.5</u>	<u>P 28,064.8</u>
<b>Financial liabilities</b>					
Bills payable	P 10,971.5	P 2,606.4	P 4,726.5	P -	P 18,304.4
Accounts payable and other liabilities	299.7	9.2	15.5	0.1	324.5
Lease deposits	<u>593.8</u>	<u>584.9</u>	<u>2,464.0</u>	<u>983.5</u>	<u>4,626.2</u>
	<u>P 11,865.0</u>	<u>P 3,200.5</u>	<u>P 7,206.0</u>	<u>P 983.6</u>	<u>P 23,255.1</u>
	Group				
	One to Three Months	Three Months to One Year	One to Three Years	More Than Three Years	Total
<b>2018</b>					
<b>Financial assets</b>					
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>
<b>Financial liabilities</b>					
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
<b>Financial assets</b>					
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>
<b>Financial liabilities</b>					
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>

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.

### 5.3.7 Write-offs

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery of the financial asset. Indicators that there is no reasonable expectation of recovery include: cessation of enforcement activity; and, where the Group's recovery method is through foreclosure of collateral and the value of the collateral is less than the outstanding contractual amounts of the financial assets to be written-off.

### 5.4 Price Risk

The Group is exposed to the changes in the market values of financial assets at FVOCI held as of December 31, 2019 and 2018. 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, the Group does not concentrate its investment in any single counterparty.

If the prices of financial assets at FVOCI changed by +/-4.2% at December 31, 2019 and +/-2.3% at December 31, 2018, then other comprehensive income would have increased/decreased by P83.8 in 2019 and by P54.3 in 2018. 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 below and 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>2019</b>				
Financial Assets				
At amortized cost:				
Cash and cash equivalents	P 130.0	P 130.0	P 107.2	P 107.2
Loans and other receivables	<u>24,977.7</u>	<u>24,597.7</u>	<u>24,766.7</u>	<u>24,386.7</u>
	25,107.7	24,727.7	24,873.9	24,493.9
Financial assets at FVOCI	<u>3,190.9</u>	<u>3,190.9</u>	<u>3,190.9</u>	<u>3,190.9</u>
	<b><u>P 28,298.6</u></b>	<b><u>P 27,918.6</u></b>	<b><u>P 28,064.8</u></b>	<b><u>P 27,684.8</u></b>
Financial Liabilities				
At amortized cost:				
Bills payable	P 20,137.8	P 20,105.4	P 18,304.4	P 18,280.5
Accounts payable and other liabilities	404.7	404.7	324.5	324.5
Lease deposits	<u>4,736.2</u>	<u>4,369.1</u>	<u>4,626.2</u>	<u>4,266.6</u>
	<b><u>P 25,278.7</u></b>	<b><u>P 24,879.2</u></b>	<b><u>P 23,255.1</u></b>	<b><u>P 22,871.6</u></b>

	<u>Group</u>		<u>Parent</u>	
	<u>Carrying Amounts</u>	<u>Fair Values</u>	<u>Carrying Amounts</u>	<u>Fair Values</u>
<u>2018</u>				
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>
	<u>P 38,219.1</u>	<u>P 37,535.2</u>	<u>P 38,007.9</u>	<u>P 37,324.0</u>
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>
	<u>P 36,149.9</u>	<u>P 34,166.3</u>	<u>P 33,693.7</u>	<u>P 31,734.2</u>

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

(i) *Cash and Cash Equivalents*

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

(ii) *Financial Assets at FVOCI*

The fair value of financial assets at FVOCI is determined by direct reference to published price quoted in an active market for traded securities. 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 measured at 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, 2019 and 2018.

	<u>Note</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>December 31, 2019</u></b>					
Financial assets at FVOCI:					
Equity securities	8	P 617.5	P 1,411.0	P -	P 2,028.5
Debt securities		<u>1,162.4</u>	<u>-</u>	<u>-</u>	<u>1,162.4</u>
		<u>P 1,779.9</u>	<u>P 1,441.0</u>	<u>P -</u>	<u>P 3,190.9</u>
 <u>December 31, 2018</u>					
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>

The Group and the Parent Company have no financial liabilities measured at fair value as of December 31, 2019 and 2018.

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.

	<u>Notes</u>	<u>Group</u>			<u>Total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
<b><u>December 31, 2019</u></b>					
<i>Financial assets:</i>					
Cash and cash equivalents	7	P 130.0	P -	P -	P 130.0
Loans and other receivables	9	<u>-</u>	<u>-</u>	<u>24,597.7</u>	<u>24,597.7</u>
		<u>P 130.0</u>	<u>P -</u>	<u>P 24,597.7</u>	<u>P 24,727.7</u>
 <i>Financial liabilities:</i>					
Bills payable	15	P -	P -	P 20,105.4	P 20,105.4
Accounts payable and other liabilities	16	-	-	404.7	404.7
Lease deposits	17	<u>-</u>	<u>-</u>	<u>4,369.1</u>	<u>4,369.1</u>
		<u>P -</u>	<u>P -</u>	<u>P 24,879.2</u>	<u>P 24,879.2</u>

	Notes	Group			Total
		Level 1	Level 2	Level 3	
<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	15	P -	P -	P 28,326.6	P 28,326.6
Accounts payable and other liabilities	16	-	-	539.8	539.8
Lease deposits	17	-	-	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, 2019</b>					
<i>Financial assets:</i>					
Cash and cash equivalents	7	P 107.2	P -	P -	P 107.2
Loans and other receivables	9	-	-	24,386.7	24,386.7
		<u>P 107.2</u>	<u>P -</u>	<u>P 24,386.7</u>	<u>P 24,493.9</u>
<i>Financial liabilities:</i>					
Bills payable	15	P -	P -	P 18,280.5	P 18,280.5
Accounts payable and other liabilities	16	-	-	324.5	324.5
Lease deposits	17	-	-	4,266.6	4,266.6
		<u>P -</u>	<u>P -</u>	<u>P 22,871.6</u>	<u>P 22,871.6</u>
<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	15	P -	P -	P 26,088.1	P 26,088.1
Accounts payable and other liabilities	16	-	-	427.4	427.4
Lease deposits	17	-	-	5,218.7	5,218.7
		<u>P -</u>	<u>P -</u>	<u>P 31,734.2</u>	<u>P 31,734.2</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 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, 2019 and 2018, the Group also holds preferred shares which are listed in the PSE and are designated as financial assets at FVOCI 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.

	<u>Group</u>		<u>Parent Company</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
<u>Level 3</u>				
Land	P 783.7	P 751.2	P 548.2	P 525.1
Buildings and improvements	<u>95.2</u>	<u>52.1</u>	<u>95.2</u>	<u>52.1</u>
	<u>P 878.9</u>	<u>P 803.3</u>	<u>P 643.4</u>	<u>P 577.2</u>

The fair value of the investment properties of the Group and Parent Company as of December 31, 2019 and 2018, 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. 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.

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 2019 and 2018.

**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 P4,648.6 and P6,582.4 as of December 31, 2019 and 2018, respectively (see Note 9), can be offset by the amount of lease deposits amounting to P4,626.2 and P6,542.4 as of December 31, 2019 and 2018, respectively (see Note 17).



Moreover, the Group and the Parent Company's bills payable amounting to P226.2 as of December 31, 2018 can be offset by financial assets at FVOCI with face amount of P1,232.1, and certain loans receivables with carrying values amounting to P268.5. As of December 31, 2019, only FVOCI with face amount of P597.5 remain pledged to future bills payable (see Notes 8 and 9).

## 7. CASH AND CASH EQUIVALENTS

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

	<u>Group</u>		<u>Parent Company</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Cash on hand and in banks	<b>P 126.2</b>	P 270.3	<b>P 103.4</b>	P 224.2
Cash equivalents	<u>3.8</u>	<u>4.3</u>	<u>3.8</u>	<u>4.3</u>
	<b><u>P 130.0</u></b>	<u>P 274.6</u>	<b><u>P 107.2</u></b>	<u>P 228.5</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 maturity of 90 days and annual interest rates ranging from 0.3% to 2.0% in 2019, 0.3% to 2.6% in 2018 and 0.3% to 1.5% in 2017.

## 8. FINANCIAL ASSETS AT FVOCI

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

	<u>2019</u>	<u>2018</u>
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>597.5</b>	1,232.1
Other equity investments	<u>0.8</u>	<u>0.8</u>
	<b><u>1,998.3</u></b>	<u>2,632.9</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)	<u>200.0</u>	<u>200.0</u>
	<b><u>1,137.2</u></b>	<u>1,137.2</u>
	<b>3,135.5</b>	3,770.1
Accumulated unrealized fair value gains (losses) – net	<b>43.1</b> (	190.7)
Accrued interest receivable	<u>12.3</u>	<u>12.5</u>
	<b><u>P 3,190.9</u></b>	<u>P 3,591.9</u>

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

	<u>2019</u>		<u>2018</u>
Balance at beginning of year	<b>P 3,591.9</b>	P	4,642.0
Redemption/maturity	<b>( 637.1)</b>	(	680.0)
Fair value gains (losses) - net	<b>236.3</b>	(	370.1)
Accrued interest receivable	<b>( 0.2)</b>		-
Balance at end of year	<b><u>P 3,190.9</u></b>	P	<b><u>3,591.9</u></b>

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

SMC Shares bear an annual dividend rate of 8.0%. The 8990 Holdings and Sta. Lucia Bonds carrying fixed rates of 6.2% and 6.7%, respectively, both with a term of five years and three months. In September 2019 and July 2018, the SMC shares and First Gen shares were redeemed, respectively. 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 19).

The Group and the Parent Company recognized fair value gains of P236.3 and fair value losses of P370.1 and P28.4 in 2019, 2018, and 2017, respectively. The fair values of these financial assets have been determined based on quoted prices in active markets (see Note 6).

In 2018, the Group recognized an additional impairment loss on financial assets at FVOCI amounting to P0.8. In 2019, there was a reversal of impairment loss amounting to P0.3, both of which are presented as part of Impairment and credit losses account under Operating Costs and Expenses in the statements 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 statements of comprehensive income.

Certain financial assets with face amount of P597.5 and P1,232.1 as of December 31, 2019 and 2018, respectively, were used as collateral to secure the payment of certain bills payable (see Note 15).

## 9. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Receivables from customers:				
Finance lease receivables	<b>P 10,375.9</b>	P 15,351.4	<b>P 10,375.9</b>	P 15,351.4
Residual value of leased assets	<b>4,648.6</b>	6,582.4	<b>4,648.6</b>	6,582.4
Unearned leased income	<b>( 1,253.3)</b>	( 1,618.6)	<b>( 1,253.3)</b>	( 1,618.6)
	<b><u>13,771.2</u></b>	<u>20,315.2</u>	<b><u>13,771.2</u></b>	<u>20,315.2</u>
Loans and receivables financed	<b>11,485.3</b>	14,299.2	<b>11,485.3</b>	14,299.2
Unearned finance income	<b>( 19.6)</b>	( 29.2)	<b>( 19.6)</b>	( 29.2)
Client's equity	<b>( 37.7)</b>	( 31.6)	<b>( 37.7)</b>	( 31.6)
	<b><u>11,428.0</u></b>	<u>14,238.4</u>	<b><u>11,428.0</u></b>	<u>14,238.4</u>
Other receivables:				
Accounts receivable	<b>264.3</b>	209.7	<b>70.5</b>	55.4
Accrued interest receivable	<b>56.4</b>	63.9	<b>56.4</b>	63.9
Sales contract receivable	<b>18.6</b>	33.1	<b>18.6</b>	33.1
Accrued rental receivable	<b>17.4</b>	11.0	<b>-</b>	-
Dividends receivable	<b>16.5</b>	32.1	<b>16.5</b>	32.1
	<b><u>373.2</u></b>	<u>349.8</u>	<b><u>162.0</u></b>	<u>184.5</u>
	<b>25,572.4</b>	34,903.4	<b>25,361.2</b>	34,738.1
Allowance for impairment	<b>( 594.7)</b>	( 550.8)	<b>( 594.5)</b>	( 550.6)
	<b><u>P 24,977.7</u></b>	<u>P 34,352.6</u>	<b><u>P 24,766.7</u></b>	<u>P 34,187.5</u>

As of December 31, 2019 and 2018, 87.1% and 83.4%, respectively, of the total receivables from customers of the Group are subject to periodic interest repricing. The remaining receivables from customers earn annual fixed interest rates ranging from 5.0% to 15.0% in 2019, 5.0% to 16.5% in 2018 and 4.0% to 17.7% in 2017.

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

	<u>Group</u>		<u>Parent Company</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Secured				
Chattel mortgage	<b>P 15,006.8</b>	P 22,517.4	<b>P 15,006.8</b>	P 22,517.4
Real estate mortgage	<b>2,760.1</b>	2,144.7	<b>2,760.1</b>	2,144.7
Others	<b>53.7</b>	163.9	<b>53.7</b>	163.9
	<b><u>17,820.6</u></b>	<u>24,826.0</u>	<b><u>17,820.6</u></b>	<u>24,826.0</u>
Unsecured	<b><u>7,157.1</u></b>	<u>9,526.6</u>	<b><u>6,946.1</u></b>	<u>9,361.5</u>
	<b><u>P 24,977.7</u></b>	<u>P 34,352.6</u>	<b><u>P 24,766.7</u></b>	<u>P 34,187.5</u>

An analysis of the Group's and Parent Company's finance lease receivables as of December 31, 2019 and 2018 is shown below.

	<u>2019</u>	<u>2018</u>
Maturity of gross investment in:		
Finance lease receivables		
Within one year	<b>P 913.7</b>	P 1,336.8
Beyond one year but not beyond five years	<b>9,444.7</b>	13,960.5
Beyond five years	<b><u>17.5</u></b>	<u>54.1</u>
	<b><u>10,375.9</u></b>	<u>15,351.4</u>
Maturity of gross investment in:		
Residual value of leased assets		
Within one year	<b>1,204.8</b>	1,749.2
Beyond one year but not beyond five years	<b>3,442.8</b>	4,828.5
Beyond five years	<b><u>1.0</u></b>	<u>4.7</u>
	<b><u>4,648.6</u></b>	<u>6,582.4</u>
Gross finance lease receivables	<b>15,024.5</b>	21,933.8
Unearned lease income	<b>(<u>1,253.3</u>)</b>	( <u>1,618.6</u> )
Net investment in finance lease receivables	<b><u>P 13,771.2</u></b>	<u>P 20,315.2</u>

The Group and the Parent Company's past due receivables as of December 31 are as follows:

	<u>2019</u>	<u>2018</u>
Finance lease receivables	<b>P 650.8</b>	P 416.0
Loans and receivables	<b><u>847.9</u></b>	<u>688.2</u>
	<b><u>P 1,498.7</u></b>	<u>P 1,104.2</u>

There were no restructured loans in 2019 and 2018.

Non-performing loans (NPL) included in the total loan portfolio for both the Group and the Parent Company as of December 31 are presented below.

	<u>2019</u>	<u>2018</u>
Gross NPLs	<b>P 1,047.5</b>	P 743.3
Allowance for impairment	<b>(<u>479.8</u>)</b>	( <u>377.2</u> )
	<b><u>P 567.7</u></b>	<u>P 366.1</u>

Under BSP regulations, loan accounts shall be considered non-performing, even without any missed contractual payments, when they are considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal or interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

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

	<b>Group</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Loans and receivable financed	<b>P 1,019.5</b>	P 998.4	P 979.3
Finance lease receivables	<b>891.0</b>	895.2	853.5
Financial assets at FVOCI	<b>71.5</b>	71.6	-
Interest on defined benefit plan	<b>2.0</b>	1.3	3.1
Cash and cash equivalents	<b>0.5</b>	0.6	0.8
Available for sale financial assets	<b>-</b>	-	81.6
	<b><u>P 1,984.5</u></b>	<b><u>P 1,967.1</u></b>	<b><u>P 1,918.3</u></b>
	<b>Parent Company</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Loans and receivables financed	<b>P 1,019.2</b>	P 998.0	P 978.9
Finance lease receivables	<b>891.0</b>	895.2	853.5
Financial assets at FVOCI	<b>71.5</b>	71.6	-
Interest on defined benefit plan	<b>2.0</b>	1.3	3.1
Cash and cash equivalents	<b>0.5</b>	0.6	0.8
AFS financial assets	<b>-</b>	-	81.6
	<b><u>P 1,984.2</u></b>	<b><u>P 1,966.7</u></b>	<b><u>P 1,917.9</u></b>

Interest income recognized on impaired loans and receivables amounted to P16.0 in 2019, P10.3 in 2018 and P8.2 in 2017.

The changes in the allowance for impairment are summarized below.

	<b>Group</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Balance at beginning of year	<b>P 550.8</b>	P 561.3	P 629.0
Reversal of impairment losses	<b>-</b>	( 10.4)	-
Impairment losses during the year	<b>63.5</b>	0.2	63.5
Accounts written-off	<b>( 19.6)</b>	( 0.3)	( 0.3)
Reclassification (see Note 11)	<b>-</b>	-	13.9
Balance at end of year	<b><u>P 594.7</u></b>	<b><u>P 550.8</u></b>	<b><u>P 706.1</u></b>
	<b>Parent Company</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Balance at beginning of year	<b>P 550.6</b>	P 561.3	P 629.0
Reversal of impairment losses	<b>-</b>	( 10.4)	-
Accounts written-off	<b>( 19.6)</b>	( 0.3)	( 0.3)
Impairment losses during the year	<b>63.5</b>	-	63.5
Reclassification (see Note 11)	<b>-</b>	-	13.9
Balance at end of year	<b><u>P 594.5</u></b>	<b><u>P 550.6</u></b>	<b><u>P 706.1</u></b>

As approved by the Group's Related Party Committee and BOD, the Parent Company disposed certain loans and receivables to BDO Unibank with aggregate carrying amount of P5,801.3 and P1,611.6 in 2019 and 2018, respectively. The Parent Company charged the BDO Unibank for service fee amounting to P13.4 and P1.4 in 2019 and 2018, respectively [see Note 21(e)]. In 2019, the Parent Company also sold portion of its loans and receivables to BDO Life with aggregate carrying amount of P516.0 resulting in net gains amounting to P2.7 [see Note 21(o)]. The disposals are in line with the Parent Company's objective to improve its profitability by disposing its low-yielding loan portfolio and address the increasing cost of funds.

Management had assessed that the disposals of the loans and receivables are consistent with the Group's HTC business model with the objective of collecting contractual cash flows and have qualified under the permitted sale events set forth in the Group's business model in managing financial assets manual and the requirements of PFRS 9.

Certain loans and receivables with carrying amount of P268.5 as of December 31, 2018, was used as collateral to secure the payment of certain bills payable (see Note 15). In 2019, no such loans and receivables were pledged to bills payable.

In 2019 and 2018, the BOD approved the write-off of certain loans and receivable financed and finance lease receivables with a total carrying amount of P19.6 and P0.3, respectively.

## 10. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of 2019 and 2018 are shown below.

	<u>Transportation and Other Equipment</u>	<u>Furniture, Fixtures and Others</u>	<u>Leaschold Improvements</u>	<u>Right-of-Use Asset</u>	<u>Total</u>
<b>Group</b>					
December 31, 2019					
Cost	P 3,722.9	P 49.1	P 1.3	P 39.9	P 3,813.2
Accumulated depreciation and amortization	( 1,882.6)	( 42.7)	( 1.3)	( 13.0)	( 1,939.6)
Net carrying amount	<u>P 1,840.3</u>	<u>P 6.4</u>	<u>P -</u>	<u>P 26.9</u>	<u>P 1,873.6</u>
December 31, 2018					
Cost	P 4,439.4	P 47.6	P 1.3	P -	P 4,488.3
Accumulated depreciation and amortization	( 2,193.4)	( 38.7)	( 1.3)	-	( 2,233.4)
Net carrying amount	<u>P 2,246.0</u>	<u>P 8.9</u>	<u>P -</u>	<u>P -</u>	<u>P 2,254.9</u>
January 1, 2018					
Cost	P 4,385.5	P 41.4	P 1.3	P -	P 4,428.2
Accumulated depreciation and amortization	( 2,136.0)	( 34.7)	( 0.9)	-	( 2,171.6)
Net carrying amount	<u>P 2,249.5</u>	<u>P 6.7</u>	<u>P 0.4</u>	<u>P -</u>	<u>P 2,256.6</u>

	<u>Transportation and Other Equipment</u>	<u>Furniture, Fixtures and Others</u>	<u>Leasehold Improvements</u>	<u>Right-of-Use Asset</u>	<u>Total</u>
<b><u>Parent Company</u></b>					
December 31, 2019					
Cost	P -	P 49.1	P 1.3	P 39.9	P 90.3
Accumulated depreciation and amortization	-	( 42.7)	( 1.3)	( 13.0)	( 57.0)
Net carrying amount	<u>P -</u>	<u>P 6.4</u>	<u>P -</u>	<u>P 26.9</u>	<u>P 33.3</u>
December 31, 2018					
Cost	P -	P 47.6	P 1.3	P -	P 48.9
Accumulated depreciation and amortization	-	( 38.7)	( 1.3)	-	( 40.0)
Net carrying amount	<u>P -</u>	<u>P 8.9</u>	<u>P -</u>	<u>P -</u>	<u>P 8.9</u>
January 1, 2018					
Cost	P -	P 41.4	P 1.3	P -	P 42.7
Accumulated depreciation and amortization	-	( 34.7)	( 0.9)	-	( 35.6)
Net carrying amount	<u>P -</u>	<u>P 6.7</u>	<u>P 0.4</u>	<u>P -</u>	<u>P 7.1</u>

A reconciliation of the carrying amounts of property and equipment at the beginning and end of 2019 and 2018 is shown below.

	<u>Transportation and Other Equipment</u>	<u>Furniture, Fixtures and Others</u>	<u>Leasehold Improvements</u>	<u>Right-of-Use Asset</u>	<u>Total</u>
<b><u>Group</u></b>					
Balance at January 1, 2019 net of accumulated depreciation and amortization					
	P 2,246.0	P 8.9	P -	P -	P 2,254.9
Effect of adoption of PFRS 16	-	-	-	38.5	38.5
Additions	485.9	2.2	-	1.4	489.5
Disposals	( 133.9)	-	-	-	( 133.9)
Depreciation and amortization charges for the year	( 757.7)	( 4.7)	-	( 13.0)	( 775.4)
Balance at December 31, 2019 net of accumulated depreciation and amortization					
	<u>P 1,840.3</u>	<u>P 6.4</u>	<u>P -</u>	<u>P 26.9</u>	<u>P 1,873.6</u>
Balance at January 1, 2018 net of accumulated depreciation and amortization					
	P 2,249.5	P 6.7	P 0.4	P -	P 2,256.6
Additions	888.9	6.2	-	-	895.1
Disposals	( 107.1)	-	-	-	( 107.1)
Reclassifications (see Note 13.6)	76.1	-	-	-	76.1
Depreciation and amortization charges for the year	( 861.4)	( 4.0)	( 0.4)	-	( 865.8)
Balance at December 31, 2018 net of accumulated depreciation and amortization					
	<u>P 2,246.0</u>	<u>P 8.9</u>	<u>P -</u>	<u>P -</u>	<u>P 2,254.9</u>

	<u>Transportation and Other Equipment</u>	<u>Furniture, Fixtures and Others</u>	<u>Leasehold Improvements</u>	<u>Right-of-Use Asset</u>	<u>Total</u>
<b><u>Parent Company</u></b>					
Balance at January 1, 2019 net of accumulated depreciation and amortization	P -	P 8.9	P -	P -	P 8.9
Effect of adoption of PFRS 16	-	-	-	38.5	38.5
Additions	-	2.2	-	1.4	3.6
Depreciation and amortization charges for the year	-	(4.7)	-	(13.0)	(17.7)
Balance at December 31, 2019, net of accumulated depreciation and amortization	<u>P -</u>	<u>P 6.4</u>	<u>P -</u>	<u>P 26.9</u>	<u>P 33.3</u>
Balance at January 1, 2018 net of accumulated depreciation and amortization	P -	P 6.7	P 0.4	P -	P 7.1
Additions	-	6.2	-	-	6.2
Depreciation and amortization charges for the year	-	(4.0)	(0.4)	-	(4.4)
Balance at December 31, 2018 net of accumulated depreciation and amortization	<u>P -</u>	<u>P 8.9</u>	<u>P -</u>	<u>P -</u>	<u>P 8.9</u>

The cost of fully depreciated assets that are still being used in operations amounted to P34.5 and P33.2 for the Group and Parent Company as of December 31, 2019 and 2018, respectively.

Depreciation and amortization charges for 2019, 2018 and 2017 are included as part of Occupancy and Equipment-related Expenses account in the statements of income. As of December 31, 2019 and 2018, 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 P1,840.3 and P2,246.0, respectively.

In 2019, 2018 and 2017, the Group disposed of certain equipment with carrying value of P133.9, P107.1 and P82.7, respectively, resulting in a gain on sale of P50.0, P24.8 and P6.0, respectively, recorded as part of Gain on sale of property and equipment and investment properties under Other Income – net account in the statements of income (see Note 19).



## 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 2019 and 2018 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, 2019			
Cost	P 362.8	P 78.1	P 440.9
Accumulated depreciation and amortization	-	( 23.5)	( 23.5)
Accumulated impairment	( 22.1)	( 1.5)	( 23.6)
Net carrying amount	<u>P 340.7</u>	<u>P 53.1</u>	<u>P 393.8</u>
December 31, 2018			
Cost	P 358.4	P 40.0	P 398.4
Accumulated depreciation and amortization	-	( 19.6)	( 19.6)
Accumulated impairment	( 23.4)	( 0.9)	( 24.3)
Net carrying amount	<u>P 335.0</u>	<u>P 19.5</u>	<u>P 354.5</u>
January 1, 2018			
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>
<b><u>Parent Company</u></b>			
December 31, 2019			
Cost	P 136.7	P 78.1	P 214.8
Accumulated depreciation and amortization	-	( 23.5)	( 23.5)
Accumulated impairment	( 22.1)	( 1.5)	( 23.6)
Net carrying amount	<u>P 114.6</u>	<u>P 53.1</u>	<u>P 167.7</u>
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>
January 1, 2018			
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>

A reconciliation of the carrying amounts at the beginning and end of 2019 and 2018 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, 2019, net of accumulated depreciation and amortization and impairment	P 335.0	P 19.5	P 354.5
Additions	5.5	38.9	44.4
Disposals	( 1.1)	( 0.2)	( 1.3)
Reclassifications (see Note 13.4)	1.3	( 0.6)	0.7
Depreciation and amortization charges for the year	<u>-</u>	<u>( 4.5)</u>	<u>( 4.5)</u>
Balance at December 31, 2019, net of accumulated depreciation and amortization and impairment	<u>P 340.7</u>	<u>P 53.1</u>	<u>P 393.8</u>
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 13.4)	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 335.0</u>	<u>P 19.5</u>	<u>P 354.5</u>
<b><u>Parent Company</u></b>			
Balance at January 1, 2019, net of accumulated depreciation and amortization and impairment	P 108.9	P 19.5	P 128.4
Additions	5.5	38.9	44.4
Disposals	( 1.1)	( 0.2)	( 1.3)
Reclassifications (see Note 13.4)	1.3	( 0.6)	0.7
Depreciation and amortization charges for the year	<u>-</u>	<u>( 4.5)</u>	<u>( 4.5)</u>
Balance at December 31, 2019, net of accumulated depreciation and amortization and impairment	<u>P 114.6</u>	<u>P 53.1</u>	<u>P 167.7</u>
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 13.4)	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>

Direct operating expenses incurred, such as real property taxes, insurance and security services, amounted to P4.7, P4.7 and P4.2 in 2019, 2018 and 2017, respectively, by the Group, and P4.7, P3.1 and P1.3 in 2019, 2018 and 2017, 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 P4.5, P1.8 and P2.5 for 2019, 2018 and 2017, respectively, are included as part of Occupancy and Equipment-related Expenses account in the statements of income. There were no impairment losses recognized in 2019, 2018 and 2017.

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 P4.7, P17.4 and P59.1 in 2019, 2018 and 2017, respectively (see Note 19).

## 12. LEASES

### *12.1 Operating Leases – Group as a Lessee*

The Group and the Parent Company have leases for certain offices. Each lease is reflected in the statements of financial position as a right-of-use asset and a lease liability.

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee.

The table below describes the nature of the Group's right-of-use asset recognized in the statements of financial position.

Number of right-of-use assets leased	11
Range of remaining term	2 to 5 years
Average remaining lease term	2 to 5 years

#### *12.1.1 Right-of-use Assets*

The carrying amount of the Group's and the Parent Company' right-of-use assets is presented as part of Property and Equipment as at December 31, 2019 and the movements during the year are shown below.

Balance at beginning of the year	P -
Effect of PFRS 16	38.5
Additions	1.4
Depreciation charges during the year	(13.0)
Balance at end of the year	<b><u>P 26.9</u></b>

#### *12.1.2 Lease Liabilities*

Lease liabilities are presented as part of Accounts Payable and Other Liabilities as at December 31, 2019 as follows:

Current	P 12.2
Non-current	<u>15.6</u>
	<b><u>P 27.8</u></b>

As at December 31, 2019, the Group and the Parent Company is not committed to any short-term leases.

## 12.2 Operating Leases – Group as a Lessor

In the ordinary course of business, the Group enters into various operating leases with lease terms ranging from 12 months to 5 years. Operating lease income, presented under Rent account in the Group's statements of income for the years ended December 31, 2019, 2018 and 2017, amounted to P844.6, P938.3 and P922.2, respectively.

The Group's and the Parent Company's future minimum rental receivables under operating leases are as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Within one year	<b>P 663.3</b>	P 747.5	P 831.4
After one year but not more than five years	<b>584.0</b>	792.9	924.7
More than five years	<u><b>68.1</b></u>	<u>79.3</u>	<u>87.7</u>
	<u><b>P 1,315.4</b></u>	<u>P 1,619.7</u>	<u>P 1,843.8</u>

## 13. OTHER ASSETS

Other assets consist of the following:

	Notes	<u>Group</u>		<u>Parent Company</u>	
		<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Deferred input VAT	13.1	<b>P 211.3</b>	P 259.7	<b>P -</b>	P -
Deferred tax assets – net	22	<b>132.9</b>	126.2	<b>132.9</b>	126.2
Prepaid expenses		<b>20.7</b>	40.4	<b>20.3</b>	40.2
Retirement benefit asset	20.2	<b>13.5</b>	26.3	<b>13.5</b>	26.3
Intangible assets – net	13.3	<b>1.7</b>	15.5	<b>1.7</b>	15.5
Non-current assets					
held-for-sale – net	13.4	<b>1.3</b>	3.6	<b>1.3</b>	3.6
Equity investments	13.2	-	235.3	<b>486.7</b>	721.0
Repossessed chattels and other equipment – net	13.5	-	0.5	-	-
Miscellaneous – net	13.6	<u><b>0.5</b></u>	<u>4.2</u>	<u><b>0.3</b></u>	<u>3.9</u>
		<u><b>P 381.9</b></u>	<u>P 711.7</u>	<u><b>P 656.7</b></u>	<u>P 936.7</u>

### 13.1 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.

### 13.2 Equity Investments

Equity investments consist of the following:

	% Interest Held	<u>Group</u>		<u>Parent Company</u>	
		<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Subsidiary –					
BDO Rental	100%	<b>P -</b>	<b>P -</b>	<b>P 486.7</b>	<b>P 485.7</b>
Associate –					
MMPC Auto Financial Services Corp. (MAFSC)	40%	<u>-</u>	<u>235.3</u>	<u>-</u>	<u>235.3</u>
		<b><u>P -</u></b>	<b><u>P 235.3</u></b>	<b><u>P 486.7</u></b>	<b><u>P 721.0</u></b>

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

	<u>Subsidiary</u>		<u>Associate</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Acquisition costs	<b><u>P 250.0</u></b>	<b><u>P 250.0</u></b>	<b><u>P 300.0</u></b>	<b><u>P 300.0</u></b>
Accumulated equity in total comprehensive income				
Balance at beginning of year	<b>235.7</b>	281.2	<b>( 64.7)</b>	( 26.1)
Share in net profit (loss)	<b>1.0</b>	( 10.5)	<b>( 41.6)</b>	( 39.0)
Dividend income	-	( 35.0)	-	-
Share in other comprehensive income	-	-	<b>( 0.4)</b>	0.4
Disposal	<u>-</u>	<u>-</u>	<b><u>( 193.3)</u></b>	<u>-</u>
	<b><u>236.7</u></b>	<b><u>235.7</u></b>	<b><u>( 300.0)</u></b>	<b><u>( 64.7)</u></b>
	<b><u>P 486.7</u></b>	<b><u>P 485.7</u></b>	<b><u>P -</u></b>	<b><u>P 235.3</u></b>

As of December 31, 2019 and 2018, 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 the Parent Company. 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 and is presented as part of Miscellaneous under Other Income account in the Group's and Parent Company's statements of income (see Note 19).

On July 4, 2019, the Parent Company sold its MAFSC shareholdings to JACCS Co., Ltd. This resulted in a recognition of loss on disposal totaling P27.6 and is presented as part of Loss on sale of an investment in an associate under Other Income – net account in the 2019 statement of income (see Note 19).

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

	<u>Total Assets</u>	<u>Total Liabilities</u>	<u>Revenues</u>	<u>Net Profit (Loss)</u>
<b><u>December 31, 2019</u></b>				
BDO Rental	<b><u>P 2,512.1</u></b>	<b><u>P 2,025.4</u></b>	<b><u>P 906.5</u></b>	<b><u>P 1.0</u></b>
<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>

A reconciliation of the above summarized financial information to the carrying amount of the investment in MAFSC as of December 31, 2018 is shown below.

Net asset of MAFSC	P 588.3
Proportion of ownership interest	<u>40%</u>
	<u>P 235.3</u>

In 2019 and 2018, the Group and the Parent Company have assessed that no impairment loss is necessary to be recognized for the equity investments.

### ***13.3 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 P13.8 in 2019 and P13.9 in both 2018 and 2017, respectively, and is included as part of Occupancy and Equipment-related Expenses account in the statements of income.

### ***13.4 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>2019</u>	<u>2018</u>
Cost	<b>P 2.8</b>	P 5.8
Accumulated impairment	<b>(<u>1.5</u>)</b>	<b>(<u>2.2</u>)</b>
	<b><u>P 1.3</u></b>	<b><u>P 3.6</u></b>

A reconciliation of the carrying amounts of non-current assets held-for-sale at the beginning and end of 2019 and 2018 is shown below.

	<u>2019</u>	<u>2018</u>
Balance at January 1, net of accumulated impairment	<b>P 3.6</b>	P 9.8
Additions	<b>0.6</b>	1.3
Disposals	<b>( 2.2)</b>	( 7.1)
Reclassifications (see Note 11)	<b>(<u>0.7</u>)</b>	<b>(<u>0.4</u>)</b>
Balance at December 31, net of accumulated impairment	<b><u>P 1.3</u></b>	<b><u>P 3.6</u></b>

### 13.5 Repossessed Chattels and Other Equipment

Repossessed chattels and other equipment of the Group include certain transportation equipment returned to BDO Rental which were reclassified from property and equipment to other assets at year-end (see Note 10). As of December 31, 2019 and 2018, the Parent Company had no remaining repossessed chattels and other equipment.

No additional depreciation expense and impairment loss was recognized on repossessed chattels and other equipment in 2019, 2018 and 2017.

### 13.6 Miscellaneous Assets

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), a related party [see Note 21(n)].

## 14. ALLOWANCE FOR IMPAIRMENT

Changes in the allowance for impairment are summarized below.

	Notes	Group		Parent Company	
		2019	2018	2019	2018
Balance at beginning of year:					
Loans and other receivables	9	P 550.8	P 563.5	P 550.6	P 563.5
Investment properties	11	24.3	24.2	24.3	24.2
Other assets	13.4	2.2	4.7	2.2	4.7
		<u>577.3</u>	<u>592.4</u>	<u>577.1</u>	<u>592.4</u>
Impairment losses - net		63.5	0.2	63.5	-
Write-offs	9	( 19.6)	( 0.3)	( 19.6)	( 0.3)
Reversals		( 1.3)	( 10.4)	( 1.3)	( 10.4)
Adjustments		-	( 4.6)	-	( 4.6)
		<u>( 42.6)</u>	<u>( 15.1)</u>	<u>( 42.6)</u>	<u>( 15.3)</u>
Balance at end of year:					
Loans and other receivables	9	594.7	550.8	594.5	550.6
Investment properties	11	23.6	24.3	23.6	24.3
Other assets	13.4	1.5	2.2	1.5	2.2
		<u>P 619.8</u>	<u>P 577.3</u>	<u>P 619.6</u>	<u>P 577.1</u>

## 15. BILLS PAYABLE

This account consists of:

	Group		Parent Company	
	2019	2018	2019	2018
Borrowings from:				
Banks	P 13,351.7	P 25,452.6	P 11,526.7	P 23,207.6
Others	6,734.4	3,385.5	6,734.4	3,385.5
Accrued interest	51.7	139.7	43.4	130.8
	<u>P 20,137.8</u>	<u>P 28,977.8</u>	<u>P 18,304.5</u>	<u>P 26,723.9</u>

Bills payable to banks and private institutions with their annual interest rates are presented below. These rates approximate prevailing market rates.

	<u>Banks</u>		<u>Private Institutions</u>	
	<u>From</u>	<u>To</u>	<u>From</u>	<u>To</u>
<b>2019</b>	<b>3.9%</b>	<b>4.6%</b>	<b>4.0%</b>	<b>4.8%</b>
2018	3.1%	7.2%	5.0%	6.7%
2017	2.2%	3.5%	2.5%	3.3%

As of December 31, 2018, bills payable amounting to P226.2 are secured by the Group's financial assets at FVOCI with face amount of P1,232.1, and certain loans receivables with carrying values amounting to P268.5. As of December 31, 2019, only FVOCI with face amount of P597.5 remain pledged as security on the Group's bills payable (see Notes 8 and 9).

Interest and financing charges consist of interest on:

	<u>Notes</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b><u>Group</u></b>				
Bills payable - banks		<b>P 960.6</b>	P 850.1	P 487.8
Bills payable - others		<b>428.7</b>	314.5	356.7
Amortization on lease deposits	17	<b>7.7</b>	5.6	3.8
Lease liabilities	12	<b>2.2</b>	-	-
Others		<b>-</b>	-	2.0
		<b><u>P 1,399.2</u></b>	<u>P 1,170.2</u>	<u>P 850.3</u>
<b><u>Parent Company</u></b>				
Bills payable - banks		<b>P 843.8</b>	P 758.9	P 424.9
Bills payable - others		<b>428.7</b>	314.5	356.7
Amortization on lease deposits	17	<b>1.9</b>	1.4	0.4
Lease liabilities	12	<b>2.2</b>	-	-
Others		<b>-</b>	-	2.0
		<b><u>P 1,276.6</u></b>	<u>P 1,074.8</u>	<u>P 784.0</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, 2019	P 28,977.8	P 26,723.9
Cash flows from financing activities:		
Repayments of bills payable	( 170,266.1)	( 157,200.6)
Additional borrowings	<u>161,426.1</u>	<u>148,781.1</u>
Balance at December 31, 2019	<b><u>P 20,137.8</u></b>	<b><u>P 18,304.4</u></b>
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	<b><u>P 28,977.8</u></b>	<b><u>P 26,723.9</u></b>



## 16. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities consist of the following:

	<b>Group</b>		<b>Parent Company</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Accounts payable	<b>P 265.0</b>	P 433.6	<b>P 187.0</b>	P 325.5
Unapplied advance payments	<b>88.0</b>	74.0	<b>85.8</b>	69.6
Accrued taxes and other expenses	<b>39.0</b>	24.6	<b>38.7</b>	23.5
Lease liabilities	<b>27.8</b>	-	<b>27.8</b>	-
Withholding taxes payable	<b>15.4</b>	22.7	<b>14.5</b>	21.7
Other liabilities	<b>24.4</b>	<b>32.2</b>	<b>23.8</b>	<b>32.3</b>
	<b><u>P 459.6</u></b>	<b><u>P 587.1</u></b>	<b><u>P 377.6</u></b>	<b><u>P 472.6</u></b>

Accounts payable includes an amount payable to BDO Unibank of P8.7 as of December 31, 2018 (nil in 2019), representing the Group's liability arising from the stock option plan offered to the Group's employees (see Note 21).

Other liabilities include, among others, taxes, 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 a reasonable approximation of their fair values due to their short duration.

## 17. LEASE DEPOSITS

This account represents deposits on:

	<b>Group</b>		<b>Parent Company</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Finance leases	<b>P 4,626.2</b>	P 6,542.4	<b>P 4,626.2</b>	P 6,542.4
Operating leases	<b>110.0</b>	89.9	<b>-</b>	-
	<b><u>P 4,736.2</u></b>	<b><u>P 6,632.3</u></b>	<b><u>P 4,626.2</u></b>	<b><u>P 6,542.4</u></b>

Interest expense on lease deposits are accrued using the effective interest method (see Note 15). 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.

## 18. EQUITY

### *18.1 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 adjusts it in 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, 2019 and 2018 are shown below.

	<u>2019</u>	<u>2018</u>
Total equity	<b>P 5,614.3</b>	P 5,343.0
Cash and cash equivalents	<b>(<u>130.0</u>)</b>	( <u>274.6</u> )
Net capital	<b><u>P 5,484.3</u></b>	<u>P 5,068.4</u>
Bills payable	<b>P 20,137.8</b>	P 28,977.8
Lease deposits	<b>4,736.2</b>	6,632.3
Total equity	<b><u>5,614.3</u></b>	<u>5,343.0</u>
Overall financing	<b><u>P 30,488.3</u></b>	<u>P 40,953.1</u>
Capital-to-overall financing ratio	<b><u>0.18:1.00</u></b>	<u>0.12:1.00</u>

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

- (a) Minimum paid-up capital of P10.0 million; and,
- (b) 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, 2019 and 2018, the Group complies with this minimum paid-up capital requirement.

### ***18.2 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, 2019 and 2018.

### 18.3 Common Shares

As of December 31, 2019 and 2018, 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, are issued and outstanding.

### 18.4 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.

The Group's retained earnings are restricted to the extent of the cost of the treasury shares, share in net earnings of subsidiary and an associate as of the end of the reporting periods.

### 18.5 Retained Earnings – Reserves

In compliance with the requirements of the BSP, the Company appropriated P141.7 as of December 31, 2019 for GLLP to meet the 1% minimum provisions on loans (see Notes 2.13 and 9) and is presented under Retained Earnings – Reserves account. In 2019, the Group and Parent Company had excess appropriation of P5.3, which was transferred to Retained Earnings – Free account. The related appropriation is not available for dividend declaration.

### 18.6 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, 2019 and 2018, 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 P1.87 in 2019 and P2.19 in 2018. The total number of stockholders is 1,106 and 1,116 as of December 31, 2019 and 2018, respectively.

## 19. OTHER INCOME

This account is composed of the following:

	Notes	Group		
		2019	2018	2017
Dividend income	8	P 159.4	P 206.0	P 215.2
Gain on sale of property and equipment and investment properties	10, 11	54.7	42.2	65.1
Loss on sale of investment in an associate	13	( 27.6)	-	-
Day-one gains – net		9.9	13.2	4.8
Miscellaneous – net	13, 21	6.4	48.7	30.9
		<u>P 202.8</u>	<u>P 310.1</u>	<u>P 316.0</u>
		<u>Parent Company</u>		

	Notes	<b>2019</b>	2018	2017
Dividend income	8	<b>P 159.4</b>	P 206.0	P 215.2
Loss on sale of investment in an associate	13	<b>( 27.6)</b>	-	-
Gain on sale of investment properties	11	<b>4.7</b>	17.4	59.1
Day-one gains – net		<b>0.1</b>	4.5	1.3
Miscellaneous – net	13, 21	<b>6.0</b>	36.8	48.3
		<b><u>P 142.6</u></b>	<u>P 264.7</u>	<u>P 323.9</u>

Dividend income pertains to income earned for investments in Smart Note and SMC 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.

## 20. EMPLOYEE BENEFITS

### *20.1 Employee Benefits*

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

	Notes	<b>2019</b>	2018	2017
Salaries and wages		<b>P 134.9</b>	P 134.7	P 130.9
Bonuses		<b>46.2</b>	48.6	42.2
Retirement – defined benefit plan	20.2	<b>17.8</b>	18.1	17.1
Employee stock option plan	21, 20.3	<b>14.8</b>	8.7	6.3
Fringe benefits		<b>14.0</b>	10.3	15.2
Directors' fee		<b>5.6</b>	5.5	5.5
Social security costs		<b>4.7</b>	4.1	3.9
Other benefits		<b>6.2</b>	5.7	5.9
		<b><u>P 244.2</u></b>	<u>P 235.7</u>	<u>P 227.0</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, 2019 and 2018 is presented as part of Accounts payable under Accounts Payable and Other Liabilities account in the statements of financial position (see Note 16).

### *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 2019 and 2018.

The amounts of retirement benefit asset presented under Other Assets account (see Note 13) of the Group and the Parent Company recognized in the statements of financial position are determined as follows:

	<u>2019</u>		<u>2018</u>
Fair value of plan assets	<b>P 289.5</b>	P	274.3
Present value of the obligation	<b>( 275.3)</b>	(	245.3)
Effect of asset ceiling	<b>( 0.7)</b>	(	2.7)
Balance at end of year	<b><u>P 13.5</u></b>	P	<u>26.3</u>

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

	<u>2019</u>		<u>2018</u>
Balance at beginning of year	<b>P 274.3</b>	P	279.4
Interest income	<b>20.6</b>		15.8
Contributions to the plan	<b>18.8</b>		18.8
Return on plan assets (excluding amounts included in net interest)	<b>( 5.1)</b>	(	15.5)
Benefits paid	<b>( 19.1)</b>	(	24.2)
Balance at end of year	<b><u>P 289.5</u></b>	P	<u>274.3</u>

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

	<u>2019</u>		<u>2018</u>
Balance at beginning of year	<b>P 245.3</b>	P	251.6
Current service cost	<b>17.8</b>		18.1
Interest expense	<b>18.4</b>		14.3
Benefits paid	<b>( 19.1)</b>	(	24.2)
Remeasurements:			
Actuarial losses (gains) arising from changes in:			
- experience adjustments	<b>( 5.9)</b>		23.8
- financial assumptions	<b>18.8</b>	(	20.6)
- demographic assumptions	<b>-</b>	(	17.7)
Balance at end of year	<b><u>P 275.3</u></b>	P	<u>245.3</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>2019</u>		<u>2018</u>
Cash and cash equivalents	<b>P 0.3</b>	P	11.7
Unit investment trust funds	<b>75.6</b>		58.9
Loans	<b>0.1</b>		16.7
Equity instruments	<b>5.1</b>		5.4
Real estate	<b><u>3.2</u></b>		<u>3.7</u>
	<b><u>84.3</u></b>		<u>96.4</u>
Debt instruments:			
Government bonds	<b>111.4</b>		27.3
Other bonds	<b><u>94.0</u></b>		<u>151.2</u>
	<b><u>205.4</u></b>		<u>178.5</u>
Others	<b>(<u>0.2</u>)</b>	(	<u>0.6</u> )
	<b><u>P 289.5</u></b>	P	<u>274.3</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 P15.4 in 2019 and P0.3 in 2018.

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>2019</u>		<u>2018</u>
<i>Reported in profit or loss:</i>			
Current service cost	<b>P 17.8</b>	P	18.1
Net interest income	<b>(<u>2.0</u>)</b>	(	<u>1.3</u> )
	<b><u>P 15.8</u></b>	P	<u>16.8</u>
<i>Reported in other comprehensive income:</i>			
Actuarial losses (gains)			
arising from:			
- changes in financial assumptions	<b>P 18.8</b>	(P	20.6)
- experience adjustments	<b>( 5.9)</b>		23.8
- demographic changes	<b>-</b>	(	17.7)
Loss on plan assets (excluding amounts included in net interest)	<b>5.1</b>		15.5
Effect of asset ceiling	<b>(<u>2.3</u>)</b>		<u>0.6</u>
	<b><u>P 15.7</u></b>	P	<u>1.6</u>

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

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

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

	<u>2019</u>	<u>2018</u>
Discount rates	5.2%	7.5%
Expected rate of salary increases	5%/6%/7%	6%/7%/8%
	8%/11%	9%/10%/11%

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 in the succeeding page.

(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, 2019 and 2018:

	<u>Impact on Retirement Benefit Obligation</u>		
	<u>Change in Assumption</u>	<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>
<b><u>December 31, 2019</u></b>			
Discount rate	+/-1.0%	(P 16.2)	P 18.1
Salary growth rate	+/-1.0%	17.5	( 16.0)
<u>December 31, 2018</u>			
Discount rate	+/-1.0%	(P 13.7)	P 15.3
Salary growth rate	+/-1.0%	15.0	( 13.6)

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 P13.5 as of December 31, 2019 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>2019</u>	<u>2018</u>
Within one year	P 58.5	P 55.6
More than one year to five years	129.0	124.8
More than five years to ten years	<u>216.7</u>	<u>203.6</u>
	<u>P 404.2</u>	<u>P 384.0</u>



### 20.3 Employee Stock Option Plan

The ESOP expense, included as part of Employee benefits under Operating Costs and Expenses account in the Group's and the Parent Company's statements of income, amounted to P14.8, P8.7 and P6.3 in 2019, 2018, and 2017, respectively (see Note 20.1).

## 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 below.

The summary of the Group's and Parent Company's transactions with its related parties in 2019, 2018 and 2017 and the related outstanding balances as of December 31, 2019 and 2018 are shown below:

Related Party Category	Notes	Amount of Transaction		
		2019	2018	2017
<b>Ultimate parent company (BDO Unibank)</b>				
Interest income on savings and demand deposits	(a)	P 0.4	P 0.6	P 0.8
Interest expense on bills payable	(b)	58.0	120.6	141.5
Interest expense on lease liability	(c)	2.2	-	-
Depreciation	(c)	13.0	-	-
Rent expense	(c)	-	13.6	12.3
Management fees	(d)	16.0	16.0	13.8
Sale of receivables	(e)	5,801.3	1,611.6	-
Service charges and fees	(e)	13.4	1.4	-
Service fees	(f)	0.1	0.1	-
Employee stock option plan	2.18, 20	14.8	8.7	6.3
<b>Subsidiary (BDO Rental)</b>				
Dividend income	(j)	-	35.0	120.0
Management fees	(d)	0.4	0.4	0.4
Rent income	(c)	0.1	0.1	0.1
<b>Under common ownership</b>				
Service and charges fees	(g), (k)	3.7	4.3	5.0
Interest expense on bills payable	(l)	203.3	145.0	94.1
Operating lease income	(n)	54.6	47.1	-
Insurance expense	(m)	0.8	0.3	-
Sale of receivables	(o)	516.0	-	-
Gain on sale of receivables	(o)	2.7	-	-
<b>Other related parties</b>				
Loans	(p)	198.7	52.7	1,542.1
<b>Key management personnel</b>				
Short-term benefits	(b)	57.4	58.6	47.5
Post-employment benefits	(b)	8.3	8.7	7.0
Loans to officers	(b)	3.7	1.7	3.8

Related Party Category	Notes	Outstanding Balance	
		2019	2018
<b>Ultimate parent company (BDO Unibank)</b>			
Savings and demand deposits	(a)	P 125.7	P 269.8
Right-of-use	(c)	27.0	-
Bills payable	(b)	229.0	2,146.0
Lease liability	(c)	27.8	-
Employee stock option plan	2.18, 16, 20	-	8.7
<b>Under common ownership</b>			
Accounts receivable	(k)	0.9	0.8
Bills payable	(l)	997.1	1,988.8
<b>Other related parties</b>			
Loans	(p)	497.7	1,256.9
<b>Key management personnel</b>			
Loans to officers	(b)	5.9	5.1
<b>Retirement benefit fund</b>			
Shares of stock	(i)	1.0	1.1

- (a) The Group maintains savings and demand deposit accounts with BDO Unibank. As of December 31, 2019 and 2018, 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 2019, 2018 and 2017. Interest income earned on these deposits in 2019, 2018 and 2017 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 4.6% to 6.8% in 2019, 2.2% to 6.5% in 2018 and 2.2% to 3.5% in 2017. Total bill availments and payments amounted to P15,466.0 and P17,383.0, respectively, in 2019, P34,050.6 and P36,715.7, respectively, in 2018, and P33,288.2 and P31,087.9, respectively, in 2017. These bills payable are secured by certain financial assets at FVOCI with fair value of P617.4 and P1,240.1 as of December 31, 2019 and 2018, respectively (see Note 8). The amount outstanding from borrowings as of December 31, 2019 and 2018 is presented under Bills Payable account in the statements of financial position (see Note 15). Interest expense incurred on these bills payable in 2019, 2018 and 2017 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 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 is presented as part of Other Income-net account in the Parent Company's statements of income (see Note 19). There are no outstanding receivables and payables on these transactions as of the end of 2018.

In 2019, due to the adoption of PFRS 16 [see Note 2.2(a)(iv)], the Parent Company recognizes right-of-use assets which are included as part of Property and Equipment-net, and lease liabilities which is included as part of Accounts Payable and Other Liabilities in the statements of financial position. Related interest expense incurred on lease liability and depreciation are included as part of Interest and Financing Charges and Occupancy and equipment-related expenses, respectively, under Operating Costs and Expenses account in the statements of income.

- (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 19). There are no outstanding receivables and payables on these transactions as of the end of 2019 and 2018.
- (e) In 2019 and 2018, the Parent Company sold portion of its receivables to BDO Unibank. The Parent Company charged BDO Unibank 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 2019 and 2018 (see Note 9).
- (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 2019 and 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 P2.1 for 2019, P2.0 for 2018 and P3.2 for 2017 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 2019 and 2018.
- (h) 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 the Parent Company. Short-term employee benefits amounting to P57.4 in 2019, P58.6 in 2018 and P47.5 in 2017, 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 P8.3 in 2019, P8.7 in 2018 and P7.0 in 2017.

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 three to five 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, 2019 and 2018.

- (i) The retirement fund holds, as an investment, 519,915 shares of stock of the Parent Company as of December 31, 2019 and 2018, which has a market value of P1.87 and P2.19 per share as of December 31, 2019 and 2018, respectively (see Note 20.2). The retirement fund does not hold any shares of stock of BDO Unibank.
- (j) In 2018 and 2017, BDO Rental declared cash dividends amounting to P35.0 and P120.0 (received in 2018 and 2017, respectively). There was no declaration of cash dividends in 2019. As of the end of 2019 and 2018, no outstanding receivable on this transaction.
- (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 19). This resulted to the outstanding receivable of the Parent Company from BDO Insurance in 2019 and 2018, 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) 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 4.9% to 6.4% and 3.9% to 6.3%, respectively, in 2019, and 2.6% to 5.3% and 3.3% to 6.7%, respectively, in 2018. Total bill availments and payments amounted to P5,324.3 and P6,323.8, respectively, in 2019 and P4,244.2 and P4,155.4, respectively, in 2018 for BDO Strategic Holdings Inc. Total bill availments and payments amounted to P34,500.0 and P34,500.0, respectively, in 2019 and P18,000.0 and P20,000.0, respectively, in 2018 for SM Prime Holdings, Inc. The amount outstanding from borrowings is presented under Bills Payable account in the statements of financial position (see Note 15). 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 2019 and 2018, the Parent Company paid BDO Life 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 statements of income. No outstanding receivable and payable on this transaction as of the end of 2019 and 2018.
- (n) In 2017, BDO Rental, entered into Operating Lease Agreement with BDO Nomura which commenced in 2018 (see Note 13.6). 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 are presented as part of Rent account in the Group's statements of income. No outstanding receivable on these transactions as of the end of 2019 and 2018.
- (o) In 2019, the Parent Company sold portion of its receivables to BDO Life. The related gain on sale of receivables is included as part of Other income-net account under Revenues in the statement of income (see Note 9).
- (p) The Group also granted loans to other related parties, which bear interest with a range of 4.2% to 11.0% per annum, 4.2% to 9.1% per annum and 4.2% to 9.2% per annum in 2019, 2018 and 2017, respectively. Outstanding loans to other related parties are presented as part of Loans and Other Receivables-net account in the statements of financial position (see Note 9).

## 22. TAXES

### 22.1 Taxes and Licenses

This account is composed of the following:

	<b>Group</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Documentary stamp tax	<b>P 188.2</b>	P 215.2	P 148.4
Gross receipts tax	<b>87.7</b>	93.2	86.2
Local taxes	<b>21.2</b>	20.2	19.9
Others	<b>12.4</b>	16.6	14.4
	<b><u>P 309.5</u></b>	<u>P 345.2</u>	<u>P 268.9</u>
	<b>Parent Company</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Documentary stamp tax	<b>P 173.4</b>	P 199.4	P 137.6
Gross receipts tax	<b>87.7</b>	93.2	86.2
Local taxes	<b>13.3</b>	12.5	12.0
Others	<b>12.0</b>	15.1	10.8
	<b><u>P 286.4</u></b>	<u>P 320.2</u>	<u>P 246.6</u>

### 22.2 Current and Deferred Taxes

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

	<b>Group</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<i>Reported in statements of income</i>			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	<b>P 18.3</b>	P 86.5	P 192.9
Final tax at 20%	<b>14.4</b>	14.4	16.8
Minimum corporate income tax (MCIT) at 2%	<b>0.4</b>	0.2	-
	<b>33.1</b>	101.1	209.7
Deferred tax income relating to origination and reversal of temporary differences	<b>0.5</b>	( 11.5)	( 60.9)
	<b><u>P 33.6</u></b>	<u>P 89.6</u>	<u>P 148.8</u>
<i>Reported in statements of comprehensive income</i>			
Deferred tax income on:			
Net actuarial losses	<b>(P 4.7)</b>	P 0.5	P 7.3
Unrealized fair value gains on financial assets at FVOCI	<b>( 2.5)</b>	4.1	-
Unrealized fair value gains on AFS financial assets	<b>-</b>	-	0.1
Net deferred tax income (expense)	<b><u>(P 7.2)</u></b>	<u>P 4.6</u>	<u>P 7.4</u>

	<b>Parent Company</b>					
	<b>2019</b>		<b>2018</b>		<b>2017</b>	
<i>Reported in statements of income</i>						
Current tax expense:						
RCIT at 30%	<b>P</b>	<b>18.3</b>	P	86.5	P	183.6
Final tax at 20%		<b>14.4</b>		<b>14.4</b>		<b>16.8</b>
		<b>32.7</b>		100.9		200.4
Deferred tax expense (income) relating to origination and reversal of temporary differences		<b>0.5</b>	(	11.5)	(	60.9)
	<b>P</b>	<b>33.2</b>	P	<b>89.4</b>	P	<b>139.5</b>
<i>Reported in statements of comprehensive income</i>						
Deferred tax income on:						
Net actuarial losses	<b>(P</b>	<b>4.7)</b>	P	0.5	P	7.3
Unrealized fair value gains on financial assets at FVOCI	<b>(</b>	<b>2.5)</b>		4.1		-
Unrealized fair value gains on AFS financial assets		<b>-</b>		<b>-</b>		<b>0.1</b>
Net deferred tax income (expense)	<b>(P</b>	<b>7.2)</b>	P	<b>4.6</b>	P	<b>7.4</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>2019</b>		<b>2018</b>		<b>2017</b>	
Tax on pretax profit	<b>P</b>	<b>24.1</b>	P	126.1	P	215.8
Adjustment for income subjected to lower tax rate	<b>(</b>	<b>7.2)</b>	(	7.2)	(	8.4)
Tax effects of:						
Non-deductible expense		<b>35.4</b>		18.5		42.0
Non-taxable income	<b>(</b>	<b>29.2)</b>	(	46.9)	(	48.0)
Non-deductible interest expense		<b>9.4</b>		8.8		8.3
Unrecognized deferred tax assets on:						
Net operating loss carry-over (NOLCO)		<b>0.7</b>		4.2		-
MCIT		<b>0.4</b>		0.2		-
Reversal of deferred tax liability		<b>-</b>	(	7.2)	(	43.7)
Deductible temporary differences not recognized		<b>-</b>	(	6.9)	(	17.2)
	<b>P</b>	<b>33.6</b>	P	<b>89.6</b>	P	<b>148.8</b>
<b>Parent Company</b>						
		<b>2019</b>		<b>2018</b>		<b>2017</b>
Tax on pretax profit	<b>P</b>	<b>24.0</b>	P	126.0	P	213.0
Adjustment for income subjected to lower tax rate	<b>(</b>	<b>7.2)</b>	(	7.2)	(	8.4)
Tax effects of:						
Non-deductible expense		<b>35.0</b>		21.3		40.4
Non-taxable income	<b>(</b>	<b>26.3)</b>	(	44.3)	(	53.1)
Non-deductible interest expense		<b>7.7</b>		7.7		8.5
Deductible temporary differences not recognized		<b>-</b>	(	6.9)	(	17.2)
Reversal of deferred tax liability		<b>-</b>	(	7.2)	(	43.7)
	<b>P</b>	<b>33.2</b>	P	<b>89.4</b>	P	<b>139.5</b>

The components of net deferred tax assets (see Note 13) as of December 31, 2019 and 2018 follow:

	<b>Statements of Financial Position</b>			
	<b>Group</b>		<b>Parent Company</b>	
	<b>2019</b>	2018	<b>2019</b>	2018
Deferred tax assets:				
Allowance for impairment on:				
Loans and discounts	<b>P 93.9</b>	P 93.5	<b>P 93.9</b>	P 93.5
Investment properties and non-current assets held-for-sale	<b>7.5</b>	7.9	<b>7.5</b>	7.9
Accounts receivable	<b>8.6</b>	9.1	<b>8.6</b>	9.1
Retirement benefit obligation	<b>26.2</b>	22.2	<b>26.2</b>	22.2
	<b>136.2</b>	132.7	<b>136.2</b>	132.7
Deferred tax liabilities:				
Unrealized fair value gains on financial assets at FVOCI	<b>( 3.7)</b>	( 6.2)	<b>( 3.7)</b>	( 6.2)
Others	<b>0.4</b>	( 0.3)	<b>0.4</b>	( 0.3)
	<b>( 3.3)</b>	( 6.5)	<b>( 3.3)</b>	( 6.5)
Net deferred tax assets	<b>P 132.9</b>	P 126.2	<b>P 132.9</b>	P 126.2

The components of deferred tax income in profit and loss and in other comprehensive income for the years ended December 31, 2019, 2018 and 2017 follow:

	<b>Group and Parent Company</b>		
	<b>2019</b>	2018	2017
<i>In profit or loss:</i>			
Deferred tax assets:			
Allowance for impairment on:			
Loans and discounts	<b>P 0.4</b>	P 5.6	P 16.0
Accounts receivable	<b>( 0.4)</b>	1.2	5.3
Investment properties and non-current assets held-for-sale	<b>( 0.4)</b>	( 1.4)	( 4.3)
Retirement benefit obligation	<b>( 0.7)</b>	( 0.8)	( 0.1)
	<b>( 1.1)</b>	4.6	16.9
Deferred tax liabilities:			
Lease income differential	<b>-</b>	7.2	43.7
Others	<b>0.6</b>	( 0.3)	0.3
	<b>0.6</b>	6.9	44.0
Net deferred tax income (expense)	<b>(P 0.5)</b>	P 11.5	P 60.9
<i>In other comprehensive income:</i>			
Deferred tax income on:			
Net actuarial losses	<b>(P 4.7)</b>	P 0.5	P 7.3
Unrealized fair value gains on financial assets at FVOCI	<b>( 2.5)</b>	4.1	-
Unrealized fair value gains on AFS financial assets	<b>-</b>	-	0.1
Net deferred tax income (expense)	<b>(P 7.2)</b>	P 4.6	P 7.4

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 2019, 2018 and 2017, 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 Revised 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:

	<u>Group</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net profit	<b>P 46.8</b>	P 330.7	P 570.5
Divided by the weighted average number of outstanding common shares – net*	<u>2,162.0</u>	<u>2,162.0</u>	<u>2,162.0</u>
Basic earnings per share	<u><b>P 0.02</b></u>	<u>P 0.15</u>	<u>P 0.26</u>

\* net of treasury shares

There were no outstanding dilutive potential common shares as of December 31, 2019 and 2018.

## **24. SELECTED FINANCIAL PERFORMANCE INDICATORS**

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

	<u>2019</u>	<u>2018</u>
Current ratio	<b>36.37%</b>	41.96%
Debt-to-equity ratio	<b>451.23%</b>	677.47%
Return on equity	<b>0.85%</b>	6.13%
Return on assets	<b>0.13%</b>	0.78%
Loans-to-assets	<b>80.71%</b>	82.70%



## 25. CONTINGENT LIABILITIES AND COMMITMENTS

### 25.1 Finance Lease – Company as a Lessor

The Company enters into a finance lease covering various equipment and vehicles with a lease term of one to five years. Future minimum lease payments receivable (MLPR) under this finance lease together with the PV of net minimum lease payments receivable (NMLPR) follow:

	2019		2018	
	<u>Future MLPR</u>	<u>PV of NMLPR</u>	<u>Future MLPR</u>	<u>PV of NMLPR</u>
Within one year	P 5,376.5	P 5,311.0	P 7,868.0	P 7,793.3
After one year but not more than two years	4,182.9	4,013.2	5,700.0	5,554.9
After two years but not more than three years	3,006.8	2,608.6	4,356.9	3,913.1
After three years but not more than five years	<u>2,458.3</u>	<u>1,838.4</u>	<u>4,008.9</u>	<u>3,053.9</u>
Total MLP	15,024.6	13,771.2	21,933.8	20,315.2
Unearned lease income	( 1,253.3)	-	( 1,618.6)	-
Present value of MLPR	<u>P 13,771.2</u>	<u>P 13,771.2</u>	<u>P 20,315.2</u>	<u>P 20,315.2</u>

### 25.2 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 and P13.6 in 2017.

Future minimum lease payments under these operating leases in 2018 follow:

Within one year	P	14.2
After one year but not more than five years		<u>28.8</u>
	<u>P</u>	<u>43.0</u>

### 25.3 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, 2019, management does not anticipate significant losses from these contingencies and commitments that would adversely affect the Group's financial position and results of operations.

## 26. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according contractual maturity and settlement dates:

	2019					
	Group			Parent Company		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
<b>Assets:</b>						
Cash and other cash items	P 130.0	P -	P 130.0	P 107.2	P -	P 107.2
Financial assets at FVOCI	1,579.6	1,611.3	3,190.9	1,579.6	1,611.3	3,190.9
Loans and other receivables – gross:						
Finance lease receivables	2,053.0	11,718.2	13,771.2	2,053.0	11,718.2	13,771.2
Loans and receivables	1,247.1	10,180.9	11,428.0	1,247.1	10,180.9	11,428.0
Other receivables	339.2	34.0	373.2	128.0	34.0	162.0
Other assets	102.8	279.1	381.9	22.0	634.7	656.7
	5,451.7	23,823.5	29,275.2	5,136.9	24,179.1	29,316.0
Allowance for credit and impairment losses			( 594.7 )			( 594.5 )
			28,680.5			28,721.5
Property and equipment – net	-	1,873.6	1,873.6	-	33.3	33.3
Investment properties - net	-	393.8	393.8	-	167.7	167.7
			<b><u>P 30,947.9</u></b>			<b><u>P 28,922.5</u></b>
<b>Liabilities:</b>						
Bills payable	P 20,137.8	P -	P 20,137.8	P 18,304.4	P -	P 18,304.4
Accounts payable and other liabilities	444.0	15.6	459.6	362.0	15.6	377.6
Lease deposits	1,230.0	3,506.2	4,736.2	1,195.8	3,430.4	4,626.2
			<b><u>P 25,333.6</u></b>			<b><u>P 23,308.2</u></b>
<b>2018</b>						
	Group			Parent Company		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
<b>Assets:</b>						
Cash and other cash items	P 274.6	P -	P 274.6	P 228.5	P -	P 228.5
Financial assets at FVOCI	1,240.2	2,351.7	3,591.9	1,240.2	2,351.7	3,591.9
Loans and other receivables – gross:						
Finance lease receivables	3,011.2	17,304.3	20,315.2	3,011.2	17,304.0	20,315.2
Loans and receivables	1,983.7	12,254.7	14,238.4	1,983.7	12,254.7	14,238.4
Other receivables	317.3	32.5	349.8	152.0	32.5	184.5
Other assets	151.8	559.9	711.7	58.8	877.9	936.7
	8,371.5	31,110.4	39,481.6	8,067.1	31,428.4	39,495.2
Allowance for credit and impairment losses			( 550.8 )			( 550.6 )
			38,930.8			38,944.6
Property and equipment – net	-	2,254.9	2,254.9	-	8.9	8.9
Investment properties - net	-	354.5	354.5	-	128.4	128.4
			<b><u>P 41,540.2</u></b>			<b><u>P 39,081.9</u></b>
<b>Liabilities:</b>						
Bills payable	P 27,161.9	P 1,815.9	P 28,977.8	P 24,908.0	P 1,815.9	P 26,723.9
Accounts payable and other liabilities	587.1	-	587.1	472.6	-	472.6
Lease deposits	1,678.3	4,954.0	6,632.3	1,656.2	4,886.2	6,542.4
			<b><u>P 36,197.2</u></b>			<b><u>P 33,738.9</u></b>

## 27. EVENTS AFTER THE REPORTING PERIOD

On January 24, 2020, BDO Unibank and BDO Capital agreed to sell their entire shareholdings of the Parent Company representing 88.54% of the total issued and outstanding capital stock to certain individuals. This transaction is subject to the closing conditions including regulatory approvals, mandatory tender offer and the purchase by, and transfer to BDO Unibank and BDO Capital of the leasing business, including the related assets and liabilities, of the Parent Company.

**Report of Independent Auditors  
to Accompany Supplementary  
Information Required by the  
Securities and Exchange  
Commission Filed Separately from  
the Basic Consolidated Financial Statements**

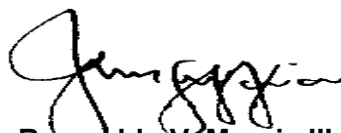
**Punongbayan & Araullo**  
20<sup>th</sup> Floor, Tower 1  
The Enterprise Center  
6766 Ayala Avenue  
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**The Board of Directors and the Stockholders**  
**BDO Leasing and Finance, Inc.**  
*(A Subsidiary of BDO Unibank, Inc.)*  
39<sup>th</sup> Floor, BDO Corporate Center Ortigas  
12 ADB Avenue, Ortigas Center  
Mandaluyong City

We have audited the financial statements of BDO Leasing and Finance, Inc. and subsidiary (the Group) and of BDO Leasing and Finance, Inc. (the Parent Company) for the year ended December 31, 2019, on which we have rendered our report thereon dated February 19, 2019. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) is presented for purposes of additional analysis in compliance with the requirements of Revised Securities Regulation Code Rule 68, and is not a required part of the basic consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of the Group's management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

**PUNONGBAYAN & ARAULLO**



**By: Romualdo V. Murcia III**  
Partner

CPA Reg. No. 0095626  
TIN 906-174-059  
PTR No. 8116550, January 2, 2020, Makati City  
SEC Group A Accreditation  
Partner - No. 0628-AR-4 (until Sept. 4, 2022)  
Firm - No. 0002-FR-5 (until Mar. 26, 2021)  
BIR AN 08-002511-022-2019 (until Sept. 4, 2022)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

February 19, 2020

**BDO Leasing and Finance, Inc. and Subsidiary**  
**SEC Supplementary Schedules**  
**December 31, 2019**

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B	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)	<u>3</u>
C	Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements	<u>4</u>
D	Long-Term Debt	<u>5</u>
E	Indebtedness to Related Parties	<u>6</u>
F	Guarantees of Securities of Other Issuers	<u>7</u>
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Other Required Information		
	Reconciliation of Company Retained Earnings for Dividend Declaration	<u>9</u>
	Map Showings the Relationship Between the Company and its Related Entities	<u>10</u>
	Schedule of Financial Soundness Indicators	<u>11-14</u>

BDO LEASING AND FINANCE, INC. AND SUBSIDIARY  
(A Subsidiary of BDO Unibank, Inc.)  
Schedule A - Financial Assets  
December 31, 2019  
(Amount in Philippine Pesos)

<i>Name of issuing entity and association of each issue <sup>(i)</sup></i>	<i>Number of shares or principal amount of bonds or notes</i>	<i>Amount shown on the balance sheet <sup>(ii)</sup></i>	<i>Valued based on the market quotation at balance sheet date <sup>(iii)</sup></i>	<i>Income received and accrued</i>
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***Financial Assets at FVOCI***

Smart Communication Inc.	1,400	1,411.0	1,411.0	78.6
8990 Holdings Inc.	937	962.0	962.0	58.0
Sta. Lucia Land Inc.	200	200.3	200.3	13.4
San Miguel Corporation	8	617.4	617.4	45.8
Tagaytay Splendido	0	0.2	0.2	0.0
San Miguel Corporation		0.0	0.0	35.1
Total Financial Assets at FVOCI		3,190.9	3,190.9	230.9

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

**Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)**  
**December 31, 2019**  
*(Amount in Philippine Pesos)*

<i>Name and designation of debtor <sup>(1)</sup></i>	<i>Balance at beginning of period</i>	<i>Additions</i>	<i>Deductions</i>		<i>Ending Balance</i>		<i>Balance at end of period</i>
			<i>Amounts collected <sup>(2)</sup></i>	<i>Amounts written off <sup>(3)</sup></i>	<i>Current</i>	<i>Not current</i>	
<b>Total Outstanding DOSRI Loans</b>							
Kapuno, Rosalisa Bantog	0.1		0.1		-		-
Natividad, Joseph Jason Martinez	0.7		0.3		0.4		0.4
Tabanao, Dean Arvin D.	0.6		0.2		0.4		0.4
Gulane, Jennifer T.	0.2		0.2		-		-
Paguio, Rommel I.	0.1		0.1		-		-
Reyes, Luis Jr.	0.4		0.4		-		-
Handig, Joeven Y.	0.6		0.6		-		-
Magrata, Marlon F.	0.3		0.1		0.2		0.2
Jimenez, Frieda Concepcion T.	0.8		0.2		0.6		0.6
Cruz, Elmer J.	1.3		0.2		1.1		1.1
Perez, Vicente S.		3.7	0.5		3.2		3.2
	5.1	3.7	2.9	-	5.9	-	5.9
	P 5.1	P 3.7	P 2.9	P -	P 5.9	P -	P 5.9

BDO LEASING AND FINANCE, INC. AND SUBSIDIARY

(A Subsidiary of BDO Unibank, Inc.)

Schedule C - Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements

December 31, 2019

(Amount in Philippine Pesos)

Deductions

Name and Designation of debtor	Balance at beginning of period	Additions	Amounts collected (i)	Amounts written off (ii)	Current	Non-current	Balance at end of period
--------------------------------	--------------------------------	-----------	-----------------------	--------------------------	---------	-------------	--------------------------

- nothing to report -

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
 (A Subsidiary of BDO Unibank, Inc.)  
**Schedule D - Long-Term Debt**  
**December 31, 2019**  
 (Amount in Philippine Pesos)

<i>Title of issue and type of obligation <sup>(i)</sup></i>	<i>Amount authorized by indenture</i>	<i>Amount shown under caption "Current portion of long-term debt" in related balance sheet <sup>(ii)</sup></i>	<i>Amount shown under caption "Long-Term Debt" in related balance sheet <sup>(iii)</sup></i>	<i>Interest Rate</i>	<i>Maturity Date</i>
---	---------------------------------------	--	--	----------------------	----------------------

- nothing to report -

<sup>(i)</sup> Include in the column each type of obligation authorized (I.e., loans, bonds, warrants, etc.)

<sup>(ii)</sup> This column is to be totalled to correspond to the related balance sheet caption.

<sup>(iii)</sup> Include in this column details as to interest rates, amounts or number of periodic installments, and maturity date.



**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**

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

**Schedule E - Indebtedness to Related Parties**

**December 31, 2019**

*(Amount in Philippine Pesos)*

<i>Name of related party <sup>(1)</sup></i>	<i>Balance at beginning of period</i>	<i>Balance at end of period <sup>(2)</sup></i>
---	---------------------------------------	--

- nothing to report -

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**

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

Schedule F - Guarantees of Securities of Other Issuers <sup>(1)</sup>

December 31, 2019

(Amount in Philippine Pesos)

<i>Name of issuing entity of securities guaranteed by the company for which this statement is filed</i>	<i>Title of issue of each class of securities guaranteed</i>	<i>Total amount guaranteed and outstanding <sup>(2)</sup></i>	<i>Amount owned by person for which statement is filed</i>	<i>Nature of guarantee <sup>(3)</sup></i>
---	--	---	--	---

- nothing to report -

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
 Schedule G - Capital Stock <sup>(1)</sup>  
 December 31, 2019  
 (Amount in Philippine Pesos)

<i>Title of Issue</i> <sup>(2)</sup>	<i>Number of shares authorized</i>	<i>Number of shares issued and outstanding as shown under the related balance sheet caption</i>	<i>Number of shares reserved for options, warrants, conversion and other rights</i>	<i>Number of shares held by</i>		
				<i>Related parties</i> <sup>(3)</sup>	<i>Directors, officers and employees</i>	<i>Others</i>
Preferred Shares	0.2	-	-	-	-	-
Common shares	3,400.0	2,162		1,914.7	0.2	247.6
BDO Unibank Inc.				1,914.7		

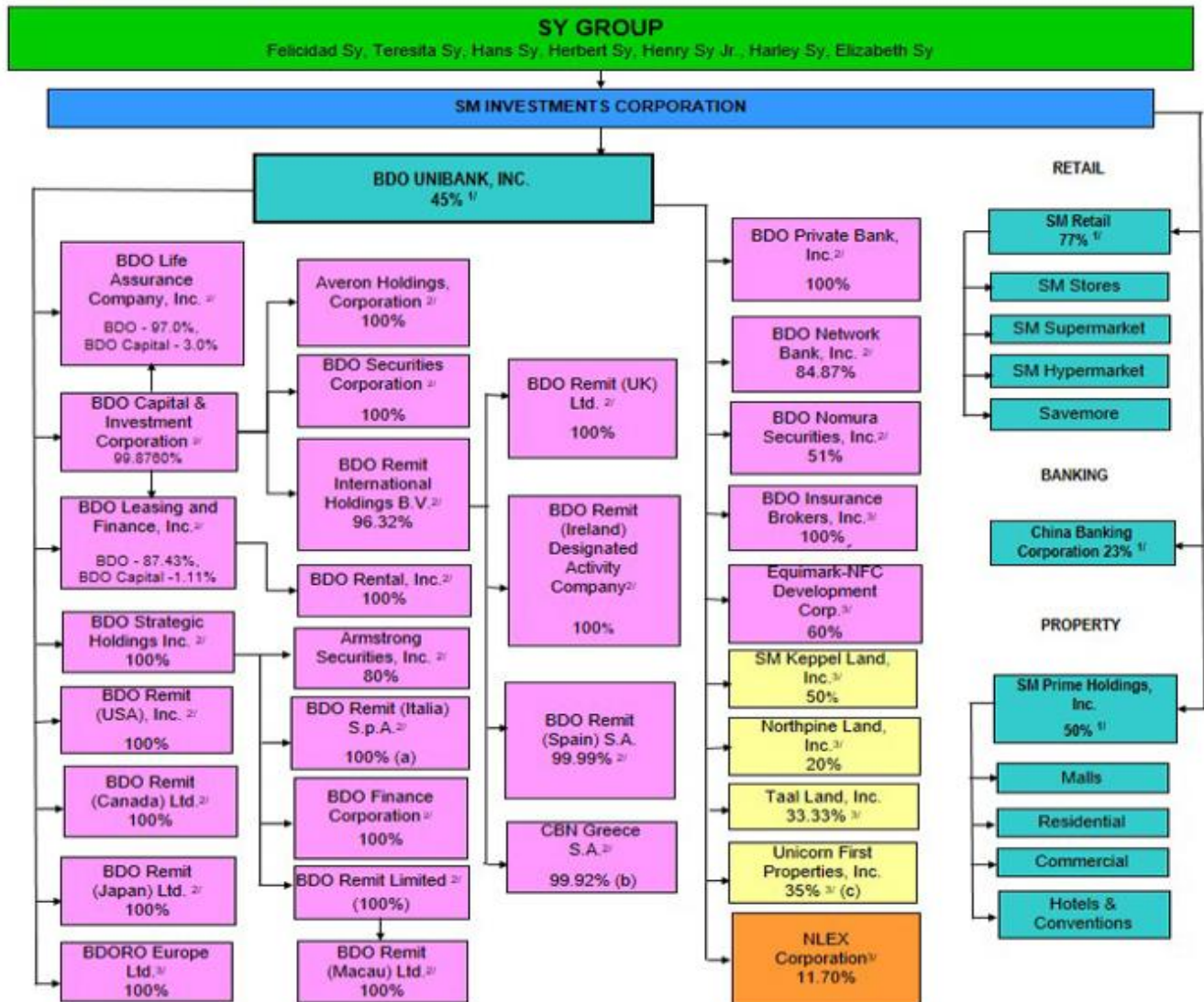
\*Determination of number of shares and outstanding

Number of shares issued	2,225
Less shares held in treasury	<u>63</u>
	<u>2,162</u>

**BDO Leasing and Finance, Inc.**  
**Ortigas Center, Mandaluyong City**  
**Reconciliation of Retained Earnings Available for Dividend Declaration**  
**December 31, 2019**  
*(Amounts in Millions)*

<b>Unappropriated Retained Earnings Available for Dividend declaration at beginning of Year</b>	P	2,736.9
<b>Net Profit Per Audited Financial Statements</b>		46.8
<b>Non -actual/unrealized income, net of tax</b>		
Equity in net loss of a subsidiary and associate	P	40.6
Deferred tax income	(	0.5)
Net interest income on retirement	(	2.0)
Day-one gain	(	0.1)
Net income actually earned during the year		84.8
<b>Unappropriated Retained Earnings Available for Dividend Declaration at End of Year</b>	<b>P</b>	<b><u>2,821.7</u></b>

**BDO Unibank, Inc. Group Map**  
As of December 31, 2019



<sup>1/</sup> SMIC Group's effective ownership interest as of September 30, 2019 (includes direct & indirect ownership)

<sup>2/</sup> Financial entities

<sup>3/</sup> Non-Financial entities

(a) Dissolved  
(b) Under liquidation  
(c) For dissolution

- SMIC's Subsidiaries/Affiliates
- Stockholder of BDO
- Subsidiary
- Affiliate
- Other Related Party

**BDO Leasing and Finance, Inc. and Subsidiary**  
**Financial Ratios**  
**December 31, 2019 and 2018**  
*(Amounts in Millions of Philippine Pesos)*

	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
<b>I. Current/liquidity ratios</b>				
Current ratio				
<u>Total current assets</u>	7,938.4	12,347.8	0.36	0.42
Total current liabilities	21,827.4	29,427.3		
Acid Test Ratio				
<u>Quick assets</u>	7,835.5	12,195.7	0.36	0.41
Total current liabilities	21,827.4	29,427.3		
<b>II. Solvency ratios; debt-to-equity ratios</b>				
Solvency ratio				
<u>(After tax net profit + Depreciation)</u>	840.6	1,212.2	0.03	0.03
Total liabilities	25,333.6	36,197.2		

	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Debt-to-equity ratio				
<u>Total liabilities</u>	<u>25,333.6</u>	<u>36,197.2</u>	4.51	6.77
Total equity	5,614.3	5,343.0		
<b>III. Asset-to-equity ratio</b>				
Asset-to-equity ratio				
<u>Total assets</u>	<u>30,947.9</u>	<u>41,540.3</u>	5.51	7.77
Total equity	5,614.3	5,343.0		
<b>IV. Interest coverage ratio</b>				
Interest coverage ratio				
<u>Earnings before interest and taxes</u>	<u>1,479.6</u>	<u>1,590.6</u>	1.06	1.36
Interest expense	1,399.2	1,170.2		
<b>V. Profitability ratios</b>				
Net profit margin				
<u>Net Profit</u>	<u>46.8</u>	<u>330.7</u>	1.54%	10.28%
Interest income + Other operating income	3,031.9	3,215.5		

	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Return on equity				
<u>Net profit</u>	<u>46.8</u>	<u>330.7</u>	0.85%	6.13%
Average equity	5,478.7	5,392.6		
Return on assets				
<u>Net profit</u>	<u>46.8</u>	<u>330.7</u>	0.13%	0.78%
Average assets	36,244.1	42,191.0		
<b>VI. Others</b>				
Total real estate investments to Assets				
<u>Total investment properties</u>	<u>393.8</u>	<u>354.5</u>	1.27%	0.85%
Total assets	30,947.9	41,540.3		
Loans to Assets				
<u>Total loans and other receivables</u>	<u>24,977.7</u>	<u>34,352.6</u>	80.71%	82.70%
Total assets	30,947.9	41,540.3		



	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
DOSRI to Net worth				
Receivables from Directors, Officers, <u>Stakeholders and Related Interests</u>	<u>5.9</u>	<u>5.1</u>	0.11%	0.10%
Total equity	5,614.3	5,343.0		
Amount of receivable from a single corporation to Total receivables				
<u>Loan to a single corporation</u>	<u>527.9</u>	<u>882.3</u>	2.11%	2.57%
Total loans and other receivables	24,977.7	34,352.6		

**BDO Leasing and Finance, Inc. and Subsidiary**  
**(A Subsidiary of BDO Unibank, Inc.)**  
**Use of Proceeds**  
**December 31, 2019**  
*(Amount in Philippine Pesos)*

**Gross/ Net Proceeds as disclosed in Final Prospectus**

Existing Commercial Paper Placements	12,194,200,000.00
Payment of Maturing Obligation	2,107,000,000.00
For Relending	687,241,375.00
Issuance and Distribution Expense	11,558,625.00
	<u><u><b>15,000,000,000.00</b></u></u>

**Actual Proceeds - December 31, 2019**

Gross Proceeds	6,752,100,000.00
Net Proceeds	6,704,315,211.51

**Expenditures**

Rollover	5,323,727,906.96
Relending	97,822,568.59
PN Payment	1,282,764,735.96

<b>Balance - December 31, 2019</b>	<u><u><b>8,247,900,000.00</b></u></u>
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# Annex A: Reporting Template

(For additional guidance on how to answer the Topics, organizations may refer to Annex B: Topic Guide)

## Contextual Information

Company Details	
Name of Organization	<b>BDO LEASING &amp; FINANCE, INC.</b>
Location of Headquarters	
Location of Operations	
Report Boundary: Legal entities (e.g. subsidiaries) included in this report*	<b>Please see details on the attached 2019 Sustainability Report of BDO Leasing &amp; Finance, Inc.</b>
Business Model, including Primary Activities, Brands, Products, and Services	
Reporting Period	
Highest Ranking Person responsible for this report	

*\*If you are a holding company, you could have an option whether to report on the holding company only or include the subsidiaries. However, please consider the principle of materiality when defining your report boundary.*

## Materiality Process

Explain how you applied the materiality principle (or the materiality process) in identifying your material topics. <sup>1</sup>
<b>Please see details on the attached 2019 Sustainability Report of BDO Leasing &amp; Finance Inc.</b>

<sup>1</sup> See [GRI 102-46](#) (2016) for more guidance.

# ECONOMIC

## Economic Performance

### Direct Economic Value Generated and Distributed

Please see details on the attached 2019 Sustainability Report of BDO Leasing & Finance, Inc.

Disclosure	Amount	Units
Direct economic value generated (revenue)		PhP
Direct economic value distributed:		
a. Operating costs		PhP
b. Employee wages and benefits		PhP
c. Payments to suppliers, other operating costs		PhP
d. Dividends given to stockholders and interest payments to loan providers		PhP
e. Taxes given to government		PhP
f. Investments to community (e.g. donations, CSR)		PhP

Please see details on the attached 2019 Sustainability Report of BDO Leasing & Finance, Inc.

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
<p><i>Identify the impact and where it occurs (i.e., primary business operations and/or supply chain)</i></p> <p><i>Indicate involvement in the impact (i.e., caused by the organization or linked to impacts through its business relationship)</i></p>	<p><i>(e.g. employees, community, suppliers, government, vulnerable groups)</i></p>	<p><i>What policies, commitments, goals and targets, responsibilities, resources, grievance mechanisms, and/or projects, programs, and initiatives do you have to manage the material topic?</i></p>
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
<p><i>Identify risk/s related to material topic of the organization</i></p>		
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
<p><i>Identify the opportunity/ies related to material topic of the organization</i></p>		

Climate-related risks and opportunities<sup>2</sup>

Please see details on the attached 2019 Sustainability Report of BDO Leasing & Finance, Inc.

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities	Disclose the actual and potential impacts <sup>3</sup> of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material	Disclose how the organization identifies, assesses, and manages climate-related risks	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material
<b>Recommended Disclosures</b>			
a) Describe the board's oversight of climate-related risks and opportunities	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium and long term	a) Describe the organization's processes for identifying and assessing climate-related risks	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process
b) Describe management's role in assessing and managing climate-related risks and opportunities	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy and financial planning.	b) Describe the organization's processes for managing climate-related risks	b) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios including a 2°C or lower scenario	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management	

<sup>2</sup> Adopted from the Recommendations of the Task Force on Climate-Related Financial Disclosures. The TCFD Recommendations apply to non-financial companies and financial-sector organizations, including banks, insurance companies, asset managers and asset owners.

<sup>3</sup> For this disclosure, impact refers to the impact of climate-related issues on the company.

## Procurement Practices

### Proportion of spending on local suppliers

Disclosure	Quantity	Units
Percentage of procurement budget used for significant locations of operations that is spent on local suppliers		%

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
<i>Identify the impact and where it occurs (i.e., primary business operations and/or supply chain)</i>  <i>Indicate involvement in the impact (i.e., caused by the organization or linked to impacts through its business relationship)</i>	<i>(e.g. employees, community, suppliers, government, vulnerable groups)</i>	<i>What policies, commitments, goals and targets, responsibilities, resources, grievance mechanisms, and/or projects, programs, and initiatives do you have to manage the material topic?</i>
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<i>Identify risk/s related to material topic of the organization</i>		
<b>What are the Opportunity/ies Identified?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
<i>Identify the opportunity/ies related to material topic of the organization</i>		

## Anti-corruption

### Training on Anti-corruption Policies and Procedures

Please see details on the attached 2019 Sustainability Report of BDO Leasing & Finance, Inc.

Disclosure	Quantity	Units
Percentage of employees to whom the organization's anti-corruption policies and procedures have been communicated to		%
Percentage of business partners to whom the organization's anti-corruption policies and procedures have been communicated to		%
Percentage of directors and management that have received anti-corruption training		%

Percentage of employees that have received anti-corruption training		%
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Please see details on the attached 2019 Sustainability Report of BDO Leasing & Finance, Inc.

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
<i>Identify the impact and where it occurs (i.e., primary business operations and/or supply chain)  Indicate involvement in the impact (i.e., caused by the organization or linked to impacts through its business relationship)</i>	<i>(e.g. employees, community, suppliers, government, vulnerable groups)</i>	<i>What policies, commitments, goals and targets, responsibilities, resources, grievance mechanisms, and/or projects, programs, and initiatives do you have to manage the material topic?</i>
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<i>Identify risk/s related to material topic of the organization</i>		
<b>What are the Opportunity/ies Identified?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
<i>Identify the opportunity/ies related to material topic of the organization</i>		

#### Incidents of Corruption

<b>Disclosure</b>	<b>Quantity</b>	<b>Units</b>
Number of incidents in which directors were removed or disciplined for corruption		#
Number of incidents in which employees were dismissed or disciplined for corruption		#
Number of incidents when contracts with business partners were terminated due to incidents of corruption		#

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
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<p><i>Identify the impact and where it occurs (i.e., primary business operations and/or supply chain)</i></p> <p><i>Indicate involvement in the impact (i.e., caused by the organization or linked to impacts through its business relationship)</i></p>	<p><i>(e.g. employees, community, suppliers, government, vulnerable groups)</i></p>	<p><i>What policies, commitments, goals and targets, responsibilities, resources, grievance mechanisms, and/or projects, programs, and initiatives do you have to manage the material topic?</i></p>
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# ENVIRONMENT

## PARTIAL REPORTING FOR 2019

### Resource Management

Energy consumption within the organization:

**No available data yet for 2019. The Enhanced Community Quarantine precluded the Company from obtaining the data from resource group.**

Disclosure	Quantity	Units
Energy consumption (renewable sources)		GJ
Energy consumption (gasoline)		GJ
Energy consumption (LPG)		GJ
Energy consumption (diesel)		GJ
Energy consumption (electricity)		kWh

Reduction of energy consumption **No available data yet for 2019. The Enhanced Community Quarantine precluded the Company from obtaining the data from resource group.**

Disclosure	Quantity	Units
Energy reduction (gasoline)		GJ
Energy reduction (LPG)		GJ
Energy reduction (diesel)		GJ
Energy reduction (electricity)		kWh
Energy reduction (gasoline)		GJ

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
<p><i>Identify the impact and where it occurs (i.e., primary business operations and/or supply chain)</i></p> <p><i>Indicate involvement in the impact (i.e., caused by the organization or linked to impacts through its business relationship)</i></p>	<p><i>(e.g. employees, community, suppliers, government, vulnerable groups)</i></p>	<p><i>What policies, commitments, goals and targets, responsibilities, resources, grievance mechanisms, and/or projects, programs, and initiatives do you have to manage the material topic?</i></p>

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<i>Identify risk/s related to material topic of the organization</i>		
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Water consumption within the organization **No available data yet for 2019.**

<b>Disclosure</b>	<b>Quantity</b>	<b>Units</b>
Water withdrawal		Cubic meters
Water consumption		Cubic meters
Water recycled and reused		Cubic meters

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
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<b>What are the Opportunity/ies Identified?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>

<i>Identify the opportunity/ies related to material topic of the organization</i>		
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Materials used by the organization **No available data yet for 2019. The Enhanced Community Quarantine precluded the Company from obtaining the data from resource group.**

<b>Disclosure</b>	<b>Quantity</b>	<b>Units</b>
Materials used by weight or volume		
<ul style="list-style-type: none"> <li>renewable</li> </ul>		kg/liters
<ul style="list-style-type: none"> <li>non-renewable</li> </ul>		kg/liters
Percentage of recycled input materials used to manufacture the organization's primary products and services		%

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
<i>Identify the impact and where it occurs (i.e., primary business operations and/or supply chain)</i> <i>Indicate involvement in the impact (i.e., caused by the organization or linked to impacts through its business relationship)</i>	<i>(e.g. employees, community, suppliers, government, vulnerable groups)</i>	<i>What policies, commitments, goals and targets, responsibilities, resources, grievance mechanisms, and/or projects, programs, and initiatives do you have to manage the material topic?</i>
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Ecosystems and biodiversity (whether in upland/watershed or coastal/marine)

**No available data yet for 2019. The Enhanced Community Quarantine precluded the Company from obtaining the data from resource group.**

Disclosure	Quantity	Units
Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	(identify all sites)	
Habitats protected or restored		ha
IUCN <sup>4</sup> Red List species and national conservation list species with habitats in areas affected by operations	(list)	

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
<p><i>Identify the impact and where it occurs (i.e., primary business operations and/or supply chain)</i></p> <p><i>Indicate involvement in the impact (i.e., caused by the organization or linked to impacts through its business relationship)</i></p>	<p><i>(e.g. employees, community, suppliers, government, vulnerable groups)</i></p>	<p><i>What policies, commitments, goals and targets, responsibilities, resources, grievance mechanisms, and/or projects, programs, and initiatives do you have to manage the material topic?</i></p>
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<sup>4</sup> International Union for Conservation of Nature

## Environmental impact management

Air Emissions **No available data yet for 2019. The Enhanced Community Quarantine precluded the Company from obtaining the data from resource group.**

### GHG

Disclosure	Quantity	Units
Direct (Scope 1) GHG Emissions		Tonnes CO <sub>2</sub> e
Energy indirect (Scope 2) GHG Emissions		Tonnes CO <sub>2</sub> e
Emissions of ozone-depleting substances (ODS)		Tonnes

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
<i>Identify the impact and where it occurs (i.e., primary business operations and/or supply chain)</i> <i>Indicate involvement in the impact (i.e., caused by the organization or linked to impacts through its business relationship)</i>	<i>(e.g. employees, community, suppliers, government, vulnerable groups)</i>	<i>What policies, commitments, goals and targets, responsibilities, resources, grievance mechanisms, and/or projects, programs, and initiatives do you have to manage the material topic?</i>
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### Air pollutants

Disclosure	Quantity	Units
NO <sub>x</sub>		kg
SO <sub>x</sub>		kg
Persistent organic pollutants (POPs)		kg
Volatile organic compounds (VOCs)		kg

Hazardous air pollutants (HAPs)		kg
Particulate matter (PM)		kg

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
<i>Identify the impact and where it occurs (i.e., primary business operations and/or supply chain) Indicate involvement in the impact (i.e., caused by the organization or linked to impacts through its business relationship)</i>	<i>(e.g. employees, community, suppliers, government, vulnerable groups)</i>	<i>What policies, commitments, goals and targets, responsibilities, resources, grievance mechanisms, and/or projects, programs, and initiatives do you have to manage the material topic?</i>
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Solid and Hazardous Wastes No available data yet for 2019. The Enhanced Community Quarantine precluded the Company from obtaining the data from resource group.

Solid Waste

Disclosure	Quantity	Units
Total solid waste generated		kg
Reusable		kg
Recyclable		kg
Composted		kg
Incinerated		kg
Residuals/Landfilled		kg

<b>What is the impact and where does it occur? What is the</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
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<b>organization's involvement in the impact?</b>		
<i>Identify the impact and where it occurs (i.e., primary business operations and/or supply chain)</i> <i>Indicate involvement in the impact (i.e., caused by the organization or linked to impacts through its business relationship)</i>	<i>(e.g. employees, community, suppliers, government, vulnerable groups)</i>	<i>What policies, commitments, goals and targets, responsibilities, resources, grievance mechanisms, and/or projects, programs, and initiatives do you have to manage the material topic?</i>
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Hazardous Waste **No available data yet for 2019. The Enhanced Community Quarantine precluded the Company from obtaining the data from resource group.**

<b>Disclosure</b>	<b>Quantity</b>	<b>Units</b>
Total weight of hazardous waste generated		kg
Total weight of hazardous waste transported		kg

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
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### Effluents

Disclosure	Quantity	Units
Total volume of water discharges		Cubic meters
Percent of wastewater recycled		%

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
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<i>Identify the opportunity/ies related to material topic of the organization</i>		



## Environmental compliance

### Non-compliance with Environmental Laws and Regulations

Disclosure	Quantity	Units
Total amount of monetary fines for non-compliance with environmental laws and/or regulations		PhP
No. of non-monetary sanctions for non-compliance with environmental laws and/or regulations		#
No. of cases resolved through dispute resolution mechanism		#

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
<i>Identify the impact and where it occurs (i.e., primary business operations and/or supply chain)  Indicate involvement in the impact (i.e., caused by the organization or linked to impacts through its business relationship)</i>	<i>(e.g. employees, community, suppliers, government, vulnerable groups)</i>	<i>What policies, commitments, goals and targets, responsibilities, resources, grievance mechanisms, and/or projects, programs, and initiatives do you have to manage the material topic?</i>
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# SOCIAL

## Employee Management

Please see details on the attached 2019 Sustainability Report of BDO Leasing & Finance Inc.

### Employee Hiring and Benefits

#### Employee data

Disclosure	Quantity	Units
Total number of employees <sup>5</sup>		
a. Number of female employees		#
b. Number of male employees		#
Attrition rate <sup>6</sup>		rate
Ratio of lowest paid employee against minimum wage		ratio

#### Employee benefits

List of Benefits	Y/N	% of female employees who availed for the year	% of male employees who availed for the year
SSS			
PhilHealth			
Pag-ibig			
Parental leaves			
Vacation leaves			
Sick leaves			
Medical benefits (aside from PhilHealth))			
Housing assistance (aside from Pag-ibig)			
Retirement fund (aside from SSS)			
Further education support			
Company stock options			
Telecommuting			
Flexible-working Hours			
(Others)			

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
<i>Identify the impact and where it occurs (i.e., primary business operations and/or supply chain)</i>	<i>What policies, commitments, goals and targets, responsibilities, resources, grievance mechanisms,</i>

<sup>5</sup> Employees are individuals who are in an employment relationship with the organization, according to national law or its application ([GRI Standards 2016 Glossary](#))

<sup>6</sup> Attrition rate = (no. of new hires – no. of turnover)/(average of total no. of employees of previous year and total no. of employees of current year)

<i>Indicate involvement in the impact (i.e., caused by the organization or linked to impacts through its business relationship)</i>	<i>and/or projects, programs, and initiatives do you have to manage the material topic?</i>
<b>What are the Risk/s Identified?</b>	<b>Management Approach</b>
<i>Identify risk/s related to material topic of the organization</i>	
<b>What are the Opportunity/ies Identified?</b>	<b>Management Approach</b>
<i>Identify the opportunity/ies related to material topic of the organization</i>	

### Employee Training and Development

<b>Disclosure</b>	<b>Quantity</b>	<b>Units</b>
Total training hours provided to employees		
a. Female employees		hours
b. Male employees		hours
Average training hours provided to employees		
a. Female employees		hours/employee
b. Male employees		hours/employee

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Management Approach</b>
<i>Identify the impact and where it occurs (i.e., primary business operations and/or supply chain)</i> <i>Indicate involvement in the impact (i.e., caused by the organization or linked to impacts through its business relationship)</i>	<i>What policies, commitments, goals and targets, responsibilities, resources, grievance mechanisms, and/or projects, programs, and initiatives do you have to manage the material topic?</i>
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<i>Identify risk/s related to material topic of the organization</i>	
<b>What are the Opportunity/ies Identified?</b>	<b>Management Approach</b>
<i>Identify the opportunity/ies related to material topic of the organization</i>	

### Labor-Management Relations

<b>Disclosure</b>	<b>Quantity</b>	<b>Units</b>
-------------------	-----------------	--------------

% of employees covered with Collective Bargaining Agreements		%
Number of consultations conducted with employees concerning employee-related policies		#

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Management Approach</b>
<i>Identify the impact and where it occurs (i.e., primary business operations and/or supply chain)</i> <i>Indicate involvement in the impact (i.e., caused by the organization or linked to impacts through its business relationship)</i>	<i>What policies, commitments, goals and targets, responsibilities, resources, grievance mechanisms, and/or projects, programs, and initiatives do you have to manage the material topic?</i>
<b>What are the Risk/s Identified?</b>	<b>Management Approach</b>
<i>Identify risk/s related to material topic of the organization</i>	
<b>What are the Opportunity/ies Identified?</b>	<b>Management Approach</b>
<i>Identify the opportunity/ies related to material topic of the organization</i>	

Please see details on the attached 2019 Sustainability Report of BDO Leasing & Finance Inc.

Diversity and Equal Opportunity

Disclosure	Quantity	Units
% of female workers in the workforce		%
% of male workers in the workforce		%
Number of employees from indigenous communities and/or vulnerable sector*		#

\*Vulnerable sector includes, elderly, persons with disabilities, vulnerable women, refugees, migrants, internally displaced persons, people living with HIV and other diseases, solo parents, and the poor or the base of the pyramid (BOP; Class D and E).

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Management Approach</b>
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Please see details on the attached 2019 Sustainability Report of BDO Leasing & Finance Inc.

Workplace Conditions, Labor Standards, and Human Rights

Occupational Health and Safety

<b>Disclosure</b>	<b>Quantity</b>	<b>Units</b>
Safe Man-Hours		Man-hours
No. of work-related injuries		#
No. of work-related fatalities		#
No. of work related ill-health		#
No. of safety drills		#

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Management Approach</b>
<i>Identify the impact and where it occurs (i.e., primary business operations and/or supply chain)</i>  <i>Indicate involvement in the impact (i.e., caused by the organization or linked to impacts through its business relationship)</i>	<i>What policies, commitments, goals and targets, responsibilities, resources, grievance mechanisms, and/or projects, programs, and initiatives do you have to manage the material topic?</i>
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Labor Laws and Human Rights

<b>Disclosure</b>	<b>Quantity</b>	<b>Units</b>
No. of legal actions or employee grievances involving forced or child labor		#

Do you have policies that explicitly disallows violations of labor laws and human rights (e.g. harassment, bullying) in the workplace?

Topic	Y/N	If Yes, cite reference in the company policy
Forced labor		
Child labor		
Human Rights		

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Management Approach</b>
<i>Identify the impact and where it occurs (i.e., primary business operations and/or supply chain)</i> <i>Indicate involvement in the impact (i.e., caused by the organization or linked to impacts through its business relationship)</i>	<i>What policies, commitments, goals and targets, responsibilities, resources, grievance mechanisms, and/or projects, programs, and initiatives do you have to manage the material topic?</i>
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### Supply Chain Management

Do you have a supplier accreditation policy? If yes, please attach the policy or link to the policy:

\_\_\_\_\_

Do you consider the following sustainability topics when accrediting suppliers?

Topic	Y/N	If Yes, cite reference in the supplier policy
Environmental performance		
Forced labor		
Child labor		
Human rights		
Bribery and corruption		

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Management Approach</b>
--	----------------------------

Identify the impact and where it occurs (i.e., primary business operations and/or supply chain)  Indicate involvement in the impact (i.e., caused by the organization or linked to impacts through its business relationship)	What policies, commitments, goals and targets, responsibilities, resources, grievance mechanisms, and/or projects, programs, and initiatives do you have to manage the material topic?
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### Relationship with Community

Please see details on the attached 2019 Sustainability Report of BDO Leasing & Finance Inc.

[Significant Impacts on Local Communities](#)

<b>Operations with significant (positive or negative) impacts on local communities (exclude CSR projects; this has to be business operations)</b>	<b>Location</b>	<b>Vulnerable groups (if applicable)*</b>	<b>Does the particular operation have impacts on indigenous people (Y/N)?</b>	<b>Collective or individual rights that have been identified that or particular concern for the community</b>	<b>Mitigating measures (if negative) or enhancement measures (if positive)</b>

*\*Vulnerable sector includes children and youth, elderly, persons with disabilities, vulnerable women, refugees, migrants, internally displaced persons, people living with HIV and other diseases, solo parents, and the poor or the base of the pyramid (BOP; Class D and E)*

For operations that are affecting IPs, indicate the total number of Free and Prior Informed Consent (FPIC) undergoing consultations and Certification Preconditions (CPs) secured and still operational and provide a copy or link to the certificates if available: \_\_\_\_\_

Certificates	Quantity	Units
FPIC process is still undergoing		#
CP secured		#

What are the Risk/s Identified?	Management Approach
<i>Identify risk/s related to material topic of the organization</i>	
What are the Opportunity/ies Identified?	Management Approach
<i>Identify the opportunity/ies related to material topic of the organization</i>	

## Customer Management

Please see details on the attached 2019 Sustainability Report of BDO Leasing & Finance Inc.

### Customer Satisfaction

Disclosure	Score	Did a third party conduct the customer satisfaction study (Y/N)?
Customer satisfaction		

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
<i>Identify the impact and where it occurs (i.e., primary business operations and/or supply chain)</i> <i>Indicate involvement in the impact (i.e., caused by the organization or linked to impacts through its business relationship)</i>	<i>What policies, commitments, goals and targets, responsibilities, resources, grievance mechanisms, and/or projects, programs, and initiatives do you have to manage the material topic?</i>
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What are the Opportunity/ies Identified?	Management Approach
<i>Identify the opportunity/ies related to material topic of the organization</i>	

### Health and Safety

Disclosure	Quantity	Units
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No. of substantiated complaints on product or service health and safety*		#
No. of complaints addressed		#

*\*Substantiated complaints include complaints from customers that went through the organization's formal communication channels and grievance mechanisms as well as complaints that were lodged to and acted upon by government agencies.*

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Management Approach</b>
<i>Identify the impact and where it occurs (i.e., primary business operations and/or supply chain)</i> <i>Indicate involvement in the impact (i.e., caused by the organization or linked to impacts through its business relationship)</i>	<i>What policies, commitments, goals and targets, responsibilities, resources, grievance mechanisms, and/or projects, programs, and initiatives do you have to manage the material topic?</i>
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Marketing and labelling

<b>Disclosure</b>	<b>Quantity</b>	<b>Units</b>
No. of substantiated complaints on marketing and labelling*		#
No. of complaints addressed		#

*\*Substantiated complaints include complaints from customers that went through the organization's formal communication channels and grievance mechanisms as well as complaints that were lodged to and acted upon by government agencies.*

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Management Approach</b>
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Identify risk/s related to material topic of the organization	
<b>What are the Opportunity/ies Identified?</b>	<b>Management Approach</b>
Identify the opportunity/ies related to material topic of the organization	

Customer privacy

Disclosure	Quantity	Units
No. of substantiated complaints on customer privacy*		#
No. of complaints addressed		#
No. of customers, users and account holders whose information is used for secondary purposes		#

\*Substantiated complaints include complaints from customers that went through the organization's formal communication channels and grievance mechanisms as well as complaints that were lodged to and acted upon by government agencies.

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Management Approach</b>
Identify the impact and where it occurs (i.e., primary business operations and/or supply chain)  Indicate involvement in the impact (i.e., caused by the organization or linked to impacts through its business relationship)	What policies, commitments, goals and targets, responsibilities, resources, grievance mechanisms, and/or projects, programs, and initiatives do you have to manage the material topic?
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Identify the opportunity/ies related to material topic of the organization	

Data Security

Please see details on the attached 2019 Sustainability Report of BDO Leasing & Finance Inc.

Disclosure	Quantity	Units
No. of data breaches, including leaks, thefts and losses of data		#

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Management Approach</b>
<i>Identify the impact and where it occurs (i.e., primary business operations and/or supply chain)</i>  <i>Indicate involvement in the impact (i.e., caused by the organization or linked to impacts through its business relationship)</i>	<i>What policies, commitments, goals and targets, responsibilities, resources, grievance mechanisms, and/or projects, programs, and initiatives do you have to manage the material topic?</i>
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## UN SUSTAINABLE DEVELOPMENT GOALS

### Product or Service Contribution to UN SDGs

**Please see details on the attached 2019 Sustainability Report of BDO Leasing & Finance Inc.**

Key products and services and its contribution to sustainable development.

Key Products and Services	Societal Value / Contribution to UN SDGs	Potential Negative Impact of Contribution	Management Approach to Negative Impact

*\* None/Not Applicable is not an acceptable answer. For holding companies, the services and products of its subsidiaries may be disclosed.*



## **2019 SUSTAINABILITY REPORT**

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# Corporate Details

<b>Name of Organization</b>	<b>BDO LEASING &amp; FINANCE, INC.</b>
<b>Location of Headquarters</b>	<b>MANDALUYONG HEAD OFFICE</b> 39/F BDO Corporate Center Ortigas 12 ADB Avenue, Ortigas Center Mandaluyong City 1550 Telephone: (+632) 8688-1288 locals 65819, 65175, 4530339/F
<b>Location of Operations</b>	<b>PAMPANGA BRANCH</b> 4/F BDO Angeles-Balibago Branch Building Ramon Tang Avenue, Diamond Subdivision Balibago, Angeles City Telephone: (+632) 8840-7000 locals 52159, 52168; (+6345) 887-0775 Fax: (+632) 840-7329 ext. 2480  <b>CEBU BRANCH</b> Mezzanine Floor, BDO Cebu Gorordo Branch Building Gorordo Avenue, Lahug Cebu City Telephone: (+632) 8702-6000, (+6332) 232-6397 locals 52046, 52164, 52717 Fax: (+6332) 412-2262; (+6332) 232-6397  <b>ILOILO BRANCH</b> Mezzanine Floor BDO Iloilo Valeria Building Valeria Street, Iloilo City Telephone: (+632) 8702-6000 local 52708 Telefax: (+6333) 337-8107  <b>DAVAO BRANCH</b> 2/F BDO-Davao Claveria 30 C.M. Recto Avenue Poblacion, Davao City Telephone: (+632) 8702-6000, (+6382) 222-3500 locals 52165, 52725, 45304  <b>CAGAYAN DE ORO BRANCH</b> 5/F BDO Cagayan De Oro Limketkai Building Lot 6 Block 2 Limketkai Avenue & Road 7 Limketkai Commercial Complex Brgy. 31 Poblacion, Cagayan De Oro City Misamis Oriental Telephone: (+632) 8702-6000 locals 39803, 52005

Telefax: (+6388) 231-4478

**Subsidiary**

**BDO RENTAL, INC.**

39/F BDO Corporate Center Ortigas

12 ADB Avenue, Ortigas Center

Mandaluyong City 1550

Telephone: (+632) 8688-1288 locals 65819, 65175, 4530339/F

**Reporting Period**

**2019**

**Highest Ranking Person  
Responsible for this report**

**ROBERTO E. LAPID**

President

**ANGELITA TAD-Y**

Sustainability Officer



# Corporate Profile

BDO Leasing and Finance Inc. (BDOLF) is a subsidiary of BDO Unibank Inc., with an established track record of innovation in the leasing and finance industry. BDOLF is a recognized leader in the markets it serves, confirmed by its consistent financial results and growing clientele base.

Capitalizing on BDO Unibank’s extensive market reach and its wide product range, BDOLF continues to be among the industry’s dominant players in terms of total assets and capitalization. The BDO brand strengthens BDOLF’s position in the industry and revolutionizes its capability to meet new sets of challenges and expectations. BDOLF has also positioned its branches in strategic locations to service the increasing needs of the country’s growth areas particularly in the provinces.

BDOLF faced a challenging year in 2019, which saw a lower net income of P46.6 million from P330 million in 2018. BDOLF suffered from margin compression as its short-term liabilities adjusted faster to higher interest rates (which prevailed in the first half of 2019) vis-à-vis its earning assets, e.g., lease receivables that carry fixed interest rates for three to five years (customary for lease transactions). Increased provisioning likewise put pressure on the bottom line. Nevertheless, BDOLF showed better numbers in the second half of the year due to effective measures to restore margins.

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<b>Market Capitalization</b>	<b>Php 4.04 Billion</b>
<b>Direct Economic Value Generated</b>	<b>Php 3.03 Billion</b>
<b>Total Assets</b>	<b>Php30.95 Billion</b>
<b>Gross Customer Loans</b>	<b>Php24.98 Billion</b>
<b>Total Liabilities</b>	<b>Php25.33 Billion</b>
<b>Capital Base</b>	<b>Php 5.61 Billion</b>
<b>Net Income</b>	<b>Php46.80 Million</b>

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## Corporate Mission

We are in business for our customers, shareholders and employees.

We shall deliver creatively innovative products and cross-sell the BDO Unibank Group's services supported by procedures, systems and processes which will ensure utmost customer satisfaction.

We shall recognize and reward excellence in our employees and shall provide an environment conducive to maximizing their potentials as we work cohesively as a team.

We shall generate consistently high returns for our shareholders.

We shall maintain a prestigious and professional corporate image and shall actively fulfill our social responsibility.

Total Quality shall be the most important standard in all our activities.

## Corporate Vision

We shall be at the forefront of the leasing and financing industry in the Philippines and in the Asia Pacific Region. We shall have the most extensive market reach and shall be composed of highly trained, technically competent and upright professionals working as a team and contributing to the growth of the nation and the communities we serve. Recognizing that the customer is the focus of our activities, we shall lead the industry in providing modern and relevant financial services which exceed their expectations.

## Core Values

### **Commitment to Customers**

We are committed to delivering products and services that surpass customer expectations in value and every aspect of customer service, while remaining prudent and trustworthy stewards of their wealth.

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### **Commitment to a Dynamic and Efficient Organization**

We are committed to creating an organization that is flexible, responds to change, and encourages innovation and creativity; we are committed to the process of continuous improvement in everything we do.

---

### **Commitment to Employees**

We are committed to our employee's growth and development and we will nurture them in an environment where excellence, integrity, teamwork, professionalism and performance are valued above all else.

---

### **Commitment to Shareholders**

We are committed to providing our shareholders with superior returns over the long term.

# Products and Services

## Leasing

Preserving capital with these leasing options can drive one's business towards growth. Whether logistics, distribution, medical, pharmaceutical, construction or other industries that require the use of specific equipment, leasing is a viable financing option. It allows the procurement of much-needed equipment without the depletion of available cash or existing credit lines, thereby facilitating better management of cash flow and other financial resources. Leasing offers the following benefits:

- Higher amount financed
- Affordable monthly payments
- Tax-timing benefits
- No chattel mortgage fees

### Finance Lease

Ideal for medium-term financing. With just a minimal capital outlay, essential and necessary heavy capital equipment can now be acquired and used upon demand.

### Operating Lease

An operating lease is an off balance sheet lease where the leased asset is not reflected in the books of the lessee. The lessee only records rent expense which is a deductible expense in its Profit and Loss statement.

## Amortized Commercial Loan (ACL)

Through the mortgage of collateral, whether in the form of real estate or equipment, ACLs can fulfill capital acquisition requirements through

flexible payment options. With a low downpayment, a higher amount is financed and the client retains ownership of the asset.

## Installment Paper Purchase (IPP)

IPPs can help generate ready cash for additional working capital or for various business requirements. Tied-up capital is easily liquidated through the sale of existing installment receivables, thus making available cash that can be used for other business needs. And with interest expense being an allowable deduction from taxable income, there is an additional benefit of tax savings.

## Factoring of Receivables

A good alternative for short-term financing, factoring of receivables enables a business to work at full capacity with the immediate funds generated from it. Through the sale of local trade receivables with no required collateral, BDOLF advances up to 80% of the value of the invoices, thereby supplying immediate working capital. BDOLF's experienced team also handles the collection of these invoices.

## Floor Stock Financing

Ideal for transport vehicle and equipment dealers, Floor Stock Financing is a revolving short-term credit facility that finances the purchase from manufacturers of inventory assets such as motor vehicles, medical equipment, trucks and heavy equipment. With Floor Stock Financing, inventory is guaranteed to be in place when sales opportunities arise, without the need to self-finance the purchase.

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## **BDOLF Sustainability Philosophy**

We seek to achieve strategic resilience by incorporating sustainability in the way we do business.

We aim to embed sustainability principles when making decisions, assessing relationships and creating products.

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# **Alignment to the United Nations Global Compact Principles**

BDOLF supports the principles of the United Nations Global Compact. The Company upholds:

- Corporate Governance
- Climate-friendly solutions and opportunities for business
- Access to clean, renewable and reliable energy sources and services
- The adoption of instruments that help quantify, manage and report on the carbon footprint of its businesses
- The responsibility to protect the dignity of every person and uphold human rights
- The recognition of the role of women in achieving economic growth and poverty reduction
- The elimination of all forms of forced and compulsory labor, and child labor

## **BDOLF Sustainability Framework**

The Company's Sustainability Framework defines the strategies that serve as guideposts in its journey towards sustainability.

### **1. Product Sustainability Strategy**

We create products and services that anticipate the evolving needs of our customers and support sustainable development goals.

We develop capabilities to understand our customers and reach the underserved markets with relevant products and services that meet their unique needs and ways of doing business.

---

### **2. Human Capital Sustainability Strategy**

We develop leaders in the sustainability movement.

We aim to grow a “can lead” workforce that adapts a sustainability mind-set and thrives with innovative thinking and customer-focused attitude.

---

### **3. Governance-Based Sustainability Strategy**

We continuously enhance our corporate governance framework to sustain superior business performance anchored on the principles of accountability, transparency, integrity, and fairness, together with our partners.

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### **4. Disaster Response Sustainability Strategy**

We leverage our resources towards the relief, rehabilitation and recovery of disaster-stricken communities.

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### **5. Sustainability Contribution Strategy**

We support the achievement of national economic goals through financial inclusion and impact financing in infrastructure, eco-friendly solutions, green facilities and disaster resilience initiatives.

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## Materiality

In identifying material topic, BDOLF applied the materiality principle based on influence on stakeholder or assessments and decisions, and significance of impact on the economy, environment and society.

<b>Material Topic</b>	<b>Topic Boundary</b>
<b>Economic Performance</b> How BDOLF delivers sustainable returns to its shareholders and attains consistent market growth	Within BDOLF and with key stakeholders
<b>Lease &amp; Financing Network and Access</b> How BDOLF's existing branches and its capitalizing on BDO Unibank branches provide convenient and reliable access to its customers	Within BDOLF and with customers
<b>Innovative Customer-Focused Products and Services</b> How BDOLF innovates to meet the needs of its customers	
<b>Green Financing</b> How BDOLF provides financing in eco-friendly solutions and green facilities to promote clean energy	Within BDOLF and with partners and customers
<b>Financing for Development Projects</b> How BDOLF facilitates funding to large-scale development projects that support national economic growth	
<b>MSME Financing</b> How BDOLF creates finance and leasing products to help micro, small, and medium enterprise grow	Within BDOLF, with customers and regulators
<b>Employee Integrity and Development</b> How BDO develops a "can lead" mind-set able to innovate and maintain a customer-focused attitude	Within BDOLF
<b>Employee Development and Training</b> How BDOLF retain and develops employees, recognizes achievements, and provides long-term professional growth	
<b>Regulatory and Legal Compliance</b> How BDOLF complies with legal requirements and other relevant regulatory bodies	Within BDOLF and with regulators
<b>Corporate Governance and Business Ethics</b> How BDOLF operates on principles of accountability, transparency, integrity and fairness	Within BDOLF
<b>Customer Rights, Privacy and Welfare</b> How BDOLF protects the information of its customers, complies with Data Privacy Act, and protects the welfare of its customers	Within BDOLF and with regulators and customers

## Stakeholder Engagement

Stakeholder Group	Relevance	Channels of Engagement	Relevant Topics	Our Commitment
Shareholder or Investor	<ul style="list-style-type: none"> <li>Providers of resources essential to BDOLF's goal to deliver results, enhanced economic returns and shared value</li> </ul>	<ul style="list-style-type: none"> <li>Annual Stockholders' Meetings</li> </ul>	<ul style="list-style-type: none"> <li>Economic Performance</li> </ul>	<ul style="list-style-type: none"> <li>Provide transparent and timely disclosures</li> </ul>
Employee	<ul style="list-style-type: none"> <li>Proponent of BDOLF's vision, mission and objectives</li> </ul>	<ul style="list-style-type: none"> <li>Face-to-face meetings</li> <li>Annual performance appraisals</li> </ul>	<ul style="list-style-type: none"> <li>Employee Integrity and Development</li> </ul>	<ul style="list-style-type: none"> <li>Roll out leadership development programs, awards, recognition for employees</li> </ul>
Customer or Client	<ul style="list-style-type: none"> <li>Patron of BDOLF's products and services</li> </ul>	<ul style="list-style-type: none"> <li>Customer touchpoints</li> <li>Regular visits and briefings</li> </ul>	<ul style="list-style-type: none"> <li>Branch Network and Access</li> <li>Customer Rights, Privacy and Welfare</li> </ul>	<ul style="list-style-type: none"> <li>Constantly monitor and upgrade systems and provide timely feedback to customer concerns</li> </ul>
Creditor	<ul style="list-style-type: none"> <li>Sources of assets that support BDOLF's business</li> </ul>	<ul style="list-style-type: none"> <li>Regular correspondence and updates</li> </ul>	<ul style="list-style-type: none"> <li>Corporate Governance and Business Ethics</li> </ul>	<ul style="list-style-type: none"> <li>Meet contractual obligations</li> </ul>
Service Provider or Supplier	<ul style="list-style-type: none"> <li>Suppliers and service providers vital to BDOLF</li> </ul>	<ul style="list-style-type: none"> <li>Vendor accreditation process</li> <li>Regular correspondence</li> </ul>	<ul style="list-style-type: none"> <li>Corporate Governance and Business Ethics</li> </ul>	<ul style="list-style-type: none"> <li>Uphold policy and supplier accreditation</li> </ul>
Regulator or Policy Maker	<ul style="list-style-type: none"> <li>Driver of regulations and policies that aid BDOLF in achieving its goals</li> </ul>	<ul style="list-style-type: none"> <li>Formal and informal correspondence</li> <li>Regular audit</li> </ul>	<ul style="list-style-type: none"> <li>Regulatory and Legal Compliance</li> <li>Corporate Governance and Business Ethics</li> </ul>	<ul style="list-style-type: none"> <li>Comply with applicable laws and regulations, provide regulators with timely disclosures, and ensure quality of financial reports</li> </ul>
Analyst or Association of Financing Companies and Media	<ul style="list-style-type: none"> <li>Partners in accurate reporting, upholding transparency and integrity</li> </ul>	<ul style="list-style-type: none"> <li>Regular gatherings of members</li> <li>Media events</li> </ul>	<ul style="list-style-type: none"> <li>Economic Performance</li> <li>Innovative Customer-Focused Products and Services</li> </ul>	<ul style="list-style-type: none"> <li>Provide transparent and timely disclosures and updates</li> </ul>

# Economic Impact

BDOLF has, over the years, maintained its track record of service and innovation in the leasing and financing industry. As a wholly owned subsidiary of the nation’s largest bank, BDOLF has leveraged on BDO Unibank’s wide client base and strong corporate relationships by partnering with clients to secure their infrastructure and equipment needs. BDOLF plays a crucial role in regional economic expansion, providing leasing or financing primarily to clients in the transportation sector, local and multinational contractors, developers, and service providers that are competing for large Filipino infrastructure and PPP projects.

## Economic Performance

### Direct Economic Value Generated and Distributed

Disclosure	2018 In millions of pesos	2019 In millions of pesos
Direct economic value generated (revenue)	3,215.5	3,031.9
Direct economic value distributed:		
a. Operating Costs and Payments to Suppliers	998.6	1,044.1
b. Employee wages and benefits	235.7	244.2
c. Interest payments to loan providers and dividends to stockholders	1,170.2	1,399.2
d. Taxes given to government	434.8	343.1

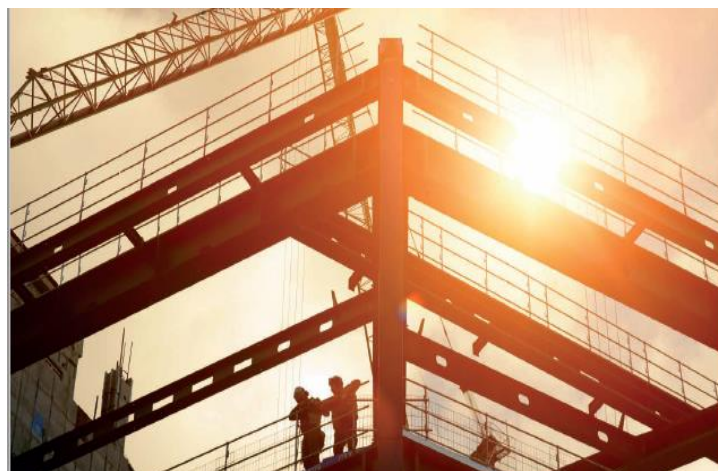
BDOLF’S direct economic value generated grew amounted to Php3.2 Bn in 2018 to Php 3.0 Bn in 2019. Economic value distributed likewise rose from Php 2.9 Bn in 2018 to Php 3.0 Bn in 2019, representing growth of 3.9 % during the period. The bulk, or 46% of economic value distributed was accounted for by interest payments to loan providers, 8% to wages and benefits to 200 employees supporting their growth and development, and 34 % to payments to suppliers and third-party service providers (embedded in other operating costs) that generate positive social and economic contribution to the communities where these businesses operate. Lastly, BDOLF increased its payments to the government by 12 % in 2019.



# Sustainability Strategies and Performance

## Product Sustainability Strategy

BDOLF offers leasing and financing products and services that anticipate the existing needs of its customers and support sustainable development goals. We are driven to empower our customers achieve growth and stability.



Disclosure	2018	2019
Total number of transactions	4,678	3,375
Total number of clients nationwide (as of end of year)	5,094	5,196
Total number of Individuals, Small & Medium Enterprises	4,734	4,046
Total amount of leases and loans availed/booked	P17.00B	P11.28B

### Leasing

The Company helps its customers preserve capital with either finance or operating lease that can drive one's business towards growth. Whether logistics, distribution, medical, pharmaceutical, construction or other industries that require the use of specific equipment, leasing is a viable option. It allows the procurement of much needed equipment without the depletion of available cash or existing credit lines, thereby facilitating better management of cash flow and other financial resources.

Some of the benefits that finance and operating lease offers are as follows:

- Higher amount financed
- Affordable monthly payments
- Tax-timing benefits
- No chattel mortgage fees

## **Amortized Commercial Loan (ACL)**

BDOLF helps fulfill capital acquisition requirements through flexible loan payment options. With a low downpayment, a higher amount is financed and the client retains ownership of the assets.

## **Installment Paper Purchase (IPP)**

BDOLF provides ready cash for additional working capital or for various business requirements through IPP. Tied-up capital is easily liquidated through the sale of existing installment receivables, thus making available cash that can be used by its customers for their other business needs. And with interest expense being an allowable deduction from the customer's taxable income, there is an additional benefit of tax savings.

## **Factoring of Receivables**

Through factoring of receivables, BDOLF provides a good alternative for short-term financing which enables a business to work at full capacity with the immediate funds generated from it.

## **Floor Stock Financing**

BDOLF provides a revolving short-term credit facility that finances the purchases from manufacturers of inventory assets such as motor vehicles, medical equipment, trucks and heavy equipment.

# Human Capital

## Sustainability Strategy (Social)

BDOLF develop leaders in the sustainability movement.

We aim to grow a “can lead” workforce that adapts a sustainability mind-set and thrives with innovative thinking and customer-focused attitude.



### Employee Profile

#### BY GENDER

	Employee Count		New Hires		Employee Separations	
	2018	2019	2018	2019	2018	2019
Male	60	49	3	5	5	12
Female	148	146	20	22	7	17
<b>TOTAL</b>	<b>208</b>	<b>195</b>	<b>23</b>	<b>27</b>	<b>12</b>	<b>29</b>

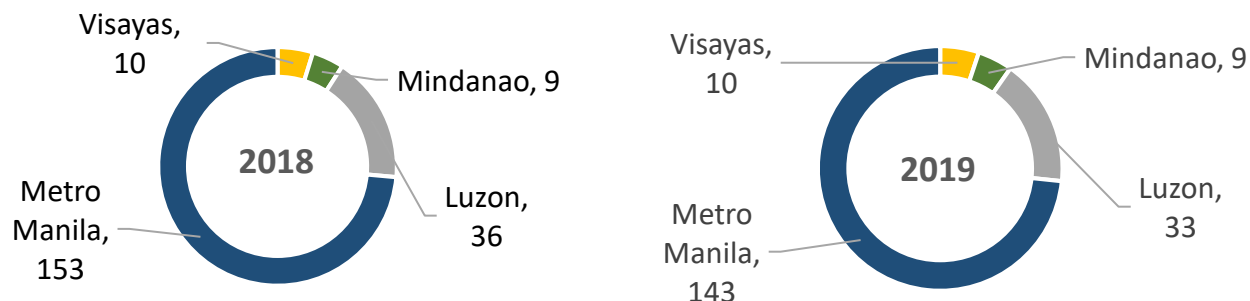
#### BY AGE

	Employee Count		New Hires		Employee Separations	
	2018	2019	2018	2019	2018	2019
<30	75	82	21	24	3	11
30-50	114	95	2	2	7	16
>50	19	18	0	1	2	2
<b>TOTAL</b>	<b>208</b>	<b>195</b>	<b>23</b>	<b>27</b>	<b>12</b>	<b>29</b>

#### EMPLOYEE COUNT BY EMPLOYMENT STATUS

	Employee Count	
	2018	2019
Probationary	6	8
Regular	202	187
<b>TOTAL</b>	<b>208</b>	<b>195</b>

## EMPLOYEE COUNT BY LOCATION



## PERFORMANCE ASSESSMENT

	Per Employee	By Gender		By Rank		
		Male	Female	Rank-and-File	Junior Officers	Senior Officers
<b>2018</b>	100%	100%	100%	100%	100%	100%
<b>2019</b>	100%	100%	100%	100%	100%	100%

## Providing Equal Opportunity

BDOLF is committed to fair employment practices without undue prejudice to race, gender, ethnic origin, religion, age, or sexual orientation. Employees are treated with respect, dignity, and fairness.

The Company ensures that employment practices and policies are in compliance with labor laws, regulations and standards in the countries where it operates. Employees are selected, engaged, compensated, and promoted, as the case may be, based on the merits of qualification and performance.

## Employee Rights and Welfare

BDOLF is committed to promoting the physical, social, and mental well-being of its employees. It maintains positive, harmonious, and professional work environment with due importance accorded to the occupational health and safety of employees and related external parties.

The Company abides by the regulations defined by the Department of Labor and Employment (DOLE), including health and safety standards for its employees. BDOLF completed the DOLE inspection and was found compliant with both the General Labor Standards and the Occupational Health and Safety Standards.

BDOLF supports the rights of its employees to participate in a Collective Bargaining Agreement (CBA). It enjoys a constructive relationship with its duly recognized employee representative group.

BDOLF is an apolitical and non-partisan organization. It partners with government agencies and associations as a co-champion in the promotion of social development and environmental sustainability.

## **Employee Training and Development**

BDOLF pursues an empowering work environment for its employees to demonstrate their full capability and talents. All BDOLF employees receive a variety of training including Officer Development Program, Manager Development Program, and other targeted training programs.

## **Employee Assessment and Professional Advancement**

Every year, all BDOLF employee undergo an assessment process that encourages open communication between supervisor and team member. The Company prioritizes internal candidates for opportunities within the organization, including job rotation, to develop the skills necessary for a well-rounded employee.

BDOLF strives to build long-term relationships with its employees. It offers career development options and provides multiples training opportunities to equip its team members for professional advancement.

## **Cultivating the “Can Lead” Culture of Excellence and Innovation**

The capacity of BDOLF to innovate and anticipate transformations in the leasing and financing industry starts from its people’s passion for excellence and innovation. At the core is BDOLF’s commitment to its customers – to provide them with the highest level of customer service. This is summed up in BDO’s service philosophy of “We Find Ways.”

## **Customer-Focused**

Everything each BDOLF employee does must have the customer’s objective and interest in mind. It redefines the Company’s role beyond simply providing financial services to fulfilling the objectives of the customers.

Each year, 3 employees of BDOLF are recipients of the BDO Group Top Performer Award.

## **Out-of-the-Box Thinking**

Every BDOLF employee is encouraged to challenge conventional leasing and finance practices, beliefs, and processes if there is a better way to achieve the client’s objectives, without compromising quality, ethics or good governance.

## **Right Attitude**

All BDOLF employees are encouraged to go the extra mile to meet the client’s objectives. This is demonstrated in every BDOLF’s customer service attitude, incorporated in BDOLF’s human resource trainings is the development of values such as integrity, team spirit, hard work, and service.

Complementing BDOLF's commitment to build long-term relationships with its customers is the Company's efficient business processes and seamless digital tools.

## **Excellent Execution**

As one of the leading industry players in the field of leasing and financing in the Philippines, BDOLF is committed to doing it right, on time, and according to expectations every day.

## **Fostering the Spirit of Volunteerism, Social Responsibility and Environmental Consciousness**

The spirit of volunteerism and social responsibility is alive in each BDOLF employee. Working together with the BDO Group, the Company raises funds and builds multi-purpose halls all over the country to promote community spirit and unity. As of year-end 2019, the BDO Group has 7,457 volunteers and has built 9 multi-purpose centers. Total funds donated by BDO Group employees reached Php19 Million in 2019.

# Governance-Based Sustainability Strategy

BDOLF continuously enhances its corporate governance framework to sustain superior business performance anchored on the principles of accountability, transparency, integrity, and fairness, together with our partners.



## Good Governance for a Sustainable Future

At BDOLF, corporate governance is about effective oversight, doing the right thing, and providing sustainable value creation to promote the best interest of our various stakeholders.

The Company continually enhances its corporate governance framework to sustain superior business performance anchored on the principles of **fairness, integrity, transparency, accountability and performance**. These principles are consistently applied throughout the institution to support our corporate objective of delivering long-term value. BDOLF’s strong reputation is built on a culture of ethics and responsible business conduct, underpinned by a well-structured and effective system of governance.

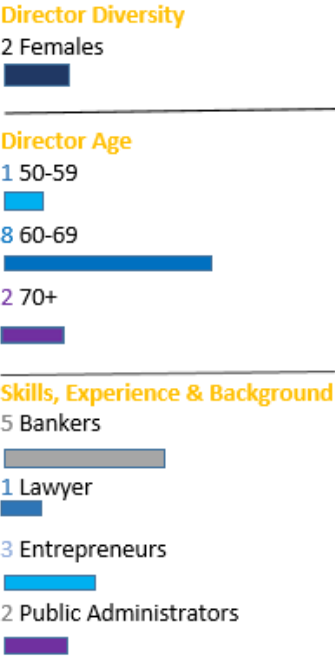
## Our Board of Directors

The diversity in skills, experience, gender, sexual orientation or preference, age, education, race, business and other related experiences are some of the key contributors to our successful Board oversight. We view this wide range of experiences and backgrounds as an essential element in maintaining strategic guidance and perspective for our growing business.

## Board Structure

The Board is composed of 11 members and aided by 1 Advisor. The members of the Board are all professionals with expertise in banking, accounting and finance, law, merchandise marketing, strategy formulation, bank regulations, and risk management. It is led by a Non-Executive Chairperson with 3

### Board Snapshot



Independent Directors, 2 Non-Executive Directors and 5 Executive Directors. Non-Executive Directors including Independent Directors comprise 55% of board strength, meeting the requirement of the Securities and Exchange Commission (SEC) and the Bangko Sentral ng Pilipinas (BSP) as well as meeting global best practice. This provides independent and objective judgment on significant corporate matters and ensures that key issues and strategies are objectively reviewed, constructively challenged, thoroughly discussed and rigorously examined.

## Our Directors

Name and Age	Role	Tenure	Independent	Nationality
<b>Teresita T. Sy, 69</b>	Chairperson	14		Filipino
<b>Roberto E. Lapid, 63</b>	Vice Chairman & President	9 5		Filipino
<b>Jesse H.T. Andres, 55</b>	Director	14	•	Filipino
<b>Antonio N. Cotoco, 71</b>	Director	18		Filipino
<b>Ma. Leonora V. de Jesus, 69</b>	Director	11	• Lead	Filipino
<b>Jeci A. Lapus, 66</b>	Director	5		Filipino
<b>Vicente S. Perez, Jr., 61</b>	Director	2	•	Filipino
<b>Luis S. Reyes, Jr., 62</b>	Director	7		Filipino
<b>Nestor V. Tan, 61</b>	Director	12		Filipino
<b>Exequiel P. Villacorta, Jr. 74</b>	Director	15		Filipino
<b>Walter C. Wassmer, 62</b>	Director	10		Filipino

## Our Advisor

Name	Role	Nationality
Edmund L. Tan	Advisor	Filipino

## Board Committees

The Board has established six (6) committees to help in discharging its duties and responsibilities. These committees derive their authority from and report directly to the Board. Their mandates and scopes of responsibility are set forth in their respective Terms of Reference, which are subjected to annual review and may be updated or changed in order to meet the Board's needs or for regulatory compliance. The number and membership composition of committees may be increased or decreased by the Board as it deems appropriate, consistent with applicable laws or regulations specifically on the majority membership and chairmanship of independent directors in various committees. As of December 31, 2019, five of six board-level committees are chaired by Independent Directors.



## THE BOARD OF DIRECTORS

- Responsibility for good governance lies with the Board.
- It is responsible for providing effective leadership and overall direction to foster the long-term success of the Company.
- It oversees the business affairs of the Company, reviews the strategic plans and performance targets, financial plans and budgets, key operational initiatives, capital expenditures, acquisitions and divestments, annual and interim financial statements, and corporate governance practices.
- It oversees management performance, enterprise risk management framework, internal control system, financial reporting and compliance, related party transactions, continuing director education, and succession plans for the Board and CEO.
- It considers sustainability issues related to the environment and social factors as part of its sustainable financial institution practices
- It oversees management performance, enterprise risk management framework, internal control system, financial reporting and compliance, related party transactions, continuing director education, and succession plans for the Board and CEO.
- It considers sustainability issues related to the environment and social factors as part of its sustainable financial institution practices.

### Executive Committee

- Acts as the main approving body for loans, credits, advances or commitments and property-related proposals. The Committee reviews major credit policies, including delegation of credit approval limits.
- Aside from credit-related matters, the Committee endorses to the Board for approval the establishment of new branches and subsidiaries as well as any amendment to the Company's Articles of Incorporation and By-laws.
- Performs oversight on the Company's sustainability program.

### Related Party Transactions Committee

- Assists the Board in its oversight of the conduct of all Related Party Transactions (RPTs) to protect the interests of the Company and its stakeholders.
- Ensures proper disclosure of all approved RPTs in accordance with applicable legal and regulatory requirements, and confirmation by majority vote on the Annual Stockholders' Meeting of the Company's significant transactions with related parties

### Audit Committee

- Oversees the financial reporting process, internal control and risk management systems, internal and external audit functions, and compliance with governance policies, applicable laws, and regulations.

### Corporate Governance Committee

- Primarily tasked to assist the Board in formulating governance policies and overseeing the implementation of governance practices
- Conducts the performance evaluation of the Board of Directors, its committees, executive management, peer evaluation of directors, and self-evaluation of its performance
- Oversees education programs of directors and key officers

### Risk Management Committee

- Responsible for the development of the Company's risk policies, sets the risk appetite, and defines the appropriate strategies for identifying, quantifying, managing, and controlling risk exposures
- Oversees the implementation and review of the risk management plan on an integral enterprise-wide basis. It is also responsible for reassessing the continued relevance, comprehensiveness, and effectiveness of the risk management plan and revises it when needed

### Nominations Committee

- Leads the process for identifying and recommending possible Director candidates as well as positions requiring appointment by the Board of Directors
- Responsible for considering succession planning and the skills and competencies identified, and the search for candidates who are aligned with the Company's directors to fill the gaps

## **Corporate Policies**

### **Code of Ethics**

The BDOLF Code of Ethics is the ethical standards of the Company's officers and employees in all their activities. It outlines the principles and policies that govern the activities of the institution and sets forth the rules of conduct in the workplace and the standards of behavior of its directors, officers, and employees in their activities and relationship with external stakeholders.

### **Data Privacy**

BDOLF implements strict compliance with data privacy and protection laws. All sensitive and confidential information obtained in the course of employment, directorship, engagement of services, or other work or business-related relationship with BDOLF must not be divulged unless authorized in accordance with internal and regulatory requirements, and must not be used for any personal or financial gain. This is in compliance with the applicable information security risk policies of BDOLF and the data privacy and protection laws enjoined.

### **Internal Fraud, Breach of the Code, or Other Unethical/Illegal Activities**

BDOLF believes that the key to long-term sustainability and success largely depends on having a good name and solid reputation in the industry. Any director or employee who becomes aware of the violations of law, regulations, or policies should report the same to appropriate authorities, with protection from reprisal and discrimination. Reporting to violations should be done in good faith and without malice. This is embodied in the BDOLF Policy of Disclosure of Sensitive Confidential Matters to Management that governs the policies and procedures in handling the whistle blower cases.

### **Acceptance/Solicitation of Gifts, Bribery and Corruption**

Employees, suppliers, partners, and other third parties must avoid giving or receiving gifts or entertainment if these might improperly influence the recipient's decision-making or might be perceived to do so. They must not also offer or take any form of illegal or improper payment.

### **Anti-money Laundering and Counter Terrorist Financing**

The Company seeks to prevent money laundering, combat terrorist financing, and stop the flow of funds by detecting and reporting money laundering and terrorist financing red flags, and establishing policies and guidelines as articulated in a Board-approved Money Laundering and Terrorist Financing Prevention Program Manual (MTPP) aligned with anti-money laundering laws and BSP regulations, with which frontliners and responsible company officers comply. The Company's MTPP supports the conduct of proactive and targeted monitoring initiatives to identify suspected money launderers and terrorists as well as terrorist-related transactional activities.

Further information regarding BDOLF's corporate policies can be found in the Annual Report and at [www.bdo.com.ph/leasing](http://www.bdo.com.ph/leasing).

# Disaster Response Sustainability Strategy

We leverage our resources towards the relief, rehabilitation and recovery of disaster-stricken communities.



*Outreach Activity in Batangas City (Taal Volcano Eruption)*

As member of the BDO Group, BDOLF pursues its corporate citizenship initiatives through BDO Foundation, BDO's corporate social responsibility arm. Backed by the BDO community, the Foundation develops and implements programs designed to address the needs of the underprivileged and underserved members of the society. Its advocacies fall under two pillars: disaster response, which includes relief, rehabilitation, and reconstruction programs; and financial inclusion which was launched in 2018.

## Disaster Response

Leveraging the wide network of BDO branches and satellite offices across the country, the Foundation mobilizes BDO volunteers to mount relief work in communities affected by natural or man-made disasters. Branch officers and staff visit disaster-stricken barangays and distribute relief packs containing food, rice, and water to affected residents. In 2019, BDO Foundation conducted 240 relief operations and 471,199 families were served.

## Rehabilitation of Rural Health Units

BDO Foundation determines the long-term work that needs to be done as part of its disaster response advocacy, of which the rehabilitation of rural health units is a high priority. The rehabilitation includes various units and spaces for mothers and infants, children, senior citizens, persons with disabilities, and other patients. New furniture is installed. The foundation also builds play areas for children complete with books and toys, waiting lounges for the comfortable use of senior citizens, and breast-feeding stations for

nursing mothers. BDO Foundation has rehabilitated 69 rural health units for 4.4 million beneficiaries in 2019.

## **School Building Program**

In support of the Adopt-A-School program of the Department of Education and as part of the Foundation's rehabilitation and reconstruction program, BDO Foundation constructs new school buildings in areas affected by natural disaster or armed conflict. In 2018, the Foundation constructed a two-storey, four-classroom school building for Nanapuan Elementary School in Marawi City, Lanao del Sur, and a technical-vocational education and training (TVET) building for the Don Bosco Training Center in Mati City, Davao Oriental. In 2019, BDO Foundation helped construct 34 school buildings and 116 classrooms benefitting 32,657 students.

## **Resettlement Homes**

BDO Foundation also builds typhoon-resilient homes for families displaced by disasters. The Foundation partnered with the United Nations Human Settlements Program (UN Habitat) for the construction of houses in Barangay Cabalawan, Tacloban City for families affected by Typhoon Yolanda. Of the total 100 targeted homes, 40 houses have been turned over to members of the Villa de Tacloban Homeowners Association Inc., while the remaining 60 units are in various stages of construction. In 2019, 9 housing projects were initiated, 636 resettlement homes were constructed, and 576 families benefitted.

# Sustainability Contribution Strategy

We support the achievement of national economic goals through financial inclusion and impact financing in infrastructure, eco-friendly solutions, green facilities, and disaster resilience initiatives.



## Promoting Financial Inclusion

BDO Foundation launched its program on financial inclusion to help improve the financial literacy of underserved Filipinos. Under this program are two focus areas: financial education and capability-building for small entrepreneurs. It also extended its financial education program to farmers trained under SM Foundation's Kabalikat sa Kabuhayan farmers' training program.

To achieve a wide reach, BDO Foundation partnered with Bangko Sentral ng Pilipinas (BSP) and the Department of Education (DepEd) to introduce a financial education program for public school teachers, non-teaching personnel, and students. This initiative supports DepEd's efforts to strengthen the financial education in its K to 12 curriculum. It also contributes to the pillar on Financial Education and Consumer Protection of the BSP's National Strategy for Financial Inclusion.

For better comprehension and retention, BDO Foundation supplements its financial training with financial literacy videos which were produced in collaboration with the BSP and DepEd. The first batch completed in 2019 focused on topic of savings. This was followed by videos on financial management, investments, the responsible use of credit, and how to avoid scams which were released in 2019.

Lastly, BDO Foundation expanded its scope by partnering with the Philippine Army, Overseas Workers Welfare Administration (OWWA), and the BSP to include additional lessons on budgeting, loans, debt management, and retirement planning.

Through this advocacy, BDO Foundation hopes to promote financial inclusion particularly among educators, soldiers, OFWs, and the Filipino youth. It strives to contribute to the long-term development of a financially literate citizenry and nation-building

### Financial Inclusion

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**5**  
Financial education  
videos produced

---

**150,000**  
Students engaged

---

**3,000**  
Teachers engaged

---

In support of the government’s “Build, Build, Build” campaign, BDOLF leverages its resources to finance strategic development projects that accelerate economic activity and attract local and foreign investments to promote sustained growth for the country.

### Harnessing Renewable Sources of Energy

The devastating effect of climate change has taken center stage in the global arena in recent years. International agencies have campaigned to prioritize the mitigation of an environmental effects of industrialization. Under the Paris Agreement, 175 states committed to strengthen the global response to the threat of climate change.

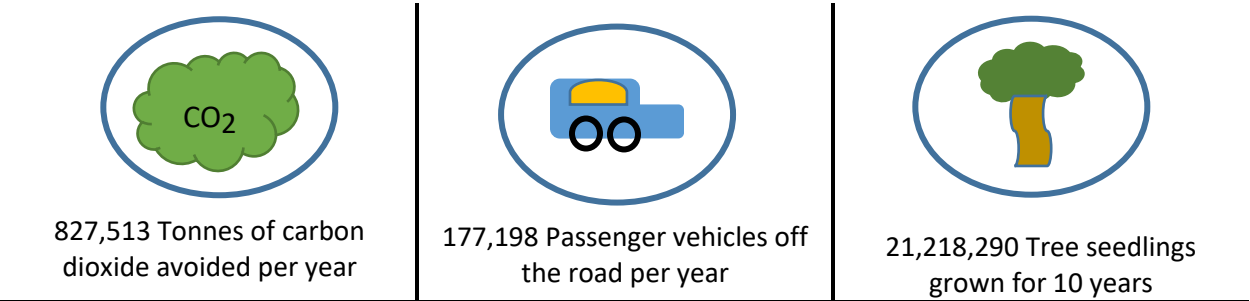
In the context of sustainable development and efforts to address environmental concerns, BDOLF serves as one of the pioneers in instituting Sustainable Energy Finance in partnership with the International Finance Corporation as an effective approach to harnessing renewable sources of energy.

Sustainable Energy Finance strategies to address environmental concerns include:

- Reinforcing current Social and Environmental Management System (SEMS) Policy in lending operations
- Integrating environmental risk management in responsible finance
- Accelerating low carbon energy through Green Finance

In 2019, BDOLF has extended loans and leases to 5 SEF projects amounting to almost Php500 Million.

### Environmental and Social benefits





## BDO Sustainable Corporate Initiatives



The **BDO Corporate Center Ortigas** has earned a certification on Leadership in Energy and Environmental Design (LEED) in 2018, making it the first high-rise office-commercial building in the Philippines to achieve a LEED Gold Certification under the “New Construction Category.” Various sustainable methods were implemented in the construction including the installation of automated monitoring and control systems such as CO2 sensors, occupancy sensors, daylight dimming, and timing switches. The same consciousness is practiced across BDO offices nationwide, incorporating environment-friendly designs and programs to achieve eco-efficient operations.



**Annex B**  
Revised Corporate Governance Manual





111292018001176



# SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines  
Tel: (632) 726-0931 to 39 Fax: (632) 725-5293 Email: mis@sec.gov.ph

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Company Representative

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Company Information

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**SEC Registration No.** 0000097869  
**Company Name** BDO LEASING AND FINANCE, INC.  
**Industry Classification** FINANCING COMPANY OPERATIONS  
**Company Type** Stock Corporation

Document Information

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**Document ID** 111292018001176  
**Document Type** MANUAL ON CORPORATE GOVERNANCE  
**Document Code** MCG  
**Period Covered** November 22, 2018  
**No. of Days Late** 0  
**Department** CFD  
**Remarks**

# COVER SHEET

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S.E.C. Registration Number

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(Company's Full Name)

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

<b>Angelita C. Tad-y</b>
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Contact Person

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Month      Day  
Fiscal Year

REVISED MANUAL ON CORPORATE GOVERNANCE
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FORM TYPE

<b>840-7000 local 45475</b>
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Company Telephone Number

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Month      Day  
Annual Meeting

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Secondary License Type, If Applicable

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Dept. Requiring this Doc.

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Amended Articles Number/Section

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Total No. of Stockholders

Total Amount of Borrowings

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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Cashier

STAMPS
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Remarks = pls. use black ink for scanning purposes

November 22, 2018

**ATTY. RACHEL ESTHER J. GUMTANG-REMALANTE**

Officer-in-Charge  
Corporate Governance and Finance Department  
Securities and Exchange Commission  
Ground Floor, Secretariat Building, PICC Complex  
Roxas Boulevard, Pasay City

Dear Atty. Gumtang-Remalante:

We respectfully submit herewith the Revised Corporate Governance Manual of BDO Leasing and Finance, Inc. (BDOLF) duly signed by BDOLF's Chairperson and Corporate Secretary. The Revised Corporate Governance Manual was approved by BDOLF's Board of Directors on November 7, 2018.

We trust that you will find the foregoing satisfactory.

Thank you.

Very truly yours,



**JOSEPH JASON M. NATIVIDAD**  
Corporate Secretary

Att.a/s

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

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

We find ways®

REPUBLIC OF THE PHILIPPINES )  
CITY OF MAKATI ) SS.

**SECRETARY'S CERTIFICATE**

I, **JOSEPH JASON M. NATIVIDAD**, Filipino, of legal age and with office address at the 14<sup>th</sup> Floor, North Tower, BDO Corporate Center, 7899 Makati Avenue, Makati City, under oath, do hereby certify that:

1. I am the duly appointed Corporate Secretary of **BDO LEASING AND FINANCE, INC. ("BDOLF")**, a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with business address at the 39th Floor, BDO Corporate Center Ortigas, No. 12 ADB Avenue, Ortigas Center, Mandaluyong City, and in that capacity, I have custody of the corporate records of BDOLF;

2. Based on the records, during the Regular meeting of the Board of Directors of the Corporation held on November 7, 2018, at which a quorum was present and acting throughout, the following resolution was unanimously passed and approved:

**"RESOLVED**, That the Board of Directors of BDO Leasing and Finance, Inc. (the "Corporation") approve and confirm, as it hereby approves and confirms, the revised Manual on Corporate Governance of the Corporation, as approved under CG Resolution No. 2017-05 of the Corporate Governance Committee adopted on October 16, 2017, and which reads as follows:

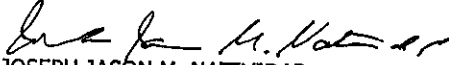
"CG Resolution No. 2018-03

**RESOLVED**, That the Corporate Governance Committee of BDO Leasing and Finance, Inc. (the "Corporation") hereby approves and recommends for the approval of the Board of Directors, the Revised Manual on Corporate Governance of the Corporation, copy of which is attached as Annex "A" to the Minutes and made an integral part of this Resolution."

3. The above-quoted resolution has not been revoked or rescinded and continues to be in full force and effect; and

4. I am executing this certificate for whatever legal purpose it may serve.


**IN WITNESS WHEREOF**, I have hereunto affixed my signature this NOV 14 2018 at Makati City, Philippines.

  
JOSEPH JASON M. NATIVIDAD  
Corporate Secretary

NOV 14 2018

**SUBSCRIBED AND SWORN** to before me this \_\_\_ day of \_\_\_\_\_ at Makati City, affiant exhibiting to me his Passport No. EC1898564 issued at DFA-Manila with validity up to August 13, 2019, and his Driver's License No. C05-89-038680 with validity up to 02 September 2022.

Doc. No. 324  
Page No. 66  
Book No. II  
Series of 2018.

  
Atty. REY SAN C. OLIVA  
Admission No. 16-734  
Notary Public until 31 December 2018  
14/F BDO North Tower, BDO Corporate Center  
7899 Makati Avenue, Makati City  
IBP No. ...  
PTR No. ...  
MCLE ...  
Makati City  
11/04/2018

**BDO LEASING AND FINANCE, INC.**  
**CORPORATE GOVERNANCE MANUAL**  
(Revised as of November 7, 2018)

**INTRODUCTION**

As a publicly listed company, BDO Leasing and Finance, Inc. (BDOLF or Company for brevity) believes that the key to long-term sustainability and success largely depends on having a good name and solid reputation in the market place. Thus, the business and operations of the Company will be conducted in accordance with the principles and best practices of good corporate governance.

The Company's corporate governance practices are anchored on our core values which guide us in our decisions, interactions and relationships with our shareholders and other stakeholders. These are as follows:

- **Commitment to Customers**  
We are committed to delivering products and services that surpass customer expectations in value and every aspect of customer services, while remaining prudent and trustworthy stewards of their wealth.
- **Commitment to a Dynamic and Efficient Organization**  
We are committed to creating an organization that is flexible, responds to change, and encourages innovation and creativity. We are committed to the process of continuous improvement in everything we do.
- **Commitment to Employees**  
We are committed to our employees' growth and development and we will nurture them in an environment where excellence, integrity, teamwork, professionalism, and performance are valued above all else.
- **Commitment to Shareholders**  
We are committed to providing our shareholders with superior returns over the long term.

The essential points of reference of this Manual are the principles enunciated in the Code of Corporate Governance for Publicly-Listed Companies and the latest Enhanced Corporate Governance Guidelines of our regulators

Through this manual, the Board aims to promote adherence, further strengthen the Company's commitment to good corporate governance, and align our corporate governance system with the international practice taking into account the continuous developments in national regulations.

The Board of Directors, management and staff hereby acknowledge that this Manual will be their guide to principled actions and responsible conduct in fulfilling their respective duties and responsibilities to stockholders and other stakeholders which include, among others, customers, employees, suppliers, financiers, government and community in which BDOLF operates.

The Manual, in conjunction with BDOLF's Articles of Incorporation, By-Laws and charters of the Board Committees, constitute the governance framework of the Company.

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## SECTION 1. THE BOARD'S GOVERNANCE RESPONSIBILITIES

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### BOARD GOVERNANCE FRAMEWORK

#### Board of Directors

- 1. Mix.** The Board shall be composed of qualified directors with an appropriate mix of competence, expertise and diverse skills to enable it to perform its roles and responsibilities effectively. The stockholders of BDOLF shall elect the members of the Board during the annual meeting. (Recommendation 1.1.)
- 2. Composition.** The Board of Directors of the Company shall have eleven (11) members composed of executive and non-executive directors, the latter including independent directors. The non-executive directors shall constitute at least majority of the Board to promote the independent oversight of management by the board of directors, and who shall be owners of at least (1) share of the common stock of the Company (Article III, BDOLF By-Laws, as amended) complemented and aided by an adviser. (Recommendation 1.2)
- 3. Director Orientation and Continuing Education.** All new directors joining the Board, except those specifically exempted under BSP Circular 969 are required to undergo an orientation program within 3 months from date of election or appointment. This is intended to familiarize the new directors on their statutory/fiduciary roles and responsibilities in the Board and Committees, the Company's strategic plans, enterprise risks, structures, business activities, compliance programs, Code of Conduct and Business Ethics, Personal Trading Policy and Corporate Governance Manual. All directors are also encouraged to participate in continuing education programs at the Company's expense to maintain a current and effective Board. The orientation program for the first time directors shall for at least 8 hours, while the annual continuing training shall be at least for 4 hours. The training programs should cover topics relevant in carrying out their duties and responsibilities as directors. All members of the Board of Directors are required to attend the annual corporate governance training. (Recommendation 1.3)
- 4. Board Diversity.** The Company recognizes that diversity among its directors will foster critical discussion and promote balanced decision by the Board by utilizing the differences in perspectives of its directors. It views diversity at the Board level which includes difference in skills, experience, gender, sexual orientation, age, religion, education, race, business and other related expertise as an essential element in maintaining an effective board for strong corporate governance.

The Board as a whole should possess all of the necessary skills, experience and functional expertise to oversee the strategic direction of the Company. In determining the optimum composition of the Board and in filling vacancies, the Nominations Committee will consider all aspects of diversity in order to maintain an appropriate balance of skills, background, experience, and knowledge on the Board.

The Company also recognizes the important role of women with appropriate and relevant skills and experience that can contribute to the diversity of perspectives in the Board.

The diversity representation of the Board will be part of the annual performance and effectiveness evaluation of the board and its committees. The Corporate Governance Committee will include this in its report to the Board of the final results of the annual performance evaluation. (Recommendation 1.4)

5. **Independent Officers.** In performing its duties, the Board shall be assisted by a Corporate Secretary and a separate Compliance Officer with a rank of Senior Vice President who are not members of the Board. They should attend annually a training on corporate governance. Members of the board of directors shall not be appointed as Corporate Secretary or Chief Compliance Officer.

**Corporate Secretary.** The Corporate Secretary is an officer of the Company and shall be a Filipino citizen. He shall work and deal fairly and objectively with all the constituencies of the BDOLF, namely, the Board, management, stockholders and other stakeholders. He must have the legal skills of a chief legal officer, if he is not the general counsel. He should also have adequate administrative skills and the interpersonal skills of a human resources officer. He should also possess adequate knowledge and work experience in the operations of leasing and financing business. The duties and responsibilities of the Corporate Secretary shall be the following:

- Assists the Board and the Board committees in the conduct of their meetings, including preparing annual schedule of Board and committee meetings and the annual board calendar, and assisting the chairs of the Board and its committees to set agendas for those meetings;
- Safe keeps and preserves the integrity of the minutes of the meetings of the Board and its committees, as well as other official records of the Company;
- Keeps abreast on relevant laws, regulations, all governance issuances, relevant industry developments and operations of the corporation, and advises the Board and the Chairperson on all relevant issues as they arise;
- Works fairly and objectively with the Board, management and stockholders and contributes to the flow of information between the Board and management, the Board and its committees and the Board and its stakeholders, including shareholders;
- Advises on the establishment of board committees and their terms of reference;
- Informs members of the Board, in accordance with the Company's by-laws, of the agenda of their meetings at least five working days in advance, and ensures that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;
- Attends all Board meetings, except when justifiable causes, such as illness, death in the immediate family and serious accidents, prevent him/her from doing so;
- Performs required administrative functions;
- Keeps custody of the Stock Certificate Book, Stock and Transfer Book, the Corporate Seal, and other records, papers and documents of the Company;
- Prepares ballots for the annual election of directors, and keep a complete and up-to-date roll of the stockholders and their addresses;
- Submits to the Securities and Exchange Commission at the end of the Company's fiscal year an annual certification on the attendance of the directors during the Board meetings
- Oversees the drafting of the by-laws or its amendments and ensures that they conform with regulatory requirements; and
- Performs such other duties and responsibilities as maybe provided by the SEC. (Recommendation 1.5)

**Compliance Officer.** The Company's Compliance Officer (CO) shall be appointed by the Board of Directors and shall be subject to confirmation by the SES Committee of the BSP. The CO of BDOLF shall report functionally to the Audit Committee, and administratively to the Office of the President.

The Compliance Officer shall have commensurate skills and expertise to provide appropriate guidance and direction to the Company on the development, implementation and maintenance of the compliance program.

The role of the Compliance Officer includes the following:

- Ensures proper on-boarding of new directors;
- Monitors, reviews, evaluates and ensures the compliance by BDOLF, its officers and directors with the relevant laws, the SEC Code, rules and regulations and all governance issuance of regulatory agencies thru the implementation of the Company's compliance system and program in accordance with the requirements of the regulators, including but not limited to the identification and control of compliance risks, prudential reporting obligations as well as compliance training;
- Reports the matter to Senior Management and the Board if violations are found and recommends the imposition of appropriate disciplinary action;
- Ensures the integrity and accuracy of all documentary submission to regulators;
- Collaborates with other departments to properly address compliance issues, which may be subject to investigation;
- Identifies possible areas of compliance issues and works towards the resolution of the same;
- Ensures the attendance of board members and key officers to relevant trainings;
- Tracks and evaluates all new regulations or amendments to existing regulatory issuances and disseminates these immediately to the implementing units for their information and action;
- Initiates requests for policy pronouncements or revisions to ensure new regulations are made part of the Company's policies and procedures;
- Provides guidance, advisories and training to employees on significant laws and regulations;
- Liaises with the regulatory authorities (i.e., BSP and SEC) and to appear before these bodies upon summons to clarify matters related to the compliance system as well as compliance with the provisions and requirements of the SEC's Revised Code of Corporate Governance as well as the Company's Corporate Governance Manual.
- Performs such other duties and responsibilities as may be provided by the regulators. (Recommendation 1.6)

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## **SECTION 2. ESTABLISHING CLEAR ROLES AND RESPONSIBILITIES OF THE BOARD**

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### **DUTIES, FUNCTIONS & RESPONSIBILITIES OF THE BOARD**

**Fiduciary Duty.** The Board acts on behalf of the Company and as such, it is vested with the fiduciary duties of loyalty and care for which Board members should act on a fully informed basis, in good faith, with due diligence, and in the best interest of the Company and all shareholders. (Recommendation 2.1)

**Key Functions.** The Board shall fulfill certain functions, including the following:

- Review and guide corporate strategy, risk management policies and procedures, annual budgets and business plans, and monitor their implementation;
- Set financial objectives, monitor implementation and corporate performance; and
- Approve the issuance of capital stocks, distribution of dividends, strategic plans, major capital expenditures, acquisitions, equity investments, fixed assets, mergers, joint ventures, divestments, and significant related party transactions. (Recommendation 2.2)



For the roles and responsibilities of the Chairperson in Recommendation 2.3, please refer to page 24.

**Responsibilities.** The Board is collectively responsible for the sustainable long-term shareholder value of the institution, sustain its competitiveness, profitability and industry leading position in a manner consistent with its corporate objectives.

It leads in establishing the tone and practices of good corporate governance at the top. It sets the Group's corporate values and high ethical standards of business conduct for itself and all members of the Group. Through its oversight, monitoring and review functions, the Board ensures that the Group is being run in a sound and prudent manner on a going concern basis in order to fulfill its obligations to all majority and minority shareholders while upholding and protecting the interests of different constituencies. To this end, the Board exercises the following responsibilities:

- 1. Management Succession Planning.** The Board, in coordination with the Corporate Governance Committee, shall ensure that BDOLF has in place an appropriate and updated succession planning for key executives to address emergency in the event of extraordinary circumstances and ensure continuity of operations. (Recommendation 2.4)

On the retirement age of directors, however, the Board recognizes the fact that chronological age is not the main factor in determining effectiveness of the director in discharging its duties and responsibilities. Rather, the Board will lose valuable wisdom from the senior directors. By law, once directors are elected by shareholders, they could not be removed because of age. Hence, the Board decided to hold in abeyance the implementation of the retirement age policy for directors.

- 2. Remuneration and Other Incentives of Directors and Senior Management.** The levels of remuneration of BDOLF shall be sufficient to attract and retain experienced and professional directors and officers needed to run the Company successfully. The board of directors shall approve a remuneration and other incentives policy that is appropriate and consistent with the Company's operating and risk culture, long-term business and risk appetite, performance, and control environment. Said policy shall cover all employees and should be designed to encourage good performance that supports the long-term interest of the Company and its stakeholders. It shall be aligned with prudent risk taking and explicitly discourage excessive risk taking as defined by internal policies. The Compensation Committee shall monitor and review the remuneration and other incentives policy including plans, processes and outcomes, at least annually, to ensure that it operates and achieves the objectives as intended.

The Company shall consider the following in the design of the remuneration and other incentives policy:

- a. The remuneration and incentives package shall take into account the employee's position, role, responsibilities and activities in the Company. It shall also consider the risks that the employee takes on behalf of the Company. In this regard, it should be sensitive to prospective risks and risk outcomes that have been realized and considers the overall performance of the Company.

- b. Remuneration and incentive pay-out schedule should be sensitive to the time-horizon of risk. The policy may include provisions that defer payment until risk outcomes are better known or provisions under which remuneration and incentives may be reduced or reversed if new facts emerge showing that the remuneration and incentives paid was based on erroneous assumptions, such as misreporting or if it is discovered that the employee has failed to comply with internal policies or legal requirements.

c. Remuneration of employees in risk control functions (i.e., Internal Audit, Compliance, and Risk Management Functions) shall be based on the achievement of their objectives and shall be independent of the business lines which they oversee.

d. The remuneration and other incentives policy for directors should be consistent with the long-term interest of the Company, does not encourage excessive risk-taking, and is not in conflict with the director's fiduciary responsibilities. It shall be submitted for approval of the stockholders.

BDOLF's annual reports and information statements shall include a clear, concise and understandable disclosure of all plan and non-plan compensation awarded to, earned by, paid to, or estimated to be paid to, directly or indirectly to all individuals serving as the CEO or acting in a similar capacity during the last completed fiscal year, and the Company's four (4) most highly compensated executive officers other than the CEO who were serving as executive officers at the end of the last completed year. (Recommendation 2.5)

- 3. Selection, Nomination and Election of Board Members.** The Nominations Committee is tasked to undertake the process of identifying the qualifications of directors aligned with the company's strategic direction. In evaluating the suitability of individual board member and promoting diversity in the composition of the Board, the Nominations Committee should take into account the relevant qualifications of every candidate nominated for election such as among others, physical/mental fitness, relevant educational and professional background, personal track record, experience/training, commitment to contribute, willingness to serve and interest to remain engaged and involved without undue prejudice to race, gender, ethnic origin, religion, age or sexual orientation. At least one of the non-executive directors should have prior working experience in the financial industry or a relevant business group. For the reelection of incumbent directors, the Nominations Committee should also consider the results of the most recent self-assessment of the Board and peer evaluation, director's attendance record in meetings, participation in Board activities and overall contribution to the functioning of the Board. A former partner or employee of the Company's current external auditing firm will not be qualified for nomination as member of the Board. The Nominations Committee will use to the extent possible, external search firm or external data bases in selecting the pool of candidates for the members of the Board. Any stockholder, whether majority or minority has the right to nominate candidates for seats in the Board of Directors who possess all the qualifications and none of the disqualifications of Directors as prescribed in the Company's By-Laws and the rules of regulators. Election/appointment of directors shall be subject to the confirmation by the Monetary Board. Any succeeding resignation, retirement, or replacement of directors shall be reported to the appropriate department of the SES with twenty (20) banking days after such resignation/retirement/replacement.

**Qualifications of Directors.** The minimum qualifications to be a Director of the BDOLF shall be the following:

- a. He/She shall be at least twenty-five (25) years of age at the time of his election or appointment.
- b. He/She shall be at least a college graduate or have at least five (5) years experience in business.
- c. He/She must have attended a special seminar on corporate governance for board directors.

He/she must submit to the Bangko Sentral a certification of compliance with the Bangko Sentral prescribed syllabus on corporate governance for first time directors and documentary proof of such compliance.

- d. He/She must be fit and proper for the position, and in this regard, the following shall be considered: integrity/probity, physical/mental fitness, competence, relevant education/financial literacy training, possession of competencies relevant to the job, such as knowledge and experience, skills, diligence and independence of mind.
- e. and sufficiency of time to fully carry out responsibilities. In assessing a director's integrity/probity, consideration shall be given to the director's market reputation, observed conduct and behavior, as well as his ability to continuously comply with Company's policies and applicable laws and regulations, including market conduct rules, and the relevant requirements and standards of any regulatory body, professional body, clearing house or exchange, or government and any of its instrumentalities/agencies.
- f. He/She must have a practical understanding of the business of BDOLF.
- g. He/She must be a member of good standing in the relevant industry, business or professional organizations.

#### **Disqualifications of Directors**

##### **A. Permanent Disqualification**

The following are permanently disqualified to become a Director of BDOLF:

- a. Any person who has been convicted by final judgment or order by a court, or competent administrative body, for offenses involving moral turpitude, fraud, estafa, embezzlement, extortion, counterfeiting, forgery, bribery, false affirmation, perjury, malversation, swindling, theft and other fraudulent acts.
- b. Any person who has been convicted by final judgment by a court for violation of banking laws.
- c. Any person who has been judicially declared insolvent, spendthrift or incapacitated to contract.
- d. A Director, Officer, or employee of a closed Company who was responsible for such Company's closure as determined by the Monetary Board.
- e. Any person convicted by final judgment or order by a competent judicial or administrative body of any crime that [a] involves the purchase or sale of securities as defined in the Securities Regulation Code (SRC), [b] arises out of the person's conduct as underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker, or [c] arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house, Company or as an affiliate person or any of them.
- f. Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the Securities and Exchange Commission (SEC) or any court or administrative body of competent jurisdiction from [a] acting as underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; [b] acting as director or officer of a

bank, quasi-bank, trust company, investment house, or investment company; [c] engaging in or continuing any conduct or practice in any of the above capacities mentioned in [a] and [b] above, or willfully violating the laws that govern securities and banking activities.

The disqualification should also apply if (a) such person is the subject of an order of the SEC, BSP or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, Securities Regulations Code or any other law administered by the SEC or BSP, or under any rule or regulation issued by the Commission or BSP, (b) such person has otherwise been restrained to engage in any activity involving securities and banking; or (c) such person is the subject of an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the organization;

- g. Any person who has been adjudged by final judgment or order of the SEC, court or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Corporation Code, SRC or any other law administered by the SEC or the Bangko Sentral ng Pilipinas (BSP), or any of its implementing rules, regulations or orders.
- h. Any person earlier elected as independent director who becomes an officer, employee, or consultant of the Company;
- i. Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated above.
- j. Any person convicted by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Corporation Code committed within five (5) years prior to the date of his election.
- k. Other grounds as the SEC may provide.

#### **B. Temporary Disqualification**

The following are temporarily disqualified from holding a director position in the Company:

- a. Any person who refuses to fully disclose the extent of his business interest to the appropriate supervising and examination department of the BSP when required pursuant to a provision of law or of a BSP regulatory issuance. The disqualification shall be in effect as long as the refusal persists.
- b. Any person who refuses to comply with the disclosure requirements of the SRC and its implementing rules and regulations. The disqualification shall be in effect as long as the refusal persists.
- c. Any Director who has been absent or have not participated in more than fifty percent (50%) of all regular and special meetings of the Board of Directors during his incumbency or any twelve (12) month period during said incumbency, and any director who failed to physically attend at least twenty-five percent (25%) of all board meetings in any year. This disqualification shall apply for purposes of the succeeding election.
- d. Any person who is delinquent in the payment of his financial obligations and those of his related interests. The disqualification shall be in effect as long as the deficiency persists.

- e. Any person convicted for offenses involving dishonesty or breach of trust or violation of banking laws but whose conviction has not yet become final and executory.
- f. Any director and officer of closed banks pending their clearance by the Monetary Board.
- g. Any Director disqualified for failure to observe/discharge his duties and responsibilities prescribed under existing regulations. The disqualification applies until the lapse of the specific period of disqualification or upon approval by the Monetary Board.
- h. Any person dismissed/terminated from employment for cause. The disqualification shall be in effect until the person concerned has cleared himself of involvement in the alleged irregularity.
- i. Any person under preventive suspension.
- j. Any person with derogatory records with law enforcement agencies. The disqualification shall be in effect until the person concerned has cleared himself of involvement in the alleged irregularity.
- k. If the beneficial equity ownership of an independent director in the Company or its subsidiaries and affiliates exceeds two percent (2%) of its subscribed capital stock. The disqualification shall be lifted if the limit is later complied with. The temporarily disqualified director shall, within sixty (60) business days from such disqualification, take the appropriate actions to remedy or correct the disqualification.
- l. Any director who failed to attend special seminar for Board of Directors required under item “c” of Subsection X141.2 of the Manual of Regulations of Banks.
- m. Any director found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of removal from office is imposed, and which finding of the Monetary Board is pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court.
- n. Any director found by the Monetary Board to be unfit for the position of directors or officers because he/she was found administratively liable by another government agency for violation of banking laws, rules and regulations or any offense/violation involving dishonesty or breach of trust, and which finding of said government agency is pending appeal before the appellate court, unless execution or enforcement thereof is a restrained by the court.
- o. Any director found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of suspension from office or fine is imposed, regardless whether the finding of the Monetary Board is final and executory or pending appeal before the appellate court, unless execution or enforcement thereof is restrained by the court. (Recommendation 2.6)

### **Qualifications of Company Officers**

An officer must be fit and proper for the position he is being appointed to. In determining whether a person is fit and proper for a particular position, the following matters must be considered: integrity/probity, education/training, and possession of competencies relevant to the function such as knowledge and experience, skills and diligence.

In assessing an officer's integrity/probity, consideration shall be given to the office/s market reputation, observed conduct and behavior, as well as his ability to continuously comply with company policies and applicable laws and regulations, including market conduct rules, and the relevant requirements and standards of any regulatory body, professional body, clearing house or exchange, or government and any of its instrumentalities/agencies.

An appointed officer has the burden to prove that he possesses all the foregoing minimum qualifications and none of the cases mentioned under Subsection X150.2. An officer shall submit to the Bangko Sentral the required certifications and other documentary proof of such qualifications using Appendix 98 as guide within twenty (20) banking days from the date of meeting of the board of directors in which the officer is appointed/promoted. Non-submission of complete documentary requirements within the prescribed period shall be construed as his/her failure to establish his/her qualifications for the position and results to his/her removal therefrom.

Appointment of Treasurer and heads of internal audit, risk management and compliance functions regardless of rank, and other officers with the rank of senior vice president and above shall be subject to the confirmation by the Monetary Board or Supervision and Examination Sector (SES) Committee of the Bangko Sentral ng Pilipinas, as the case may be. Any succeeding resignation, retirement, or replacement of officers as mentioned shall be reported to the appropriate department of the SES with twenty (20) banking days after such resignation/retirement/replacement.

#### **Disqualifications of Company Officers**

- a. Except as may be authorized by the Monetary Board or the Governor, spouse or relative within the second degree of consanguinity or affinity of any person holding the position of Chairman, President, Executive Vice President or any position of equivalent rank, General Manager, Treasurer, Chief Cashier or Chief Accountant is disqualified from holding or being elected or appointed to any of said positions in the same bank/quasi-bank/leasing and financing companies; and the spouse or relative within the second degree of consanguinity or affinity of any person holding the position of Manager, Cashier, or Accountant of a branch or office of a bank/quasi-bank/trust entity/leasing and financing companies is disqualified from holding or being appointed to any of said positions in the same branch or office.
- b. Except as may otherwise be allowed under C.A. No. 108, otherwise known as “The Anti-Dummy Law”, as amended, foreigners cannot be officers or employees of the Company.

#### **4. Related Party Transactions**

BDOLF has established policies and procedures on related party transactions. These include definition of related parties, coverage of RPT policy, guidelines in ensuring arm’s-length terms, identification and prevention or management potential or actual conflicts of interest which arise, adoption of materiality thresholds, internal limits for individual and aggregate exposures, whistle- blowing mechanisms, and restitution of losses and other remedies for abusive RPTs. The RPT Committee reviews and endorses to the Board for final approval all material RPTs. The Related Party Transactions applies to BDOLF, its subsidiary and affiliates, as applicable and intended to ensure that every related party transaction is conducted in a manner that will protect the Company from conflict of interest which may arise between BDOLF and its Related Parties; and proper review, approval, ratification and disclosure of transactions between BDOLF and any of its related party/ies as required in compliance with legal and regulatory

requirements. The policy also requires that any member of the RPT Committee who has a potential interest in any related party transaction shall abstain from the discussion and endorsement of the related party transaction and any member of the Board who has an interest in the transaction must abstain from the deliberation and approval of any related party transaction. Please refer to Annex A for the Revised Related Party Transactions Policy. (Recommendations 2.7, 5.6 and 8.5)

## **5. Selection of Executive Management Team and Annual Performance Evaluation**

It is the responsibility of the Board to approve the selection and appointment of a competent executive management led by the President/CEO including the heads of control functions i.e. Compliance Officer, Chief Risk Officer and Chief Internal Auditor. Fit and proper standards must be applied in the selection process of key officers and due consideration must be given to their integrity, technical expertise and experience. The Board, through the Corporate Governance Committee, shall undertake the evaluation of the Executive Management team performance including the President/CEO based on established performance management framework and standards that are consistent with the Company's strategic objectives. (Recommendation 2.8 and 2.9)

## **6. Internal Control and Risk Management**

It is the responsibility of the Board to oversee that a sound and effective enterprise-wide risk management framework and appropriate internal control systems are in place to manage the risks and to provide reasonable assurance against material misstatement or loss. It is also responsible to review and approve the nature and extent of the key business risks that the Company is taking in pursuing its strategic objectives and providing oversight over its risk management policies and procedures, and approving the Internal Audit Charter. (Recommendation 2.10 and 2.11)

## **7. Board Charter**

The Charter of the Board of Directors ("Board Charter") of BDOLF serves as a guide to BDOLF's directors in the performance of their functions. It clearly states the roles, responsibilities, structure, and powers of the Board of Directors, subject to the provisions of the Corporation Code of the Philippines, BDOLF's Articles of Incorporation and By-Laws, other applicable laws or regulations, corporate governance best practices and policies of the Board.

The Revised Corporate Governance Manual of BDOLF approved by its Board of Directors on May 31, 2017 already incorporates in great detail the Board Charter. The Manual formally sets out and clearly specifies the roles, responsibilities, structure and powers of the Board, as well as embodies other relevant matters consistent with and in the light of the SEC Code of Corporate Governance for Publicly – Listed Companies.

BDOLF's Board of Directors acknowledges that this Manual as it incorporates the Board Charter, is their over-all guide to principled actions and responsible conduct in carrying out their fiduciary duties. (Recommendation 2.12)

## **DUTIES & RESPONSIBILITIES OF THE BOARD OF DIRECTORS**

**As a financial non-bank subsidiary of BDO Unibank, Inc., a BSP-regulated financial institution, BDOLF shall observe the herein listed duties and responsibilities of the Board of Directors and specific duties of the Directors as mandated in BSP Circular 969:**

## **SPECIFIC DUTIES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS**

The board of directors is primarily responsible for defining the Company's vision and mission. It has the fiduciary responsibility to the Company and all its shareholders including minority shareholders. It shall approve and oversee the implementation of strategies to achieve corporate objectives. It shall also approve and oversee the implementation of the risk governance framework and the systems of checks and balances. It shall establish a sound corporate governance framework. It shall approve the selection of the CEO and key members of senior management and control functions and oversee their performance.

- a. The board of directors shall define the Company's corporate culture and values. It shall establish a code of conduct and ethical standards in the Company and shall institutionalize a system that will allow reporting of concerns or violations to an appropriate body. In this regard, the board of directors shall:
  - (1) Approve a code of conduct or code of ethics, which shall articulate acceptable and unacceptable activities, transactions and behaviors that could result or potentially result in conflict of interest, personal gain at the expense of the Company as well as the corresponding disciplinary actions and sanctions. The code of conduct shall explicitly provide that directors, officers, and all personnel are expected to conduct themselves ethically and perform their job with skill, due care, and diligence in addition to complying with laws, regulations, and company policies.
  - (2) Consistently conduct the affairs of the Company with a high degree of integrity and play a lead role in establishing the Company's corporate culture and values. The board of directors shall establish, actively promote, and communicate a culture of strong governance in the Company, through adopted policies and displayed practices. The board of directors shall ensure that the CEO and executive team champion the desired values and conduct, and that they face material consequences if there are persistent or high profile conduct and value breaches.
  - (3) Oversee the integrity, independence, and effectiveness of Company's policies and procedures for whistleblowing. It shall allow employees to communicate, with protection from reprisal, legitimate concerns about illegal, unethical or questionable practices directly to the board of directors or to any independent unit. Policies shall likewise be set on how such concerns shall be investigated and addressed, for example, by an internal control function, an objective external party, senior management and/or the board of directors itself. It shall prevent the use of the facilities of the Company in the furtherance of criminal and other improper or illegal activities, such as but not limited to financial misreporting money laundering fraud, bribery or corruption.
- b. The board of directors shall be responsible for approving Company's objectives and strategies and in overseeing management's implementation thereof. In this regard, the board of directors shall:
  - (1) Ensure that the Company has beneficial influence on the economy by continuously providing services and facilities which will be supportive of the national economy.
  - (2) Approve the Company's strategic objectives and business plans. These shall take into account the Company's long-term financial interests, its level of risk tolerance, and ability to manage risks effectively. In this respect, the board of directors shall establish a system for measuring performance against plans.
  - (3) Actively engage in the affairs of the Company and keep up with material changes in the Company's business and regulatory environment as well as act in a timely manner to protect the long term interests of the Company.



- (4) Approve and oversee the implementation of policies governing major areas of the Company's operations. The board of directors shall regularly review these policies, as well as evaluate control functions (e.g., internal audit, risk management and compliance) with senior management to determine areas for improvement as well as to promptly identify and address significant risks and issues.
- c. The board of directors shall be responsible for the appointment/selection of key members of senior management and heads of control functions and for the approval of a sound remuneration and other incentives policy for personnel. In this regard, the board of directors shall:
- (1) Oversee selection of the CEO and other key personnel, including members of senior management and heads of control functions based on the application of fit and proper standards. Integrity, technical expertise, and experience in the Company's business, either current or planned, shall be the key considerations in the selection process. Moreover since mutual trust and a close working relationship are important, the members of senior management shall uphold the general operating philosophy, vision and core values of the Company.
  - (2) Approve and oversee the implementation of performance standards as well as remuneration and other incentives policy. The policy should be consistent with the long-term strategic objectives and financial soundness of the Company and should promote good performance, convey acceptable risk-taking behavior, and reinforce the Company's operating and risk culture.
  - (3) Oversee the performance of senior management and heads of control functions:
    - (a) The board of directors shall regularly monitor and assess the performance of the management team and heads of control functions based on approved performance standards.
    - (b) The board of directors shall hold members of senior management accountable for their actions and enumerate the possible consequences if those actions are not aligned with the board of directors performance expectations. These expectations shall include adherence to the Company's values, risk appetite and risk culture, under all circumstances.
    - (c) The board of directors shall regularly meet with senior management to engage in discussions, question, and critically review the reports and information provided by the latter.
    - (d) Non-executive board members shall meet regularly, other than in meetings of the audit, risk oversight, corporate governance, and related party transactions committees, in the absence of senior management, with the external auditor and heads of the internal audit, compliance and risk management functions.
  - (4) Engage in succession planning for the CEO and other critical positions, as appropriate. In this respect, the board of directors shall establish an effective succession planning program. The program should include a system for identifying and developing potential successors for the CEO and other critical positions.
  - (5) Ensure that personnel's expertise and knowledge remain relevant. The board of directors shall provide its personnel with regular training opportunities as part of a professional development program to enhance their competencies and stay abreast of developments relevant to their areas of responsibility.
  - (6) Ensure that employee pension funds are fully funded or the corresponding liability appropriately recognized in the books of the Company at all times, and that all transactions involving the pension fund are conducted at arm's length terms.

- d. The board of directors shall be responsible for approving and overseeing implementation of the Company's corporate governance framework. In this regard, the board of directors shall:
- (1) Define appropriate governance structure and practices for its own work, and ensure that such practices are followed and periodically reviewed:
    - (a) The board of directors shall structure itself in a way, including in terms of size and frequency of meetings, so as to promote efficiency, critical discussion of issues, and thorough review of matters. The board of directors shall meet regularly to properly discharge its functions, and likewise have discussions on values, conduct, and behaviors.
    - (b) The board of directors shall create committees to increase efficiency and allow deeper focus in specific areas. The number and nature of board level committees would depend on the size of the Company and the board of directors, the Company's complexity of operations, as well as the board of directors, long-term strategies and risk tolerance.
    - (c) The board of directors shall regularly review the structure, size and composition of the board of directors and board level committees with the end in view of having a balanced membership. Towards this end, a system and procedure for evaluation of the structure, size and composition of the board of directors and board-level committees shall be adopted which shall include, but not limited to, benchmark and peer group analysis. The results of assessment shall form part of the ongoing improvement efforts of the board of directors.
    - (d) The board of directors shall adopt policies aimed at ensuring that the members of the board of directors are able to commit to effectively discharge their responsibilities, which shall include policy on the number of directorship positions and/or other internal/external professional commitments that a director may have, commensurate with the responsibilities placed on the director, as well as the nature, scale and complexity of the Company's operations.
    - (e) The board of directors shall ensure that individual members of the board of directors and the shareholders are accurately and timely informed of a comprehensive and understandable assessment of the Company's performance, financial condition, and risk exposures. All members of the board of directors shall have reasonable access to any information about the Company at all times. The board of directors shall also ensure that adequate and appropriate information flows internally and to the public.
    - (f) The board of directors shall assess at least annually its performance and effectiveness as a body, as well as its various committees, the CEO, the individual directors, and the Company itself, which may be facilitated by the corporate governance committee or external facilitators. This exercise shall cover the assessment of the ongoing suitability of each board member taking into account his or her performance in the board of directors and board-level committees.
    - (g) The board of directors shall maintain appropriate records (e.g., meeting minutes or summaries of matters reviewed, recommendations made, decisions taken and dissenting opinions) of its deliberations and decisions. The board of directors shall also ensure that independent views in meetings of the board of directors shall be given full consideration and all such meetings shall be duly minuted.
  - (2) Develop a remuneration and other incentives policy for directors that shall be submitted for approval of the stockholders. The board of directors shall ensure that the policy is consistent with the long-term interest of the Company, does not encourage excessive risk-taking, and is not in conflict with the directors fiduciary responsibilities.

- (3) Adopt a policy on retirement for directors and officers, as part of the succession plan, to promote dynamism and avoid perpetuation in power.
- (4) Conduct and maintain the affairs of the Company within the scope of its authority as prescribed in its charter and in existing laws, rules and regulations. It shall ensure effective compliance with the latter, which include prudential reporting obligations. Serious weaknesses in adhering to these duties and responsibilities may be considered as unsafe and unsound practice.
- (5) Maintain, and periodically update, organizational rules, by-laws, or other similar documents setting out its organization, rights, responsibilities and key activities. The board of directors shall ensure that the Company's organizational structure facilitates effective decision making and good governance. This includes clear definition and delineation of the lines of responsibility and accountability.
- (6) Oversee the development, approve, and monitor implementation of corporate governance policies. The board of directors shall ensure that corporate governance policies are followed and periodically reviewed for ongoing improvement.
- (7) Approve an overarching policy on the handling of RPTs to ensure that there is effective compliance with existing laws, rules and regulations at all times, that these are conducted on an arm's length basis, and that no stakeholder is unduly disadvantaged. In this regard:
  - (a) The board of directors shall approve all material RPTs, those that cross the materiality threshold, and write-off of material exposures to related parties, and submit the same for confirmation by majority vote of the stockholders in the annual stockholders' meeting. Any renewal or material changes in the terms and conditions of RPTs shall also be approved by the board of directors. All final decisions of the board of directors on material RPTs, including important facts about the nature, terms, conditions, original and outstanding individual and aggregate balances, justification and other details that would allow stockholders to make informed judgment as to the reasonableness of the transaction, must be clearly disclosed during stockholders meetings and duly reflected in the minutes of board of directors and stockholders' meetings.
  - (b) The board of directors shall delegate to appropriate management committee the approval of RPTs that are below the materiality threshold, subject to confirmation by the board of directors. This shall, however, exclude DOSRI transactions, which are required to be approved by the board of directors. All decisions under the delegated authority must be properly recorded in the minutes of the committee meetings.
  - (c) The board of directors shall establish an effective system to:
    - (i) Determine, identify and monitor related parties and RPTs;
    - (ii) Continuously review and evaluate existing relationships between and among businesses and counterparties; and
    - (iii) Identify, measure, monitor and control risks arising from RPTs. The system should be able to define related parties' extent of relationship with the Company; assess situations in which a nonrelated party (with whom the Company has entered into a transaction) subsequently becomes a related party and vice versa; and generate information on the type and amount of exposures to a particular related party. The said system will facilitate submission of accurate reports to the regulatory supervisors. The system as well as the

overarching policies shall be subject to periodic assessment by the internal audit and compliance functions and shall be updated regularly for their sound implementation. The overarching policy and the system shall be made available to the Bangko Sentral and audit functions for review. Any changes in the policies and procedures shall be approved by the board of directors.

- (d) The board of directors shall maintain adequate capital against risks associated with exposures to related parties. In this regard, material risks arising from RPTs shall be considered in the capital planning process. The prescribed scenario/stress tests under the capital planning process shall also capture RPTs in order to determine whether the Company is well-insulated from any going concern issue of related parties.
  - (e) The board of directors shall oversee the integrity, independence, and effectiveness of the policies and procedures for whistle blowing. The board of directors should ensure that senior management addresses legitimate issues on RPT that are raised. The board of directors should take responsibility for ensuring that staff who raise concerns are protected from detrimental treatment or reprisals.
- (8) Define an appropriate corporate governance framework for group structures, which shall facilitate effective oversight over entities in the group. The board of directors of the parent company shall ensure consistent adoption of corporate governance policies and systems across the group. In this regard:
- (a) The board of directors shall define and approve appropriate governance policies, practices and structure that will enable effective oversight of the entire group, taking into account nature and complexity of operations, size and the types of risks to which the Company and its subsidiaries are exposed, The board of directors shall also establish means to ensure that such policies, practices and systems remain appropriate in light of the growth, increased complexity and geographical expansion of the group. Further, it shall ensure that the policies include the commitment from the entities in the group to meet all governance requirements.
  - (b) The board of directors shall define the risk appetite for the group, which shall be linked to the process of determining the adequacy of capital of the group.
  - (c) The board of directors shall ensure that adequate resources are available for all the entities in the group to effectively implement and meet the governance policies, practices and systems.
  - (d) The board of directors shall define and approve policies and clear strategies for the establishment of new structures.
  - (e) The board of directors shall understand the roles, the relationships or interactions of each entity in the group with one another and with the parent company. The board of directors shall understand the legal and operational implications of the group structure and how the various types of risk exposures affect the group's capital, risk profile and funding under normal and contingent circumstances. The board of directors shall ensure that the group's corporate governance framework includes appropriate processes and controls to identify and address potential intra-group conflicts of interest, such as those arising from intra-group transactions.
  - (f) The board of directors shall develop sound and effective systems for generation and sharing of information within the group, management of risks and effective supervision of the group.

- (g) The board of directors shall require the risk management, compliance function and internal audit group to conduct a periodic formal review of the group structure, their controls and activities to assess consistency with the board of directors approved policies, practices and strategies and to require said groups to report the results of their assessment directly to the board of directors.

In cases where the Company is a subsidiary/affiliate of a non-Bangko Sentral regulated parent company:

- (a) The board of directors shall define and approve policies and clear strategies for the establishment of new structures (e.g., subsidiaries/affiliate of the Bank). The board of directors shall also report to the Bangko Sentral any plan to create additional group structures.
  - (b) The board of directors shall understand the roles, relationships or interactions of each entity in the group with one another and with the parent company. The board of directors shall understand the legal and operational implications of the group structure and how the various types of risk exposures affect the Company's capital, risk profile and funding under normal and contingent circumstances.
- e. The board of directors shall be responsible for approving Company's risk governance framework and overseeing management's implementation thereof, In this regard, the board of directors shall:
- (1) Define the Company's risk appetite. In setting the risk appetite, the board of directors shall take into account the business environment, regulatory landscape, and the Company's long term interests and ability to manage risk.
  - (2) Approve and oversee adherence to the risk appetite statement (RAS), risk policy, and risk limits.
  - (3) Oversee the development of, approve, and oversee the implementation of policies and procedures relating to the management of risks throughout the Company.
  - (4) Define organizational responsibilities following the three lines of defense framework. The business line functions will represent the first line of defense, the risk management and compliance functions for the second line of defense, and the internal audit function for the third line of defense. In this regard:
    - (a) The board of directors shall ensure that the risk management, compliance and internal audit functions have proper stature in the organization, have adequate staff and resources, and carry out their responsibilities independently, objectively and effectively.
    - (b) The board of directors shall ensure that non-executive board members meet regularly, with the external auditor and heads of the internal audit, compliance and risk management functions other than in meetings of the audit and risk oversight committees, in the absence of senior management.
- f. The board of directors shall be responsible to approve and oversee the implementation of the Company's consumer protection policies, as well as the mechanism to ensure compliance with said policies.

## SPECIFIC DUTIES AND RESPONSIBILITIES OF A DIRECTOR

The position of a director is a position of trust. A director assumes certain responsibilities to different constituencies or stakeholders, i.e., the Company itself, its stockholders, its depositors and other creditors, its management and employees, the regulators, deposit insurer and the public at large. These constituencies or stakeholders have the right to expect that the institution is being run in a prudent and sound manner. The members of the board of directors should exercise their "duty of care" and "duty of loyalty" to the institution.

- a. To remain fit and proper for the position for the duration of his term.
- b. To conduct fair business transactions with the Company and to ensure that personal interest does not bias board decisions,
- c. To act honestly and in good faith, with loyalty and in the best interest of the institution, its stockholders, regardless of the amount of their stockholdings, and other stakeholders such as its depositors, investors, borrowers, other clients and the general public.
- d. To devote time and attention necessary to properly discharge their duties and responsibilities.
- e. To act judiciously.
- f. To contribute significantly to the decision-making process of the board.
- g. To exercise independent judgment.
- h. To have a working knowledge of the statutory and regulatory requirements affecting the institution, including the content of its articles of incorporation and by-laws the requirements of the Bangko Sentral and where applicable, the requirements of other regulatory agencies.
- i. To observe confidentiality.

The Company shall furnish all of their first-time directors with a copy of the specific duties and responsibilities of the board of directors and as an individual director prescribed under Subsections X143.1 and X143.2, upon election. The Company must keep on file certification under oath of the directors concerned that they have received copies of such specific duties and responsibilities and that they fully understand and accept the same.

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## **SECTION 3. ESTABLISHING BOARD COMMITTEES**

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### **BOARD COMMITTEES**

The Board shall establish committees which it can delegate functions but not its responsibilities. These committees derive their authority from and report directly to the Board. Their mandates and scope of responsibilities are set forth in their respective charters which are subject to review and update annually or when there are significant changes therein. The number and membership composition of committees could be increased or decreased by the Board as it deems appropriate and consistent with applicable laws or regulations specifically on the majority membership and chairmanship of independent directors in various committees. (Recommendation 3.1)

In this regard, the board of directors shall:

- a. Approve, review, and update, at least annually or whenever there are significant changes therein, the respective charters of each committee or other documents that set out its mandate, scope and working

procedures. Said documents shall articulate how the committee will report to the full board of directors, what is expected of the committee members, and tenure limits for serving on the committee. The board of directors shall also consider occasional rotation of committee members and chairs to avoid undue concentration of power and promote fresh perspective.

- b. Appoint members of the committees taking into account the optimal mix of skills and experience to allow the board of directors, through the committees to fully understand and objectively evaluate the relevant issues. In order to promote objectivity, the board of directors shall appoint independent directors and non-executive members of the board of directors to the greatest extent possible. Towards this end, an independent director who is a member of any committee that exercises executive or management functions that can potentially impair such director's independence cannot accept membership in committees that perform independent oversight/control functions such as the Audit, Risk Oversight and Corporate Governance, Related Party Transactions committees, without prior approval of the Monetary Board.
- c. Ensure that each committee shall maintain appropriate records (e.g., minutes of meetings or summary of matters reviewed and decisions taken) of their deliberations and decisions. Such records shall document the committee's fulfillment of its responsibilities and facilitate the assessment of the effective performance of its functions.
- d. Constitute the following Board-level committees:

- 1. Executive Committee.** The Executive Committee acts on behalf of the Board as the main approving body for Company exposures particularly approval/confirmation of lease and loan proposals, investments, and disposal of acquired assets. The Executive Committee shall be composed of (5) five directors to include the President/CEO, who shall be appointed/designated by the Board of Directors.
- 2. Audit Committee.** The Audit Committee ensures the integrity of financial reporting and provides oversight of the internal and external audit functions. It is vested by the Board with the following authority:

**Internal Audit Division**

- a. It shall be responsible for organizing the Internal Audit Division as well as appointing or removing the head of Internal Audit and key internal auditors.
- b. It shall perform oversight function over the Internal Audit Division.
- c. It shall review the annual internal audit plan to ensure its conformity with the objectives of the Company. The plan shall include audit scope, resources and budget necessary and timetable for its implementation.
- d. It shall ensure that Internal Audit Division examines, evaluates and improves the effectiveness of risk management, internal control and governance processes of the organization.
- e. It shall review the internal audit reports, report major issues to the Board and ensure that management is taking corrective actions in a timely manner to address weaknesses, non-compliance with policies, laws and regulations and other issues identified by auditors.
- f. It shall conduct discussions with management on the effectiveness of the internal control system.
- g. It shall ensure that the internal audit function maintains an open communication with senior management, the Audit Committee, external auditors and supervisory authority.
- h. It shall report to the Board of Directors the annual performance appraisal of the head of Internal Audit and key audit officers.

- i. It shall recommend for approval of the Board of Directors the remuneration of the head of Internal Audit as well as the key audit officers.

#### **External Audit**

- a. It shall recommend to the BOD the appointment, re-appointment and/or change of external auditor.
- b. It shall review the Engagement Letter and discuss with the external auditor the nature, scope and expenses of the audit prior to the commencement of the audit work.
- c. It shall review the Management Letter submitted by the external auditor, as well as management's response to the external auditor's findings and recommendations before endorsing the same to the BOD for its approval.
- d. It shall evaluate non-audit work if any is done by the external auditors and disallow it if it will conflict with their duties as external auditors.
- e. It shall review the Management Representation Letter stating management's responsibility over the financial statements and financial reporting process.

#### **Operational, Financial, and Anti-Money Laundering Compliance**

- a. It shall review and approve the annual plan of the Compliance Office and Anti-Money Laundering Unit.
- b. It shall review the quarterly, half-year and annual financial statements before their submission to the BOD.
- c. It shall review the reports of BSP and other regulatory bodies as well as notices on financial or administrative penalties incurred due to delayed/non-submission/erroneous submission of required regulatory reports.

The Committee shall be composed of at least three (3) members of the Board of Directors who are all Independent Directors including the Chairman. Advisers may also be appointed to the Audit Committee by the Board of Directors.

Audit Committee members shall preferably be with accounting, auditing, or related financial management expertise or experience commensurate with the size, complexity of operations and risk profile of the Company. It shall have access to independent experts to assist them in carrying out its responsibilities.. The Chairman of the Committee may not be the Chairman of any other committee.

Membership exclusions apply to the Chief Executive Officer, Chief Financial Officer and/or Treasurer, or officers holding equivalent positions. (Recommendation 3.2)

3. **Corporate Governance Committee.** The Corporate Governance Committee is primarily tasked to assist the Board in formulating the policies and overseeing the implementation of the corporate governance practices of the Company, its subsidiary and affiliate. Annually, it also conducts the performance self-evaluation of the Board of Directors, its committees, executive management and also peer evaluation of directors using the Revised Board of Directors and Peer Evaluation Survey forms. It also oversees the implementation of the Directors Orientation and Continuing Education Policy. The Committee shall be composed of at least three (3) members of the Board of Directors, all of whom shall be independent directors including the Chairman. (Recommendation 3.3)
4. **Nominations Committee.** The Nomination Committee leads the process for identifying and makes recommendations to the Board on, candidates for appointment as Directors of the Company as well as those other positions requiring appointment by the Board of Directors,



giving full consideration to succession planning and the leadership needs of the Company. In particular, this process includes the profiling of the skills and competencies of the currently serving directors, the gaps in skills and competencies identified and the search for candidates who are aligned with the Company's directions to fill the gaps. It also makes recommendations to the Board on the composition and chairmanship of the various committees. It keeps under review the structure, size and composition of the Board, including the balance of skills, knowledge and experience and the independence of the non-executive Directors, and makes recommendations to the Board with regard to any changes. The Committee shall be composed of three (3) members, at least two (2) are independent directors including the Chairman.

- 5. Risk Management Committee.** The Risk Management Committee is responsible for the development of the Company's risk policies, sets the risk appetite and defines the appropriate strategies for identifying, quantifying, managing and controlling risk exposures including preventing and/or minimizing the impact of losses when they occur. It oversees the implementation and review of the risk management plan on an integrated enterprise-wide basis, system of limits of management's discretionary authority delegated by the Board and takes immediate corrective actions when breached. It is also responsible to reassess the continued relevance, comprehensiveness and effectiveness of the risk management plan and revise it when needed. It works with the Audit Committee in certifying in the Annual Report the adequacy of the Company's internal control and risk management systems. The Committee shall be composed of at least three (3) members of the Board of Directors, at least one (1) of whom is an independent director who shall possess a range of expertise as well as adequate knowledge of the Company's risk exposure. The Chairman of the Committee may not be the Chairman of any other committee. (Recommendation 3.4)
- 6. Related Party Transactions Committee-** The Related Party Transactions Committee (RPTC) assists the Board in its oversight of the conduct of all Related Party Transactions (RPTs) to protect the interests of the Company and its stakeholders. It ensures proper disclosure of all approved RPTs in accordance with applicable legal and regulatory requirements and confirmation by majority vote on the Annual Stockholders' meeting the Company's significant transactions with related parties. The Committee shall be composed of at least 3 regular members majority of whom are independent directors and an Adviser. The Chairman of the Committee is one of the independent directors. (Recommendation 3.5)

#### **Committee Charters**

Each Board Committee has its own Terms of Reference stating its constitution, purpose, scope of authority, duties and responsibilities, membership, tenure limits, meetings, reporting process and hierarchy, and disclosure. These are published in the Company's website. (Recommendation 3.6)

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## **SECTION 4. FOSTERING COMMITMENT**

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### **BOARD OPERATIONS**

- 1. Board Meetings - Frequency.** The Board will meet monthly (every Wednesday after the Parent Bank's meeting which falls on every last Saturday of the month or as scheduled) and will hold additional meetings as necessary. Schedule of regular board meetings for the coming year is set in advance before the start of the new calendar year and published in the Board Calendar of Activities for the information and guidance of all directors and advisers.
- 2. Board and Committee Meetings – Attendance Requirements.** All directors are required to attend in person at least 50% of both scheduled and special meetings of the Board, the annual stockholders meeting and the meetings of the Board Committees as prescribed in their

respective charters on which they serve. The absence of a director in more than fifty percent (50%) of all regular and special meetings of the board of directors during his/her incumbency is a ground for disqualification in the succeeding election. They are expected to prepare diligently for the meetings to evaluate and add value to the items presented, actively participate and contribute meaningfully to the discussions of the Board. In view of modern technology, however, attendance of at least 75% at Board and committee meetings through video or teleconference or other manner that may be allowed by the Bangko Sentral ng Pilipinas is required. The attendance and participation of members in committee meetings shall be considered in the assessment of continuing fitness and propriety of each director as member of board-level committees and the board of directors. An independent director shall always be in attendance. However, the absence of an independent director may not affect the quorum requirements if he is duly notified of the meeting but deliberately and without justifiable cause fails to attend the meeting. (Recommendation 4.1)

3. **Board Meetings – Agenda and Materials.** The agenda and information package for each board and committee meeting should be sent to each director in hard or electronic copy at least 5 business days in advance, whenever possible and appropriate.
4. **Directors’ access to Senior Officers and Advisers.** Department Heads will be invited to attend the regular meetings of the Board. Other senior officers will be invited to Board meetings to provide inputs on specific board agenda items, as the need arises. The Directors have free and unrestricted access to senior management and the Corporate Secretary’s Office may arrange meetings with senior officers of the Company, at the request of any director. The Company will continue to engage advisers to the Board and its sub-Committees to provide independent counsel and resources as necessary.
5. **Multiple Board Seats.** Independent and Non- Executive Directors may concurrently serve in Boards of other publicly-listed corporations provided it will not exceed a maximum of 5 companies including BDOLF, its parent and listed affiliate. This limit does not apply to Executive Directors. Provided further that the capacity of a director to devote quality time and attention in performing his duties and responsibilities is not compromised. He/She must notify the Board before accepting a directorship in another company. (Recommendation 4.2 and 4.3)
6. **Confidentiality.** It is important that directors respect the sensitivity of information received during their service as a director. As such, they are expected to maintain confidentiality of this information at all times.

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## **SECTION 5. REINFORCING BOARD INDEPENDENCE**

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### **Independent Directors**

The Company shall have at least three (3) independent directors who are free of material relations with the management, controllers, or others that might reasonably be expected to interfere with the independent exercise of his/her best judgment for the exclusive interest of the Company to ensure its independence and exercise unfettered judgment on all corporate matters. (Recommendation 5.1)

**Nomination and Election of Independent Directors.** Selection, nomination and election of independent directors shall be done in accordance with the standard election procedures of the BDOLF’s By-Laws. The independent directors will be clearly identified together with the date of their first election to the Board of Directors. An independent director shall have the following qualifications as prescribed in SEC Memorandum Circular No. 16 Series of 2002.

1. He shall have at least one (1) share of stock of the corporation;

2. He shall be at least a college graduate or he shall have been engaged or exposed to the business of the corporation for at least 5 years;
3. He shall possess integrity/probity; and
4. He shall be assiduous.

**By definition, an independent director shall be any person who:**

- a. is not or was not a director, an officer or employee of the Company, its subsidiary or affiliate or related interests during the past three (3) years counted from the date of his/her election/appointment;
- b. is not or was not a director officer or employee of the Company's substantial stockholders and their related companies during the past three (3) years counted from the date of his election/appointment;;
- c. is not an owner of more than two percent (2%) of the outstanding shares or a stockholder with shares of stock sufficient to elect one seat in the board of directors of the institution, or in any of its related companies or of its majority corporate shareholders;
- d. is not a close family member of any director, officer or a stockholder holding shares of stock sufficient to elect one seat in the board of the Company or any of its related companies;
- e. is not acting as a nominee or representative of any director or substantial shareholder of the Company, any of its related companies or any of its substantial shareholders; and
- f. is not or was not retained as professional adviser, consultant, agent or counsel of the institution, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm; during the past three (3) years counted from the date of his election;
- g. is independent of management and free from any business or other relationship, has not engaged and does not engage in any transaction with the institution or with any of its related companies or with any of its substantial shareholders, whether by himself or with other persons or through a firm of which he is a partner or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arms length and could not materially interfere with or influence the exercise of his judgment.
- h. is not appointed in the Bank, its subsidiaries, affiliates or related interests as Chairman "Emeritus", "Ex-Officio", Directors/Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the Board of Directors in the performance of its duties and responsibilities during the past three (3) years counted from the date of his appointment;
- i. is not affiliated with any non-profit organization that receives significant funding from the Company or any of its related companies or substantial shareholders; and
- j. is not employed as an executive officer of another company where any of the covered company's executives serve as directors.

An independent director who is a member of any committee that exercises executive or management functions that can potentially impair such director's independence cannot accept membership in committees that perform independent oversight/control functions such as the Audit, Risk Management

and Corporate Governance Committee, without prior approval of the Monetary Board. (Recommendation 5.2)

**Tenure/Term Limits of Independent Directors.** Elected members of the Board serve for a one-year term and until their successors are elected. An independent director of the Company may only serve as such for a total cumulative tenure of nine (9) years reckoned from January 1, 2012 after which, the independent director shall be perpetually barred from re-election as such in the Company, but may continue to qualify for nomination and re-election as a non-independent director. If there is no suitable replacement, the Board may justify the retention of independent directors after serving 9 years subject to the approval by the shareholders during the Annual Shareholders' Meeting. (Recommendation 5.3)

### **Separation of Roles and Functions**

#### **Board Chair and President/CEO.**

The Board Chairperson and President/CEO collectively are responsible for the leadership of the company. The Chairperson's primary responsibility is for leading the Board and ensuring its effectiveness while the President/CEO is responsible for running the Company's business.

The positions of the Board Chairperson and the BDOLF President/CEO shall be held by different individuals and their roles are separate and distinct from each other to achieve a balance of authority, clear accountability, and better capacity for independent decision making.

#### **Qualifications of the Chairperson of the Board of Directors**

To promote checks and balances, the Chairperson of the board of directors shall be a non-executive director or an independent director, and must not have served as CEO of the Company within the past three (3) years,

The role of the Board Chairperson includes the following:

1. Provides leadership in the Board of Directors by ensuring effective functioning of the Board, including maintaining a relationship of trust with board members;
2. Ensures that the Board takes an informed decision through a sound decision making process, encourage and promote critical discussions, ensure dissenting views are expressed and fully considered within the decision-making process;
3. Ensures that the meetings of the Board of Directors are held in accordance with the By-laws of the Company;
4. Ensures that the Board of Directors exercises strong oversight over the Company's business and performance of senior management to minimize if not eliminate issues that may affect its reputation in the market place;
5. Makes certain that the meeting agenda focuses on strategic matters, including the overall risk appetite of the Company, considering the development in the business and regulatory environments, key governance concerns, and contentious issues that will significantly affect operations;
6. Guarantees that the Board receives accurate, timely, relevant, insightful, concise, and clear information to enable it to make sound decisions;

7. Facilitates discussions on key issues by fostering an environment conducive for constructive debate and leveraging on the skills and expertise of individual directors;
8. Ensures that the Board sufficiently challenges and inquires on reports submitted and representations made by Management;
9. Assures availability of proper orientation for first-time directors and continuing training opportunities for all directors; and
10. Makes sure that performance of the Board is evaluated at least once a year and discussed/followed up on. (Recommendation 2.3)

### **Chief Executive Officer (CEO)**

The CEO shall be the overall-in-charge for the management of the business and affairs of the Company governed by the strategic direction and risk appetite approved by the board of directors. He shall be primarily accountable to the board of directors in championing the desired conduct and behavior, implementing strategies, and in promoting the long-term interest of the Company.

In fulfilling his executive role, the President/CEO acts within the delegated authority vested to him by the Board and has the following roles and responsibilities, among others:

1. Determines the Company's strategic direction and formulates and implements its strategic plan on the direction of the business;
2. Communicates and implements the Company's vision, mission, values and overall strategy and promotes any organization or stakeholder change in relation to the same;
3. Oversees the operations of the Company and manages human and financial resources in accordance with the strategic plan;
4. Builds the corporate culture and motivates the employees of the Company;
5. Has a good working knowledge of the Company's industry and market and keeps up-to-date with its core business purpose;
6. Directs, evaluates and guides the work of the key officers of the Company;
7. Reports to the Board the monthly actual operating performance of the Company versus approved plans and directions and to the stockholders the state of affairs of the company for the preceding year at the annual stockholders' meeting;
8. In conjunction with the Board Chairperson, serves as a link and represents BDOLF to customers, regulators, shareholders, financial industry and the general public; and
9. Receives instructions from the Board and ensures full compliance. (Recommendation 5.4)

### **Lead Independent Director.**

A Lead Independent Director shall be appointed by the Board of Directors from amongst the independent directors to serve for 1 year or until replaced to perform the following functions, among others:

1. Serves as an intermediary between the Chairperson and the other directors when necessary;
2. Leads the independent directors at board meetings in raising queries and pursuing matters
3. Convenes and chairs meetings of the non-executive directors; without the presence of the executive directors and
4. Contributes to the performance evaluation of the Chairperson, as required. (Recommendation 5.5)

#### **Duties and Responsibilities of Officers**

- a. To set the tone of good governance from the top.
- b. To oversee the day-to-day management of the BSFI.
- c. To ensure that duties are effectively delegated to the staff and to establish a management structure that promotes accountability and transparency.
- d. To promote and strengthen check and balances system in the BSFI.

#### **Executive Sessions of Non-Executive Directors.**

The non-executive members of the Board will meet at least twice a year or as needed in executive session with the external auditor and heads of the internal audit, compliance and risk management functions other than in meetings of the audit and risk oversight committees without the presence of senior management. To be chaired by the Lead Independent Director, these sessions will provide the opportunity to discuss topics and issues related to independent checks and balances that the non-executive directors may deem appropriate. The agenda of the meetings will be determined by the Lead Independent Director in consultation with the other independent and non-executive directors. He will communicate to the Board Chairperson, President and any other executive directors the results of the discussions and consensus reached at the meetings. (Recommendation 5.7)

For Recommendation 5.6, please see Page 10 Item 4 Related Party Transactions

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## **SECTION 6. ASSESSING BOARD PERFORMANCE**

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### **Board Effectiveness**

The Board recognizes the importance and benefits of conducting annual self-assessment to determine its effectiveness. The Board, through the Corporate Governance Committee, shall undertake the evaluation of its performance as a collective body, its Committees including the performance of the Chairperson to determine whether they are functioning effectively, pinpoint areas for improvement and assess whether it possesses the right mix of backgrounds and competencies. The Committee shall report the results of the self-assessment to the Board. Every three years, the assessment shall be supported by an external facilitator. (Recommendation 6.1)

In addition, the Director Peer Evaluation shall also be conducted annually. This is intended to encourage improved performance and effectiveness of directors by identifying areas that need improvement. Each director is requested to rate his/her colleagues on the Board using the prescribed rating scale and questions. The Corporate Governance Committee shall report also the results of the peer evaluation to the Board.

The criteria for the self-assessment of the Board performance and peer evaluation have been in place based on functions, roles and responsibilities provided in the Board and Committee Charters, and published in the Company's website. (Recommendation 6.2)

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## **SECTION 7. STRENGTHENING BOARD ETHICS**

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### **High Ethical Standards in Doing Business**

Our corporate governance practice adheres to five (5) basic principles of integrity, transparency, fairness, accountability and performance. It is the responsibility of the Board including the officers and staff to follow at all times the established governance policies and practices as these are put in place to protect the Company's reputation, assets and businesses. BDOLF has institutionalized the highest ethical standards through the strict implementation of the BDO Unibank Code of Conduct and Business Ethics that addresses insider trading, dealing with external constituencies, potential conflicts of interest, confidentiality and information security, protection and proper use of corporate assets and responsibility to report in case of violations. The Code outlines the principles and policies that govern the activities of the institution and sets forth the rules of conduct in our work place and the standards of behavior of its directors, officers and employees in their activities and relationship with external stakeholders. These reflect the core values the institution subscribes to and promotes. (Recommendation 7.1)

The Office of the Human Resources and the Office of the Corporate Governance shall be responsible to disseminate the Code to all Directors, Officers and Staff for their information and proper guidance. It should be posted in the Company's website and intranet to be accessible to all covered individuals and shall form part of the HR and compliance policies of the Company. (Recommendation 7.2)

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## **SECTION 8. ENHANCING COMPANY DISCLOSURE POLICIES AND PROCEDURES**

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### **Adequate and Timely Information**

The essence of good corporate governance is transparency. The Board commits at all times to meet all disclosure requirements particularly those involving material information as mandated by regulators within the prescribed period.

1. All material information, both financial and non-financial, about the Company that may adversely affect its viability or the interests of the stockholders and other stakeholders shall be publicly and timely disclosed such as, among others earnings results, material acquisition or disposition of assets, off balance sheet transactions, related party transactions, company's ownership structure, beneficial ownership whether direct or indirect of at least 5% of the Company shares including that of the directors and senior officers, and the remuneration of members of the Board and Management. (Recommendation 8.6)
2. Information on Groupwide business structure including subsidiaries, joint ventures/special purpose vehicles and the participation of significant shareholders, directors and senior officers will be provided and updated regularly in the corporate website.
3. Biographical details on individual board members and key officers to evaluate their experience and qualifications, and assess any potential conflicts of interest that might affect their judgment. (Recommendation 8.3)
4. Audited financial statements will be released not later than 60 days after the close of the financial year together with a statement that management is responsible for its preparation and fair presentation in accordance with the financial reporting standards in the Philippines.

5. All such information shall be disclosed through the appropriate disclosure mechanisms of the Philippine Stock Exchange and submissions to the Securities and Exchange Commission for the interest of its stockholders and other stakeholders.
6. BDOLF will not put up barriers or impediments that will prevent stockholders from communicating or consulting with one another on any issues related to the Company.

The BDO Unibank Code of Conduct and Business Ethics provides clear rules on disclosure of information and strictly prohibits the unauthorized disclosure, use and passing on of sensitive/confidential, non-public information for personal gain and is considered illegal. (Recommendation 8.1)

### **Personal Trading Policy**

The purpose of this policy is to promote compliance with applicable securities laws and regulations by Group, including its subsidiaries in order to promote fairness and preserve its good reputation in the marketplace.

This policy is applicable to all directors, officers and employees of the Company, its parent bank and subsidiaries who in the discharge of their duties, may gain access to material non-public, price-sensitive information about BDO and its subsidiaries and non-BDO publicly-traded securities. It does not include BDOLF shares granted/acquired through the Employee Stock Option Program.

Within three (3) trading days from booking date, officers with the rank of Senior Vice President and up are required by regulation to report any changes in beneficial ownership of BDO and BDOLF securities to the Securities and Exchange Commission and Philippine Stock Exchange. (Recommendation 8.2)

### **Governance Policies, Programs and Procedures**

The corporate governance system of BDOLF focuses on the objective of maximizing value creation on a sustainable basis for the benefit of all stakeholders in a manner that is supported by the right values, culture and business conduct throughout the Group. In pursuing this objective, BDOLF has continuously evolved its corporate governance standards to include essential elements of regulations, international best practices and voluntary commitments.

The Board has put in place the following governance policies that affirm our deep commitment to a high standard of corporate governance, among others. These are submitted to regulators and posted in the Company's website:

1. Revised Code of Conduct and Business Ethics
2. Related Party Transactions
3. Policy on Disclosure of Sensitive or Confidential Matters to Management (Whistle Blower Policy)
4. Personal Trading Policy
5. Conflict of Interest Policy
6. Board Diversity Policy
7. Term Limit of Independent Directors
8. Dividend Policy
9. Policy and Data Relating to Health, Safety & Welfare of Employees
10. Directors Orientation and Continuing Education Policy



Governance programs and procedures implemented are as follows:

1. Bi-annual disclosure of conflicts of interest;
2. Annual Board Performance Self-Assessment
3. Group Corporate Governance Oversight of Subsidiaries
4. Executive Sessions of Independent and Non-Executive Directors with Chief Compliance Officer, Chief Risk Officer, Chief Internal Auditor and External Auditor
5. Independent Directors Meeting with Executive Directors
6. Selection of Board members using 3<sup>rd</sup> party data bases and external search firms (Recommendation 8.7)

On the disclosure of the remuneration on an individual basis for Board members and Executive Officers, the Board has serious concerns given the possible adverse security issues and poaching of talents by competitors in the industry. Hence, it has decided it will not be to the best interest of the Company to do so at this time. It will disclose the remuneration figures on a consolidated basis only. (Recommendation 8.4)

For Recommendation 8.5, please see Page 10 Item 4 Related Party Transaction

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## **SECTION 9. STRENGTHENING THE EXTERNAL AUDITOR'S INDEPENDENCE AND IMPROVING AUDIT QUALITY**

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### **Audit Committee Oversight Function**

The Audit Committee is responsible for making recommendations to the Board in relation to the appointment, reappointment, removal and fees of the External Auditor based on approved criteria such as but not limited to technical and industry expertise, skills, resources, reputation, and quality of service delivery. The appointment, reappointment, removal and fees of the External Auditor should be approved by the Board and ratified by the Shareholders. Removal or change of the External Auditor should be disclosed to regulators and the public through the Company's website and proper disclosures. (Recommendation 9.1)

As part of its assurance process, the Audit Committee is mandated to monitor the independence of the External Auditor to ensure the true objectivity of the financial statements. All services provided by the External Auditor are required to be approved by the Audit Committee. Prior to the commencement of audit work, the Audit Committee should receive a written confirmation from the External Auditor of its independence and objectivity. The policy of rotating the lead engagement partner of the External Auditor every 5 years should be strictly enforced. The Committee is also responsible to review and monitor the External Auditor's suitability and effectiveness on an annual basis. (Recommendation 9.2)

To avoid conflict of interest and impairment of independence, the Audit Committee has in place the lists of non-audit services which may not be provided by the External Auditor. (Recommendation 9.3)

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## **SECTION 10. INCREASING FOCUS ON NON-FINANCIAL AND SUSTAINABILITY REPORT REPORTING**

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BDOLF, being part of BDO Unibank Group, is part of the Sustainable Business Framework of the SM Investments Inc.(SMIC) in reporting of economic, environmental, social and governance issues of its business. SMIC's ESG Report is compliant with the globally recognized standard in reporting sustainability and non-financial issues.

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**SECTION 11. PROMOTING A COMPREHENSIVE AND COST-EFFICIENT ACCESS TO RELEVANT INFORMATION**

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Investor Relations is a key component of the Company's corporate governance framework, promoting transparency and active engagement with investors, analysts, credit rating agencies, and other external stakeholders. As part of the BDO Group, the BDO Unibank, Inc.'s Investor Relation Unit communicates the strategic direction, as well as financial and operating results of the Company by means of media and analysts' briefings; participation in investor conferences, roadshows, conference calls and one-on-one meetings; and official disclosures via PSE EDGE, company website, and through the media, if necessary or if applicable, to ensure timely and accurate dissemination of public, material and relevant information. From time to time, BDO Unibank, Inc.'s Investor Relations Unit is joined by other members of the Senior Management team in investor meetings and corporate access activities in order to impart more insights on BDOLF's operations.

As part of the BDO Group, BDO Unibank, Inc.'s Investor Relations Unit also regularly conveys feedback from investors and analysts and prepares shareholder and industry analysis reports to Senior Management and to the Board, for a better appreciation of market sentiment towards the company as well as to provide updates on shareholder developments and industry performance.

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**SECTION 12. STRENGTHENING THE INTERNAL CONTROL SYSTEM AND ENTERPRISE RISK MANAGEMENT FRAMEWORK**

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To ensure safe and sound operations, BDOLF has in place an adequate and effective internal control system that provides reasonable assurance that it will not be adversely affected by any event that could be reasonably foreseen as it strives to achieve its business objectives.

The Company prudently manages the risks associated with its business and operations. It has in place an enterprise risk management framework designed to enhance risk management through a holistic and integrated framework so that all material risks faced by the Company are identified, measured, evaluated, mitigated, monitored and appropriately managed. (Recommendation 12.1)

**Independent Audit Function**

An effective and efficient internal audit function constitutes the third line of defense in the system of internal control. As such, the Company has in place an independent audit function, through which the Company's Board, Senior Management, and Stockholders may be provided with reasonable assurance of the efficacy of the risk management, control and governance processes, in accordance with the international internal audit principles and standards. The functions of Internal Audit are as follows, among others:

1. Provides an independent risk-based assurance service to the Board, Audit Committee and Management, focusing on reviewing the effectiveness of the governance and control processes in (1) promoting the right values and ethics, (2) ensuring effective performance management and accounting in the organization, (3) communicating risk and control information, and (4) coordinating the activities and information among the Board, external and internal auditors, and Management;
2. Performs regular and special audit as contained in the annual audit plan and/or based on the company's risk assessment;
3. Performs consulting and advisory services related to governance and control as appropriate for the Company;
4. Performs compliance audit of relevant laws, rules and regulations, contractual obligations and other commitments, which could have a significant impact on the Company;

5. Reviews, audits and assesses the efficiency and effectiveness of the internal control system of all areas of the Company;
6. Evaluates operations or programs to ascertain whether results are consistent with established objectives and goals; and whether the operations or programs are being carried out as planned;
7. Evaluates specific operations at the request of the Board or Management, as appropriate; and
8. Monitors and evaluates governance processes. (Recommendation 12.2)

### **Role of Chief Internal Auditor**

The Board shall appoint a qualified Chief Internal Auditor to carry out the audit function, and shall require the Chief Internal Auditor to report to the Audit Committee that will allow the internal audit function to fulfill its responsibilities without impediment. The following are the responsibilities of the Chief Internal Auditor:

1. Periodically reviews the internal audit charter and presents it to senior management and the Board Audit Committee for approval;
2. Establishes a risk-based internal audit plan, including policies and procedures, to determine the priorities of the internal audit activity, consistent with the organizational goals;
3. Communicates the internal audit activity's plans, resource requirements and impact of resource limitations, as well as significant interim changes, to senior management and the Audit Committee for review and approval;
4. Spearheads the performance of the internal audit activity to ensure it adds value to the Company;
5. Reports periodically to the Audit Committee on the internal audit activity's performance relative to its plan;
6. Presents findings and recommendations to the Audit Committee and gives advice to senior management and the Board on how to improve internal processes;
7. Conducts independent assessment of adequacy and effectiveness of management and IT control frameworks, risk management and governance processes of all units of the Company, its subsidiary and affiliate;
8. Monitors the resolution of internal control weaknesses noted during the examination with the end view of mitigating risks and strengthening the control environment; and
9. Certifies that the conduct of auditing activities is in accordance with the International Standards on the Professional Practice of Internal Auditing. (Recommendation 12.3)

### **Independent Risk Management Function**

The Company has in place a separate risk management function responsible for overseeing risk-taking activities across the Company and subsidiary. The function entails defining a risk management strategy, identifying and analyzing key risk exposures, evaluating and categorizing each identified risk using the predefined risk categories and parameters, establishing a risk register, developing a risk mitigation plan, communicating and reporting significant risk exposures including business risks, and monitoring and evaluating the effectiveness of the Company's risk management processes. (Recommendation 12.4)

### **Role of the Chief Risk Officer**

A Chief Risk Officer ("CRO") shall be appointed or replaced with prior approval from the Board of Directors. It shall also ensure the independence of the CRO by providing direct access to the Board and Risk Management Committee without any impediment.

The Chief Risk Officer shall be independent from executive functions, business line responsibilities, operations and revenue-generating functions. The CRO may report functionally to the Risk Management Committee and administratively to the President but the Board shall confirm the performance rating given by the President.

The functions of the CRO are as follows, among others:

1. Supervises the entire ERM process and spearheads the development, implementation, maintenance and continuous improvement of ERM processes and documentation;
2. Communicates the top risks and the status of implementation of risk management strategies and action plans to the Board Risk Oversight Committee;
3. Suggests ERM policies and related guidance, as may be needed;
4. Provides insights on the following:
  - Risk management processes are performing as intended;
  - Risk measures reported are continuously reviewed by risk owners for effectiveness; and
  - Established risk policies and procedures are being complied with;
5. Facilitates in the identification, measurement, monitoring, reporting and control of credit risks, market and liquidity risks and operational risks.
6. Monitors and assesses decisions to accept particular risks whether these are consistent with board approved policies on risk tolerance and the effectiveness of the corresponding risk mitigation measures; and
7. Reports to senior management, Risk Management Committee and the Board of Directors the results of the assessment and monitoring of risk exposures. (Recommendation 12.5)

#### **Role of Corporate Governance Officer (CGO)**

**The functions of the CGO are as follows among others:**

1. Assists the Corporate Governance Committee in ensuring compliance with regulatory and best practice requirements in corporate governance;
2. Ensures that the meetings of the Corporate Governance Committee are held in accordance with the Terms of Reference;
3. Oversees the preparation of the agenda of the CG Committee meeting in coordination with the Office of the Corporate Secretary; and with Senior Corporate Governance Officer of the Parent Bank;
4. Keeps the Corporate Governance Committee fully informed of any new regulatory developments and best practices in corporate governance; and
5. Recommends in consultation with Senior Corporate Governance Officer of Parent Bank, the training programs and seminars for the continuing education of the Board of Directors.

The CGO shall ensure that the Company's corporate governance policies and practices are in always in consonance with its parent bank, and compliant to its regulators.

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### **SECTION 13. PROMOTING SHAREHOLDER RIGHTS**

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A. The Board of Directors shall be committed to respect the following rights of the stockholders:

#### **1. Right to Nominate**

Any stockholder, whether majority or minority has the right to nominate candidates for seats in the Board of Directors who possess all the qualifications and none of the disqualifications of Directors as prescribed in the Company's By-Laws and the rules of BSP and SEC.

## **2. Voting Rights**

- a. Shareholders shall have the right to participate and vote in the Annual Stockholders Meeting including the right to elect, remove and replace directors, vote on certain corporate acts in accordance with the Corporation Code such as changes or amendments to the company's By-Laws and Articles of Incorporation, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code, issuance of additional shares and appointment of the external auditor.
- b. Each outstanding share is entitled to one vote unless a preferred share is expressly denied voting entitlement.
- c. Cumulative voting shall be used in the election of directors.
- d. A director shall not be removed without cause if it will deny minority shareholders representation in the Board.

## **3. Power of Inspection**

All shareholders shall be allowed to inspect corporate books and records including minutes of Board meetings and stock registries in accordance with the Corporation Code, and shall be furnished with annual reports, financial statements, without costs or restrictions.

## **4. Right to Information**

- a. The shareholders shall be provided, upon request with information about the Company's directors and officers, their holdings of the Company's shares, and dealings with the Company.
- b. The shareholders, including minority shareholders, shall have access to any information relating to matters for which the management is accountable.
- c. The shareholders, including minority shareholders, shall be granted the right to propose items in the agenda of the meeting, provided the items are for legitimate business purposes.

## **5. Right to Dividends**

- a. Shareholders shall have the right to receive dividends subject to the discretion of the Board of Directors as enunciated in the BDOLF's Dividend Policy approved by the Board of Directors on December 10, 2014, as the same may be amended.
- b. BDOLF shall be compelled to declare dividends when its retained earnings shall be in excess of 100% of its paid-in capital except;
  - i. When the Company is prohibited by regulators or under any loan agreement with any financial institution or creditor to declare dividends without its consent and such consent has not been secured.
  - ii. When such retention is clearly necessary under special circumstances obtaining in the Company, such as a need for special reserves for possible contingencies.

- iii. When justified by definite corporate expansion projects or programs approved by the Board.

## **6. Appraisal Right**

The shareholders shall have appraisal right or the right to dissent and demand payment for the fair value of their shares in the manner provided for under Section 82 of the Corporation Code.

- a. In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholder or class of shares or of authorizing preferences in any respect superior to those of outstanding shares of any class.
- b. In case of the disposition of all or substantially all of the corporate property and assets as provided for in the Corporation Code.
- c. In case of sale, lease, exchange, transfer, mortgage, pledge or other merger or consolidation or the extension or shortening the term of corporate existence. (Recommendation 13.1)

## **Annual and Special Stockholders' Meeting**

**B.** The Board of Directors shall be transparent and fair in the conduct of the annual and special stockholders' meetings.

- 1. The stockholders (both retail and institutional) shall be encouraged to attend personally or by proxy such meetings of the stockholders in a place easily accessible to all investors. The Office of the Corporate Secretary will issue the Notice of the Annual Stockholders Meeting at least 28 business days before the meeting date which includes the time, place and proposed agenda items together with a brief rationale for its inclusion thru mail, facsimile transmission or electronic mail and publication in newspapers of general circulation published in Metro Manila.

They shall be given the opportunity to ask and receive answers to their questions relating to the Company. A summary of the questions asked and answers given will be included in the Minutes of the Annual Stockholders Meeting and posted on the corporate website. (Recommendation 13.2)

- 2. Accurate and timely information shall be made available to the stockholders to enable them to make sound judgment on all matters brought to their attention for consideration or approval such as but not limited to the result of the votes taken during the most recent Annual or Special Shareholders' Meeting which shall be publicly available the next working day. In addition, the minutes thereof shall be posted in the Company's website with five (5) business days from the end of the meeting. (Recommendation 13.3)
- 3. The rights of the stockholders shall be promoted and impediments to the exercise of those rights shall be removed. An adequate avenue shall be provided for the stockholders to seek timely redress for breach of such rights. Specifically, BDOLF has put in place an Alternate Dispute Resolution mechanism to resolve intra-corporate dispute in an amicable and effective manner. Please refer to Annex B for the policy. (Recommendation 13.4)
- 4. Appropriate steps shall be taken to remove excessive or unnecessary costs and other administrative impediments to the stockholders' participation in meetings whether in person or by proxy.

5. The introduction of additional, previously unannounced items into the Notice of Annual Stockholders' Meeting or agenda of the Annual Stockholders' Meeting will not be allowed.
6. The services of an independent body will be engaged to ensure that voting procedures and standards are adhered to. Results of the vote for each agenda item will be posted in the corporate website not later than the next business day after the Annual Stockholders' Meeting.

## **Shareholder Relations**

The Board gives high priority to balanced, clear and transparent communications with shareholders. BDO Unibank, Inc. has a dedicated Investor Relations Unit that has a comprehensive program that articulates the Company's strategic directions and manages relationships with investors, analysts, credit rating agencies, and other external stakeholders.

The BDO Unibank, Inc.'s Investor Relations Unit is also responsible for conveying the Company's financial performance and disseminating information through various channels like one-on-one meetings, investor conferences and roadshows, conference calls, and official disclosures posted via PSE Edge and company website.

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## **SECTION 14. RESPECTING RIGHTS OF STAKEHOLDERS AND EFFECTIVE REDRESS FOR VIOLATION OF STAKEHOLDER'S RIGHTS**

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### **The Company's Stakeholders**

Corporate Governance is about acceptance by management of the inalienable rights of shareholders and respecting the interests of other stakeholders. In this context, the Company's stakeholders are the shareholders, customers, employees, creditors, suppliers, service providers, counterparties, government, regulators, competitors, and communities in which the Company operates. Our corporate governance practice strives to harmonize their respective interests to promote cooperation between them and the Company in conducting its business affairs. (Recommendation 14.1)

### **Fair Treatment and Protection of Stakeholders**

The Company respects the inherent rights and recognizes the roles of various stakeholders in accordance with law. To this end, it has put in place various governance practices, policies and programs for the protection of shareholders' rights and promotion for exercising those rights in accordance with OECD principles:

#### **1. Shareholders**

BDOLF recognizes that all shareholders should be treated fairly and equally whether they are controlling or minority, local or foreign. To ensure this, the Amended By-Laws of the Company provide that all shares in each class should carry the same rights and any changes in the voting rights to be approved by them. The Company accepts the votes cast by nominees and custodians on behalf of the beneficial owners as valid. Shareholders could exercise their right of appraisal in case of amendment to the Articles of Incorporation that has the effect of changing or restricting their rights.

Policies and procedures have been put in place as well to protect the interests of minority shareholders such as the Related Party Transactions Policy to manage potential conflicts of interests arising from related party transactions and the Personal Trading Policy that prohibits insider trading. Please see Section 13 for the rights of the shareholders.

## **2. Investors**

BDOLF adopts a pro-active relationship with its stockholders through BDO Unibank, Inc.'s Investor Relations' comprehensive engagement program. BDO Unibank, Inc.'s Investor Relations Unit actively cultivates relationships with current and potential investors by joining conferences and roadshows in the key global financial markets. BDO Unibank, Inc.'s Investor Relations Unit also conducts regular one-on-one meetings, conference calls and briefings with investors and analysts. Aside from meeting institutional investors, the Company also reaches out to retail investors both in Metro Manila and provincial areas by participating in retail conferences and roadshows organized by local brokers. Relevant information are also shared through official disclosures posted via PSE Edge and company website.

## **3. Customers**

BDOLF is also committed to treat clients fairly. The minimum standard to ensure that clients are treated fairly is the Regulations on Financial Consumer Protection. It has established a Consumer Protection Program to identify, measure, monitor, and control consumer protection risks inherent in its operations. Through the "We Find Ways" service program of the BDO Unibank Group, BDOLF is committed to meet clients' needs by providing them with high quality customer service and relevant products and services.

## **4. Creditors, Counterparties and Suppliers**

BDOLF is committed to meet its contractual obligations with all creditors and counterparties based on the covenants agreed with them. In the conduct of its business dealings, the Company undertakes to honor all binding trade-related agreements and conditions on the basis of widely accepted industry practices, mutual understanding and cooperation with counterparties. In accordance with law, they will be given priority in payment of the Company's obligations in the normal course of business and in the event of liquidation.

For suppliers, it has established appropriate policies that govern the vendor accreditation, selection, bidding and approval processes.

## **5. Employees**

The Company puts very high value to its human resources. To ensure the protection and well-being of the employees, the Company has implemented policies and programs that cover the following areas:

### **a. Code of Conduct and Business Ethics**

As a financial institution, the Company believes that practicing right conduct and ethical behavior inspires and strengthens the confidence of all our stakeholders.

The Code outlines the principles and policies that govern the activities of the institution, sets forth the rules of conduct in our work place and the standards of behavior of its directs, officers and employees in their activities and relationship with external shareholders. These reflect the core values the institution subscribes to and promotes.

The Code applies at all times to all members of the Board of Directors and BDO Unibank Group employees in their dealings with clients, suppliers, business partners and service providers. It covers the BDO Group's commitment to a gender friendly workplace, concern for occupational



health, safety and environment, transparency, integrity and accountability, compliance with laws and regulations, standards of behavior and personal conduct and ethics of doing business.

## **6. Business Competitors**

The Company is committed to treat business competitors fairly and professionally in all dealings with them. It will avoid making references or discussions that may have a negative impact on the Company's competitors.

## **7. Government and Regulators**

BDOLF supports the compliance with the spirit, not just the letter, of the laws and regulations of the jurisdictions it operates. All business deals and transactions shall adhere to regulatory requirements and applicable laws particularly on confidentiality of deposits, data privacy and protection, anti-money laundering and other financial crimes, anti-corruption and bribery, insider trading and consumer protection.

## **Stakeholders' Engagement**

The Company employs a multi-pronged communications strategy handled by specific units to promote transparency and actively engage with its various stakeholders, as well as increase awareness and visibility about the Company.

Communication with the core audience is handled by the following: Investor Relations and Corporate Planning (IR and Corplan) for institutional investors, analysts, credit rating agencies, and other external stakeholders; the Corporate Secretary's office (CorSec) for retail investors and other shareholders; and both IR and CorSec for the Board members and Senior Management. Also, communications requiring media involvement are done in conjunction with the BDO Unibank, Inc.'s Marketing Communications Group (MCG). (Recommendation 14.3)

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## **SECTION 15. ENCOURAGING EMPLOYEES' PARTICIPATION**

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BDOLF has established policies and programs for the benefit of the employees:

### **a. Health and Safety**

BDOLF is committed to maintain a positive, harmonious and professional work environment with due importance accorded to occupational health and safety of the employees and related external constituencies.

### **b. Employee Welfare**

BDOLF is committed to promote the physical, social and mental well-being of its employees. It aims to provide a workplace free from discrimination and all forms of physical, sexual and psychological abuse including harassment, bullying and intimidation. In terms of compensation, the benefits program for the employees of the Company and subsidiary is embodied in the Collective Bargaining Agreement.

### **c. Training and Development**

The Company provides various in-house programs such as orientation program for new hires, regular training, job specific training courses, management and leadership training programs to enhance the knowledge, working skills and managerial ability of its employees. The BDO

Unibank Group allocates every year a training budget for these developmental programs. (Recommendation 15.1)

### **Anti-Corruption Policy**

BDOLF strictly prohibits the solicitation and acceptance, directly or indirectly, of any gift (including entertainment services or activities), gratuity, commission or any form of payment from client, business partners, suppliers and third party service providers in exchange for any unnecessary favorable treatment. (Recommendation 15.2)

### **Whistle Blowing Policy**

The policy covers the tipping off of any incident, situation, circumstance or problem involving fraud and/or violation of policies for further investigation which may result in or resulted in monetary loss and/or negative impact to the image of the Company.

Reporting may be done thru any available means such as but not limited to SMS text (e.g. BDO Watch), letter, email or phone call directly to the Office of the President (OP) or the appropriate Head of the Unit concerned. For concerns directly involving the President, the report should be addressed to the Board of Directors thru the Office of the Chairperson. For RPT-related concerns, the report should be addressed to the Chairman, Related Party Transactions Committee. (Recommendation 15.3)

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## **SECTION 16. ENCOURAGING SUSTAINABILITY AND SOCIAL RESPONSIBILITY**

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### **Society, Community and the Environment**

Recognizing its social development role, the Company has instituted socio-civic programs thru the BDO Foundation, Inc. geared towards empowerment of marginalized communities and promoting environmental protection as a way of giving back particularly to the communities in which we operate and to the society in general through the active involvement and participation of its employees.

#### **1. Disaster Response Advocacy**

The main focus is relief, rehabilitation and reconstruction in disaster hit areas.

#### **2. Environmental Initiatives**

Among its environmental initiatives, BDOLF has in place a Social and Environmental Management Systems Policy (SEMS) to ensure that environmental and social consciousness is incorporated in the day-to-day operations of the Company for the benefit of all its stakeholders, employees, and the community it operates.

#### **3. Sustainability, climate change and wildlife protection**

Equally important to the Company is our commitment to enhance the sustainability of the environment thru information, education and advocacies.

Please refer to the Corporate Social Responsibility Section of the Company's Annual Report for more details on the BDO Unibank Group's socio-civic programs and initiatives published in our corporate website at ([www.bdo.com.ph/leasing/home](http://www.bdo.com.ph/leasing/home)). (Recommendation 16.1)


## DISCLOSURE AND TRANSPARENCY

### COMMUNICATION PROCESS

1. This Manual shall be available for inspection by any stockholder of the Company at all times. It shall be submitted to the SEC and posted in the Company's website.
2. The Board of Directors and management of the Company shall ensure the dissemination of this Manual to all employees and related parties, and to likewise encourage compliance in the process.
3. This Manual shall be disseminated to all directors, officers and employees of the BDOLF, including subsidiary and affiliate to ensure their awareness of the corporate governance policies and practices of BDOLF and to encourage them to comply thereto at all times.

### MONITORING AND ASSESSMENT

1. The Board of Directors shall designate the Compliance Officer of the Company to establish an evaluation system to determine and measure compliance with this Manual.
2. This Manual shall be subject to at least an annual review by the Corporate Governance Committee of the Board of Directors.

  
TERESITA T. SY  
Chairperson

  
JOSEPH JASON M. NATIVIDAD  
Corporate Secretary

## RELATED PARTY TRANSACTIONS POLICY

**I. Overview**

We issue this PPC to establish the updated guidelines to be observed by concerned units in view of the revised & expanded definition of *Related Party* per BSP Circular Nos. 895 & 914.

Updates cover the following items:

<b>Revised</b>	<ul style="list-style-type: none"> <li>a. definition of 'Other Related Party' involving affiliated companies</li> <li>b. Report on Material RPTs with additional details for specific transactions (i.e., credit and leases/services)</li> <li>c. Monthly Report on Outstanding Exposures with an added column for the approved limit per related party (RP) group</li> <li>d. additional duties &amp; responsibilities for Compliance, Internal Audit, &amp; Office of the Corporate Secretary,</li> <li>e. reporting of non-material RPTs for BOD confirmation</li> </ul>
<b>New</b>	<ul style="list-style-type: none"> <li>a. reporting by servicing bank units (e.g., BDO-PSMD, AMG, etc.) to BDOLF Compliance Unit of identified related parties &amp; corresponding RP classification to facilitate updating of RP Database<sup>1</sup></li> <li>b. use of benchmarking template (<i>Exhibit 1C &amp; 1D</i>) for all related party transactions (RPTs)</li> <li>c. reporting of finance leases, and loan availments with actual interest rates for material credit RPTs previously approved by RPTC</li> <li>d. handling of requests for exclusion of transactions from materiality threshold and reporting requirements</li> <li>e. conduct of stress testing exercise on the Company's exposure limits vis-a-vis established capital</li> </ul>

For guidance and compliance.

**II. Guidelines**

1. *Related Party* shall refer to:

**A. DOSRI**

1. Directors of BDOLF, as defined in MORB Subsec. X141.1
2. *Officers* of BDOLF, as defined in MORB Subsec. X142.1

<sup>1</sup> via the e-mail advice currently being sent to BDOLF Accounting every month

3. *Stockholder*<sup>2</sup> of the Company owning at least 1% of the bank's subscribed capital stock, singly or collectively with spouse and/or relatives within the first degree of consanguinity or affinity, or relative, by legal adoption

4. *Related Interest* which shall refer to any of the following:

4.1 Spouse or relative within the first degree of consanguinity or affinity, or relative by Legal adoption, of a director, officer or stockholder of the Company;

4.2 Partnership of which a director, officer, or stockholder of the Company or his spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, is a general partner;

4.3 Co-owner with the director, officer, stockholder or his spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, of the property or interest or right mortgaged, pledged or assigned to secure the loans or other credit accommodations, except when the mortgage, pledge or assignment covers only said co-owner's undivided interest;

4.4 Corporation, association or firm of which any or a group of directors, officers, stockholders of the Company and/or their spouses or relatives within the first degree of consanguinity or affinity, or relative by legal adoption, hold or own at least twenty percent (20%) of the subscribed capital of such corporation, or of the equity of such association of firm;

4.5 Corporation, association or firm wholly or majority-owned or controlled by any related entity or a group of related entities mentioned in items 4.2 and 4.4;

4.6 Corporation, association or firm which owns or controls directly or indirectly whether singly or as part of a group of related interest at least twenty percent (20%) of the subscribed capital of a substantial stockholder of the lending Company or which controls majority interest of the Company pursuant to MORB Subsec. X303.1;

4.7 Corporation, association or firm which has an existing management contract or any similar arrangement with the parent of the Company; and

4.8 Non-governmental organizations (NGOs)/foundations that are engaged in retail Microfinance operations which are incorporated by any of the stockholders and/or directors and/or officers of the Company or any related Company.

**B. *Subsidiary***<sup>3</sup> shall refer to a corporation or firm more than fifty percent (50%) of the outstanding voting stock of which is directly or indirectly owned, controlled or held with power to vote by its parent corporation.

**C. *Affiliates***<sup>3</sup> shall refer to an entity linked directly or indirectly to the Company by means of:

1. Ownership, control as defined under MORB Subsec. X146.1, or power to vote of at least twenty percent (20%) of the outstanding voting stock of the borrowing entity/counterparty, or vice versa;

2. Interlocking directorship or officership, where the concerned director or officer owns; controls, as

<sup>2</sup> Stockholder shall refer to any stockholder of record in the books of the Company, acting personally, or through an attorney-in-fact; or any other person duly authorized by him or through a trustee designated pursuant to a proxy or voting trust or other similar contracts. Stockholder shall also refer to a juridical person such as corporation, association or firm.

<sup>3</sup> As defined in Section 1 of BSP Circular No. 914, Series of 2016

defined under MORB Subsec. X146.1; or has the power to vote of at least twenty percent (20%) of the outstanding voting stock of the borrowing entity/counterparty;

3. Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the Company and at least twenty percent (20%) of the outstanding voting stock of the borrowing entity/counterparty;
4. Management contract or any arrangement granting power to the Company to direct or cause the direction of management and policies of the borrowing entity/counterparty; or
5. Permanent proxy or voting trusts in favor of the Company constituting at least twenty percent (20%) of the outstanding voting stock of the borrowing entity/counterparty, or vice versa;

*Note: In cases where the borrowing entity/counterparty is linked to the Company both as DOSRI & as a Subsidiary or Affiliate, the DOSRI rules shall apply.*

**D. Other Related Party<sup>4</sup>** which shall refer to any of the following:

1. An entity linked directly or indirectly to the Company by means of:
  - a. Ownership, control or power to vote, of ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity/counterparty, or vice versa;
  - b. Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations or directors holding nominal shares in the borrowing corporation/counterparty;
  - c. Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the Company, and ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity/counterparty;
  - d. Permanent proxy or voting trusts in favor of the Company constituting ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity/counterparty.
2. Any party (including their subsidiaries, affiliates and special purpose entities) that the Company exerts direct/indirect control over;
3. Any party that exerts direct/indirect control over the Company other than DOSRI, Subsidiaries & Affiliates;
4. Second degree relatives by consanguinity (grandparents, grandchildren, brothers and sisters) of affinity (grandparents-in-law, brothers-in-law and sisters-in-law), legitimate or common-law, of Directors and select Senior Officers of the Company (SVP or higher who has the ability to exercise significant influence on the outcome of the transaction<sup>5</sup>);

<sup>4</sup> As defined in Section 6 of BSP Circular No. 914, Series of 2016

<sup>5</sup> Per BOD-approved guidelines dated June 25, 2016

5. Directors, Officers<sup>6</sup> and Stockholders<sup>7</sup> (DOS) of the affiliated<sup>8</sup> companies ; and

6. Spouse, and those relatives up to the second degree, by consanguinity (parents, children, grandparents, grandchildren, brothers and sisters) or affinity (parents-in-law, children-in-law, grandparents-in-law, grandchildren-in-law, brothers-in-law and sisters-in-law), legitimate or common-law, of Directors, and Officers<sup>9</sup> in affiliated<sup>7</sup> companies.

2. The Company shall maintain a central Related Party Database<sup>10</sup> to be used as reference by business units.

3. Transactions of the Company with a Related Party shall be allowed. However, business units shall ensure that such transactions are conducted on an arm's length basis, or in the ordinary course of business.

4. Coverage of the Related Party Transactions (RPT) Policy

a. The policy on RPTs shall cover the following:

Credit Transactions	Non-credit Transactions
1. Credit lines / facilities (on- and off-balance sheet)	1. Services - consulting, professional, agency & other service arrangements / contracts - construction arrangements / contracts
2. Write-off of related party transactions	2. Goods & Materials - sale, purchase or supply of any goods or materials
3. Borrowing, commitments, fund transfers (representing advances / loan accommodations) and guarantees	3. Lease arrangements / contracts (as Lessor or Lessee)
	4. Assets - purchases & sales of assets including transfer of technology & intangible items (research & development, trademarks & license agreements)
	5. Investments - investments and/or subscriptions for debt/equity issuances <b>not</b> traded in an active market - establishment of joint venture activities
	6. Trading & derivative transactions <b>not</b> traded in an active market

b. Transactions excluded from the materiality threshold & reporting requirements shall include, but not

6 Officer of the affiliated company" shall refer to SVPs & up **for BDO Unibank, Inc.**, or the following **for other affiliated companies**: President, Chief Executive Officer, Chief Financial Officer, or Treasurer.

7 "Stockholder of an affiliated company" shall refer to an individual stockholder of an affiliated company and/or his relatives within the first degree of affinity or consanguinity **holding more than 50%** of the subscribed capital of the affiliated company.

8 Affiliated companies shall refer to the following: a. juridical/corporate Related Interests (RI); b. subsidiaries & affiliates of BDOLF; c. Any party that the Company exerts direct/indirect control over, or that exerts direct/indirect control over BDOLF

9 "Officer of the affiliated company" shall refer to SVPs & up **for BDO Unibank, Inc.**, or the following **for other affiliated companies**: President, Chief Executive Officer, Chief Financial Officer, or Treasurer.

10 posted in the designated BDOLF Shared Folder; For Officers, the BDO Employee Self-service shall be used as reference.

limited, to the following:

1. regular trade transactions involving purchases and sales of financial instruments traded in an active market
2. those granted under BSP-approved fringe benefits program

Business units shall be responsible for identifying other transactions which may be excluded from the RPT approval & reporting requirements, providing justification, coordinating such with Compliance, and securing the necessary approval from RPTC & BOD once clearance from Compliance is obtained.

Note: Please refer to **Annex 3** for the sample memo to RPTC & BOD.

- c. Related Party Transactions (RPTs) shall include not only transactions which are entered into with related parties, but also outstanding transactions which were entered into with an unrelated party that subsequently became a related party.
5. The Related Party Transactions Committee or RPTC shall be primarily responsible for the assessment of material RPTs, and the regular reporting to the Board of Directors of the status and aggregate exposures to related parties.
  6. Review and Approval of Related Party Transactions (RPTs)
    - a. The following general approval matrix shall be observed to ensure the proper review and approval of transactions between the Company and a Related Party:

Related Party Transactions <sup>11</sup>	Related Party	DISPOSITION			
		Transaction Approval	Endorsement	Approval	Confirmation
		Delegated Authority <sup>12</sup>	RPTC	BOD	
1. All transactions within / above materiality threshold (material RPTs)	All	✓	✓	✓	
2. Transactions below materiality threshold (non-material RPTs) involving:					
- Credit transactions	DOSRI, Subsidiaries & Affiliates	✓		✓	
- Write-off	All	✓		✓	

11 Existing DOSRI rules (such as but not limited to the following: BSP Circular No. 423 re Ceilings on Loans/Credit Accommodations to DOSRI; BSP Circular No. 560 re Ceilings on Loans/Credit Accommodations to Subsidiaries/Affiliates; BSP Circular No. 737 re Real Estate and Chattel Transactions with DOSRI/Employees; BSP Circular No. 749 re Guidelines on Corporate Governance) shall apply.

12 based on the latest approval matrix



3. Non-material RPTs except those cited in item 2 above	All	✓			✓
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Note: Please refer to **Annex 1** for the specific approval matrix.

b. RPTs for review / approval shall be evaluated based on the following factors:

- b.1. whether the terms of the transaction are fair or not more favorable than similar transactions with non-related parties;
- b.2. whether the outcome of the transaction would pose any potential reputational risk issues;
- b.3. whether the transaction would present an improper conflict of interest for any director or senior officer of the Company;
- b.4. the availability of other sources of comparable products or services;
- b.5. the material facts of the proposed transaction, including its aggregate value vis-a-vis the Company's aggregate exposure limits
- b.6. any other information (e.g., price discovery mechanism, etc.) deemed relevant to allow determination if terms are comparable to those given to unrelated parties or reasonable under the circumstances

c. To facilitate the approval and/or confirmation of RPTs by the BOD, and the subsequent reporting of material RPTs to BSP, business units shall prepare the Report on Material RPTs (*Exhibit 1/1A*).

d. Any member of the reviewing committee / Board of Directors who has a potential interest in any proposed RPT shall abstain from the discussion or deliberation.

#### 7. Role of Business Units

To facilitate the proper evaluation of related party transactions (RPT), concerned business units shall perform the following:

- a. Identification of a related party (RP) account, and determination of the appropriate RP classification
- b. Tagging of the appropriate RP code in the respective system or database (i.e., Ambit Asset Finance [AAF] Factors Management System [FaMS], Fund Management System [FMS], and/or ICBS-CIF)
- c. Obtaining data to show that terms and conditions granted to related borrower / counterparty are not more favorable than similar transactions with non-related parties, or are comparable with similar transactions of other banks/entities
- d. Disclosure of the required data in the applicable transaction document (e.g., Credit Proposal, Request for Booking, Purchase Order, etc.)

Please refer to **Annex 2** for the Duties and Responsibilities of all concerned units on RPT processing & reporting.

## 8. Guide in Determining a Related Party & Tagging of Accounts

- a. Business units shall make use of the applicable information sheet (e.g., Customer Information Record / equivalent document & Related Party Questionnaire (*Exhibit 3*) for individual<sup>13</sup>, General Information Sheet for non-individual<sup>14</sup>) to determine whether a client / counterparty is a related party.
- b. To determine client's / counterparty's classification with finality, business units shall be required to **accomplish & print** the Related Party Checklist (*Exhibit 2*).

However, for counterparties identified as Director, Officer, Stockholder (owning at least 1%), or Subsidiary based on the accomplished / submitted information sheet, use of RP Checklist shall no longer be required. Confirmation of RP classification shall be done as follows:

Identified RP Classification	Reference
Director, Stockholder (owning at least 1%) or Subsidiary	Related Party (RP) Database <sup>15</sup>
Officer	Employee Self-service (ESS)

Business units shall document verification made by affixing the following details in the corresponding information sheet (i.e., RP Questionnaire for individual & GIS for non-individual):

1. RP classification (i.e., Director, Officer, Stockholder, or Subsidiary)
2. Date of verification
3. Signature of reviewing & approving personnel

Note: Relationship to company officers as disclosed by the counterparty shall be further confirmed with the concerned company employee via e-mail.

- c. Business units shall ensure that accounts identified and confirmed to be a related party are properly tagged in the respective transaction system/database (AAF, FaMS, FMS, and/or ICBS-CIF)

Note:

- To facilitate updating of RP Database, both the newly-identified related parties and non-related parties<sup>16</sup> shall be tagged in AAF, FaMS, FMS, and/or ICBS accordingly.
  - In cases where identified RPs have no captured transactions in AAF, FaMS, FMS and/or ICBS-CIF, manual inclusion in the RP Database shall be done by Compliance Office.
- d. Details of verification against the RP Database, and subsequent tagging in the AAF, FaMS, FMS and/or ICBS-CIF, shall be recorded in the applicable information sheet (e.g., RP Questionnaire, GIS or RP Checklist).

- f. Compliance Office shall be responsible for the periodic updating of the RP Database, as follows:

13 includes sole proprietorship, for RPT purposes

14 or the equivalent document for other type of entities

15 posted in the designated BDOLF Shared folder. For Officers, the BDO Employee Self-Service shall be used as reference.

16 to cover those accounts previously identified/tagged as RP but subsequently became a non-RP

RP Classification	Schedule of Updating
Directors, Stockholders & Subsidiary <sup>17</sup>	Monthly or as necessary
Related Interests <sup>18</sup> , Affiliates <sup>19</sup> & Other Related Party <sup>20</sup>	
Directors, Officers <sup>21</sup> & Stockholders <sup>22</sup> of Select Affiliated <sup>23</sup> Companies	Quarterly or as necessary

\*The List of Select Senior Officers of BDOLF (SVPs & up with significant influence)<sup>24</sup> shall be updated as necessary.

The RP Database shall bear the notation 'Updated as of (date)' for the guidance of the business units.

9. To capture subsequent changes in relationships (i.e., unrelated party becoming a related party & vice versa, and changes in RP classification), business units shall require existing clients / counterparties to accomplish the Related Party Questionnaire<sup>25</sup> (*Exhibit 3*) (for individual) or submit updated General Information Sheet (for non-individual) on the following instances:

- upon renewal of the credit facility / agreement / contract;
- upon re-accreditation of vendor / service provider or renewal of contract, whichever comes first;
- upon updating of terms & conditions;
- upon client's voluntary disclosure of information (for client-initiated updating)

The RPT approval & reporting requirements shall apply based on the client's updated/latest RP classification to be determined upon accomplishment of RP Checklist, or verification of information against the RP Database<sup>26</sup>.

Note: To ensure that the RP Database is up-to-date, immediate updating of RP code tagging in AAF, FaMS, FMS and/or ICBS-CIF following the account's change in classification shall be done.

10. Disclosure Requirements for Related Party Transactions

- a. Transaction approval documents shall bear the following information:

17 data to be provided by the Office of the Corporate Secretary

18 via extract file from AAF, FaMS, FMS or ICBS-CIF

19 Compliance Office shall consolidate data from the Office of the Corporate Secretary and those extracted from AAF, FaMS, FMS and/or ICBS-CIF, prior to posting in the RP Database. The list is partial or non-exclusive in nature. Business units shall look at the ownership structure of the concerned entity and conduct due diligence to determine if it is an affiliate of BDOLF as defined in item II.1.C.

20 Compliance Office shall consolidate data from the Office of the Corporate Secretary and those extracted from AAF, FaMS, FMS and/or ICBS-CIF, prior to posting in the RP Database.

21 "Officer of the affiliated company" shall refer to SVPs & up **for BDO Unibank, Inc.**, or the following **for other affiliated companies**: President, Chief Executive Officer, Chief Financial Officer, or Treasurer.

22 "Stockholder of an affiliated company" shall refer to an individual stockholder of an affiliated company and/or his relatives within the first degree of affinity or consanguinity **holding more than 50%** of the subscribed capital of the affiliated company.

23 Affiliated companies shall refer to the following: a. juridical/corporate Related Interests (RI); b. subsidiaries & affiliates of BDOLF; c. Any party that the bank exerts direct/indirect control over, or that exerts direct/indirect control over BDOLF

24 one of the references in identifying Other Related Parties

25 The handling Account Officer/frontliner may accomplish the questionnaire based on interview with the client / highly-reliable sources, in exception cases where it is not practicable for the client to accomplish such.

26 Posted in the designated BDOLF Shared Folder; for Officers, reference will be the BDO's Employee Self-service (ESS)

- a.1. related party classification of client / counterparty, and the basis for such classification
- a.2. comparative terms and conditions (vs. non-RPTs of the company, or other company's similar transaction)

Notes:

1. In cases where relevant pricing terms are not available at the time of approval (such as interest rate which shall be determined upon loan booking and not upon initiation of credit proposal), disclosure on the timing and documentation of such shall be done on the appropriate transaction media (e.g., Credit Proposal). To illustrate, the following notation shall be indicated on the Credit Proposal upon credit initiation for IBG accounts of the parent bank:

"The actual interest rate to be charged at booking date shall be comparable to similar transactions of non-related parties similarly situated or risk-rated, and will be substantiated/documentated in the Request for Booking."

2. Transaction documents not bearing the required disclosures shall be returned by the designated personnel / secretariat of the delegated authority to the concerned business unit.
- b. To further aid RPTC/BOD in determining whether the transaction is fair or not more favorable than similar transactions with non-related parties, the prescribed benchmarking template (*Exhibit 1C for credit transaction & Exhibit 1D for non-credit transactions*) shall be accomplished by business units for all RPTs.

Note: For credit transactions, the interest rate charged at booking date shall be reported to RPTC by re-submitting the corresponding benchmarking template used for the approved credit facility, with the actual interest rate likewise benchmarked against non-RPT accounts.

- c. Disclosure of significant related party transactions shall be made by the Company in its Annual Stockholders' Meeting, and in the Annual Report, as necessary. Likewise, the Company's updated policy regarding related party transactions shall be disclosed in the website & in the Annual Corporate Governance Report.

#### 11. Reporting of Related Party Transactions

In addition to the required reports on transactions with DOSRI, Subsidiaries & Affiliates, the following reports shall be prepared:

- a. Reports for BSP

Report Name	Purpose	Unit Responsible for Manual Preparation/ Extraction	Unit Responsible for Consolidation / Submission to Designated Recipient	Schedule of Submission
1. Report on Material Related Party Transactions ( <i>Annex B</i> )	Compliance to regulatory requirement	- Comptrollership-Subsidiaries Accounting ( <i>based on Exhibit 1/1A prepared by the concerned business unit</i> )  Notes: a. The parent bank's	Comptrollership-FRCD  Note: The Annex B to be submitted to BSP by Comptrollership - FRCD shall also include the RPTs to be reported by BSP-supervised non-bank	Submission by the Office of the Corporate Secretary / Comptrollership-Subsidiaries Accounting to Comptrollership - FRCD:

		<p>report shall contain <u>all the bank's transactions with any related party</u>, (i.e., including all subsidiaries &amp; affiliates, whether BSP-supervised or not).</p> <p>b. In case both the company and the counterparty are supervised by BSP, only the lessor, in case of a lease contract, or the party engaging/requesting the services, in case of other contracts, shall do the reporting of the transaction.</p> <p>c. Please refer to <i>Exhibits 1 &amp; 1A</i> for the report template.</p>	<p>financial subsidiaries of BDO.</p>	<p><u>Within fourteen (14) calendar days after the reference quarter</u></p> <p>Submission by Comptrollership - FRCD to BSP:</p> <p><u>Within twenty (20) calendar days after the reference quarter</u></p>
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b. Internal Reports

Report Name	Purpose	Unit Responsible for Preparation/ Extraction (for automated reports)	Unit Responsible for Consolidation / Submission to Designated Recipient	Schedule of Submission
1. Report on Non-material Related Party Transactions ( <i>Exhibit 1B</i> )	To facilitate reporting of RPTs requiring BOD confirmation	Concerned Business Unit		10th calendar day of the month (or the following banking day if the 10th day falls on a weekend or holiday)
2. Monthly Report on Outstanding Exposures to Related Parties ( <i>Annex C</i> )	For use by RPTC in monitoring credit exposures (as to status, total exposures per related party group, & aggregate exposures to all related parties)	BDOLF Comptrollership		Within eight (8) banking days after the reference month

12. Testing of Exposure Limits

- a. On an annual basis, BDOLF RMU - Risk Management Unit (RMU) shall conduct a stress testing exercise on the company's related party exposure vis-a-vis the established capital.
- b. Related Party Transactions Committee shall be furnished by RMU with the results of the stress testing exercise.

13. Roles of Internal Audit and Compliance

- a. Internal Audit shall perform a periodic review of the effectiveness of the Company's system, controls and policies governing related party transactions, and shall report findings in the RPTC meeting following the issuance of the final report to concerned business unit.
- b. Compliance shall ensure that the Company's policies are up-to-date. It shall also conduct compliance test review of related party accounts/transactions to check concerned unit's compliance with RPT requirements, and shall report findings in the RPTC meeting following the issuance of the final report to concerned business unit.

14. Whistleblowing Mechanisms, Restitution of Losses and Remedies for Abusive RPTs

Reporting and investigation of abusive RPTs shall be handled following the Company's existing code of conduct and Whistleblowing Guidelines, while restitution of losses and remedies for abusive RPTs shall be handled following the Company's Cases Review Guidelines.

**III. Procedures**

ACTIVITY	PERSONNEL / UNIT RESPONSIBLE	PROCEDURES
<p><b>A. Identification of Related Party &amp; Tagging of Accounts</b></p>	<p>Concerned Business Units</p> <p><u>Credit Transactions:</u> BDOLF Marketing Unit (<i>for Credit Lines/Facilities</i>) and concerned branches</p> <p>Concerned Lending Business Units / RMU (<i>for Write-off of Credit Transactions</i>)</p> <p><u>Non-credit Transactions:</u> BDO COG (<i>Goods &amp; Materials</i>), and BDO-AMG <i>for Sale of ROPA and Lease of Assets</i></p>	<p>1. Receive the client / counterparty information sheet and accomplished Related Party Questionnaire<sup>27</sup> from individual<sup>28</sup> clients / counterparties, and General Information Sheet (GIS)<sup>29</sup> from non-individual clients / counterparties.</p> <p>2. To determine client's / counterparty's RP classification with finality, accomplish &amp; print the Related Party Checklist (<i>Exhibit 2</i>).</p> <p>Notes: - Accomplishment of RP Checklist shall not be required for clients / counterparties identified as Director, Officer, Stockholder (owning at least 1%), or Subsidiary based on submitted information sheet. Confirmation of RP classification shall be done by checking against the RP Database (or ESS for Officers), &amp; recorded in the applicable information sheet (i.e., RP Questionnaire for individual &amp; GIS for non-individual).</p> <p>If relationship involves an officer of the Company, refer to ESS &amp; send an e-mail to the concerned officer to confirm relationship disclosed by the client / counterparty.</p>

27 The handling Account Officer/frontliner may accomplish the questionnaire based on interview with the client / highly-reliable sources, in exception cases where it is not practicable for the client to accomplish such.

28 includes sole proprietorship, for RPT purposes

29 or the equivalent document for other type of entities

		<p>3. Facilitate tagging of the account (i.e., both the newly identified RP RP and non-RP) in the respective system / database (i.e., AAF, FaMS, FMS, and/or ICBS-CIF</p> <p>4. Indicate the date of account tagging in the applicable information sheet (e.g., RP Questionnaire, GIS or RP Checklist):</p> <p>Notes:</p> <ul style="list-style-type: none"> <li>- Identified non-RPs shall likewise be tagged in AAF, FaMS, FMS and/or ICBS-CIF (as "Non- RP").</li> <li>- In cases where identified RPs have no captured transactions in AAF, FaMS, FMS and/or ICBS-CIF, manual inclusion in the RP Database shall be done by Compliance Office.</li> </ul>						
<p><b>B. Review &amp; Approval / Confirmation of RPTs<sup>30</sup></b></p>	<p>Concerned Business Units</p>	<p>1. Obtain data to show that terms and conditions granted to related borrower / counterparty are not more favorable than similar transactions with non-related parties, or are comparable with similar transactions of other banks/entities.</p> <p>2. Indicate the required data on the applicable transaction approval document as specified in item II.10.a.</p> <p>3. Upon confirmation of the final transaction amount of an RPT, perform the following:</p> <ul style="list-style-type: none"> <li>a. check if transaction involves an amount below or within/above the materiality threshold</li> <li>b. accomplish the RPT benchmarking template (<i>Exhibit 1C for credit transactions &amp; Exhibit 1D for non-credit transactions</i>)</li> <li>b. process approval following the approval matrix specified in item II.6.a</li> </ul> <p>4. For RPTs determined to be material, prepare the Report on Material RPT/s (Exhibit 1/1A).</p> <p>5. Sort/Transmit proposed RPTs, as follows:</p> <table border="1" data-bbox="662 1654 1466 1801"> <thead> <tr> <th data-bbox="662 1654 1065 1703">Item for Transmittal</th> <th data-bbox="1065 1654 1466 1703">Recipient</th> </tr> </thead> <tbody> <tr> <td data-bbox="662 1703 1065 1766">a. Material RPTs</td> <td data-bbox="1065 1703 1466 1766"></td> </tr> <tr> <td data-bbox="662 1766 1065 1801">Hardcopy of transaction</td> <td data-bbox="1065 1766 1466 1801">RPTC</td> </tr> </tbody> </table>	Item for Transmittal	Recipient	a. Material RPTs		Hardcopy of transaction	RPTC
Item for Transmittal	Recipient							
a. Material RPTs								
Hardcopy of transaction	RPTC							

30 Existing DOSRI rules (such as but not limited to the following: BSP Circular No. 423 re Ceilings on Loans/Credit Accommodations to DOSRI; BSP Circular No. 560 re Ceilings on Loans/Credit Accommodations to Subsidiaries/Affiliates; BSP Circular No. 737 re Real Estate and Chattel Transactions with DOSRI/Employees; BSP Circular No. 749 re Guidelines on Corporate Governance) shall apply.

		documents and Report on Material RPTs ( <i>Exhibit 1/1A</i> )	
		Softcopy of the Report on Material RPTs ( <i>Exhibit 1/1A</i> )	Compliance (for subsequent submission to the Office of the Corporate Secretary)
		b. Non-material RPTs involving credit accommodations to DOSRI, Subs and Affiliates, & write-off (regardless of related party)  Hardcopy of transaction documents	BOD
		c. Non-material RPTs except those mentioned in Item 4.b above  Hardcopy of transaction documents	Delegated approving authority (To be set aside after approval for subsequent submission to BOD for confirmation)
		Note: Existing procedures on the endorsement of transaction for review & approval/confirmation to the designated reviewing committee / Board of Directors shall continue to be observed.	
	Compliance	1. Forward softcopy of the Report on Material RPTs ( <i>Exhibit 1/1A</i> ) transmitted by the business units to the Office of the Corporate Secretary.	
	EXCOM / Delegated Authority	1. Review and approve / disapprove proposed RPTs.	
	Related Party Transaction Committee (RPTC)	1. Evaluate the proposed material RPTs, and endorse the same to BOD for approval.	
	Designated Officer / Concerned Business Unit	1. Receive transaction documents of approved non-material RPTs (i.e., except those involving credit accommodations to DOSRI, Subsidiaries and Affiliates, & write-off) from the delegated approving authority. Set aside for BOD's subsequent confirmation at the designated schedule.  2. On the designated schedule, retrieve transaction documents of all approved non-material RPTs.  3. Accomplish the Report on Non-material RPTs for BOD Confirmation ( <i>Exhibit 1B</i> ).	



		<p>4. On the 10th calendar day of the month (or the following banking day if the 10th day falls on a weekend or holiday), submit the following to the Board of Directors to facilitate confirmation:</p> <p>a. transaction documents of approved non-material RPTs  b. corresponding Report on Non-material RPTs for BOD Confirmation (<i>Exhibit 1B</i>)</p>
	Board of Directors	<p>1. Review &amp; approve / disapprove the following:</p> <p>a. material RPTs;  b. non-material RPTs involving credit accommodations to DOSRI, Subsidiary or Affiliate, &amp; write-off (regardless of related party)</p> <p>2. Review and confirm non-material RPTs except those mentioned under item 1.b above.</p>
	Office of the Corporate Secretary	<p>1. Upon BOD's approval of the transaction, update the corresponding softcopy of the Report on <u>Material</u> RPTs (<i>Exhibit 1/1A</i>) and specify date of BOD approval as the 'Transaction Date'.</p>
	Concerned Business Units	<p>1. On a monthly basis, re-submit to RPTC the benchmarking template of account/s (i.e., material credit RPTs previously-approved by RPTC) with finance lease, and loan availments to present the actual interest rate charged at booking date.</p>
<b>C. Handling of Outstanding Credit Transactions of Accounts with Updated Classification (i.e., from non-RP to RP, or change to higher RP classification)</b>	CIF Owner	<p>1. Receive updated documents from the client<sup>31</sup>.</p> <p>2. Secure the required BOD approval if change involves the following:</p> <p>a. non-related party becoming a related party  b. existing RP changing to a higher RP classification (e.g., from Other Related Party to Affiliate)</p> <p>3. Facilitate the account tagging in AAF, FaMS, FMS and/or ICBS.</p>
<b>D. Reports Preparation / Consolidation</b>	BDOLF Comptrollership	<p>1. Extract Monthly Report on Outstanding Exposures to Related Parties (<i>Annex C</i>) and submit the same to RPTC thru the Office of the Corporate Secretary within eight (8) banking days after the reference month.</p>
	RPTC	<p>1. Review the Monthly Report on Outstanding Exposures to Related Parties (<i>Annex C</i>) to ensure that exposures are within prescribed limits.</p>

Office of the Corporate Secretary	<ol style="list-style-type: none"> <li>1. On a quarterly basis, consolidate softcopies of the Report on Material RPTs (<i>Exhibit 1/1A</i>).</li> <li>2. Submit the following to BDO Comptrollership –Subsidiaries Accounting on or before the prescribed deadline (i.e., within 10 calendar days after the reference quarter): <ol style="list-style-type: none"> <li>a. signed hardcopy of Report/s on Material RPTs (<i>Exhibit 1/1A</i>)</li> <li>b. softcopy of consolidated Report on (approved) Material RPTs</li> </ol> </li> </ol>
BDO Comptrollership - Subsidiaries Accounting	<ol style="list-style-type: none"> <li>1. On a quarterly basis, receive the documents forwarded by the Office of the Corporate Secretary</li> <li>2. Check the details of the Report on Material RPTs (<i>Exhibit 1/1A</i>) received from the Office of the Corporate Secretary against the corresponding hardcopy to ensure completeness.</li> <li>3. Update softcopy of report to consolidate the material RPTs of each BSP-supervised non-bank financial subsidiaries &amp; affiliates.</li> <li>4. Submit the following to Comptrollership - FRCD on or before the prescribed deadline (i.e., within 10 calendar days after the reference quarter). <ol style="list-style-type: none"> <li>a. hardcopy of Report on Material RPTs (<i>Exhibit 1/1A</i>)</li> <li>b. softcopy of consolidated Report on Material RPTs of the Non-bank Financial Subsidiaries &amp; Affiliates</li> </ol> </li> </ol>
BDO Comptrollership - FRCD	<ol style="list-style-type: none"> <li>1. On a quarterly basis, receive the documents forwarded by the Comptrollership-Subsidiaries Accounting-</li> <li>2. Consolidate the reports on material RPTs of the main bank and and its BSP-supervised non-bank financial subsidiaries.</li> <li>3. Check the consolidated Report on Material RPTs (<i>Exhibit 1/1A</i>) against the corresponding signed hardcopy to ensure completeness.</li> <li>4. If everything is in order, prepare Material Related Party Transactions Report cover and secure appropriate approvals.</li> <li>5. Submit the signed report to BSP within 20 calendar days after the reference quarter.</li> </ol>

IV. Implementing Guidelines

1. Concerned business units shall continue to update forms and documents to comply with BSP's disclosure requirements on related party transactions.
2. Pending implementation of the enhanced/revised information sheets, business units shall require new individual clients / counterparties<sup>32</sup> to accomplish the Related Party Questionnaire (*Exhibit 3*).

<sup>32</sup> The handling Account Officer/frontliner may accomplish the questionnaire based on interview with the client / highly-reliable sources, in exception cases where it is not practicable for the client to accomplish such.

## ALTERNATIVE DISPUTE RESOLUTION

*(The Company's ADR was approved by the Corporate Governance Committee on April 19, 2011 and the Board of Directors on May 4, 2011)*

### COVERAGE

The BDOLF Alternative Dispute Resolution (ADR) System shall cover disputes between the BDOLF and its stockholders, and the BDOLF and third parties, including the regulatory authorities, as herein provided. A dispute shall mean a conflict of claims or rights, or an assertion of claim or demand by a stockholder or a third party, including regulatory authorities, met by contrary claims or assertions on the part of the BDOLF and vice versa (hereinafter, "Dispute")

The ADR System shall not cover mere complaints. A complaint shall mean a statement of some grievance or dissatisfaction by a stockholder or a third party.

### PROCEDURE

#### 1. Referral to ADR System

The Head of the BDOLF Unit (BDOLF Unit Head) involved in the Dispute shall, in consultation with the Legal Services Group (LSG) and taking into account all relevant factors, assess and evaluate a Dispute and determine whether the same is proper for ADR process.

To aid in this determination, the BDOLF Unit concerned shall submit to the BDOLF Unit Head a memorandum describing the nature of the Dispute and the facts and issues involved.

#### 2. Negotiation

Upon determination by the concerned BDOLF Unit Head that the Dispute is proper for ADR process, the BDOLF Unit concerned or any other unit or officer assigned (hereinafter, "Assigned Unit/Officer") shall, in consultation with Legal Services Group (LSG), promptly commence negotiations with the opposing party for possible settlement. As a matter of policy, the Bank shall adopt negotiation as the initial mode of amicably settling a dispute.

During negotiations, the disputing parties shall identify the issues, explore ways of settling those issues, and strive for a mutually acceptable resolution.

The Assigned Unit/Officer shall submit to Management a report on the conduct and outcome of the negotiations.

#### 3. Mediation

In the event that no settlement is reached after negotiations, the BDOLF Unit Head shall, in consultation with LSG and taking into account all relevant factors, determine whether the Dispute is proper for mediation. Mediation is "a voluntary process in which a mediator, selected by the disputing parties, facilitates communication and negotiation, and assists the parties in reaching a voluntary agreement regarding a dispute."

The Assigned Unit/Officer shall submit to Management a report on the conduct and outcome of the mediation.

4. Arbitration

In the event that no settlement is reached after mediation, the concerned BDOLF Unit Head shall, in consultation with LSG and taking into account all relevant factors, determine whether the Dispute is proper for arbitration.

In the event the BDOLF Unit Head shall determine that arbitration is proper, the Assigned Unit/Officer shall promptly propose to the opposing party resort to arbitration as a mode of setting the Dispute under applicable law and rules.

**MONITORING AND REPORTING**

All Disputes referred to the ADR process shall be monitored.

Disputes between the BDOLF and stockholders shall be monitored by the Office of the Corporate Secretary; disputes between the BDOLF and third parties not involving regulatory authorities shall be monitored by LSG; and disputes between the Bank and regulatory authorities shall be monitored by the Compliance Office.

All Disputes referred to the ADR process shall be reported to the Corporate Governance Committee.

**SETTLEMENT**

Any settlement during negotiation or mediation shall be submitted by Management to the Corporate Governance Committee which shall in turn endorse it to the Board of Directors for approval or other appropriate action.



## **Annex C**

Certificate of Attendance of  
Atty. Joseph Jason M. Natividad





*Certificate of Attendance*

This certificate is given to

**ATTY. JOSEPH JASON M. NATIVIDAD**

**Corporate Secretary, BDO Leasing and Finance, Inc.**

for having attended the

**"2019 Corporate Governance Seminar  
of BDO Unibank, Inc."**

*Given this 24th day of July, 2019*

*at the Antonio Molina Hall, BDO Corporate Center, Makati City.*

A handwritten signature in black ink, appearing to read "ftanongco", is written over the printed name of Federico P. Tanongco.

**Federico P. Tanongco**  
Chief Compliance Officer  
BDO Unibank, Inc.





## **Annex D**

Transmittal to directors on the distribution of  
board materials



BDO Transmittal Slip	
TO: Ms. MA. LEONORA V. DE JESUS	Date: JULY 26, 2019
Address: UNIT 2901-A, RITZ TOWERS 5 190305 AYALA AVENUE, MAKATI CITY	
From: Office of the Corporate Secretary (CorSec) 14/F - North Tower Cost Center: 6510	
Particulars: (X) Deliver ( ) Pick-up ( ) Mail	
<b>AGENDA FOLDER</b> > BDOLF → REGULAR BOARD MEETING JULY 31, 2019 -- 2 PM 190305	
Other Instructions:	
Requested By: LANI CELEMEN 840-7000 loc. 3-2332	AUTHORIZED BY: Ms. ABETH BENEMILE
AGSD USE ONLY	RECEIVED BY: MARGSA SALEN
Check By: JUL 26 2019	SIGNATURE OVER PRINTED NAME
Messenger 1	DATE/TIME
Messenger 2	ACKNOWLEDGED COPY
Date/Time	RECEIVED BY:
	DATE/TIME

BDO Transmittal Slip	
TO: ATTY. JESSE H.T. ANDRES	Date: JULY 26, 2019
Address: ANDRES, PADERNAL & PARAS LAW OFFICES 8/F - SAGITTARIUS BLDG., DELA COSTA ST., MAKATI CITY	
From: Office of the Corporate Secretary (CorSec) 14/F - North Tower Cost Center: 6510	
Particulars: (X) Deliver ( ) Pick-up ( ) Mail	
<b>AGENDA FOLDER</b> > BDOLF → REGULAR BOARD MEETING 190308 JULY 31, 2019 -- 2 PM 190308	
Other Instructions:	
Requested By: LANI CELEMEN 840 7000 loc. 3-2332	AUTHORIZED BY: Ms. ABETH BENEMILE
AGSD USE ONLY	RECEIVED BY:
Check By: JUL 26 2019	SIGNATURE OVER PRINTED NAME
Messenger 1	DATE/TIME
Messenger 2	ACKNOWLEDGED COPY
Date/Time	RECEIVED BY:
	DATE/TIME

BDO		Transmittal Slip	
TO:	Mr. EXEQUIEL P. VILLACORTA, JR.	Date:	JULY 26, 2019
Address:	NO. 19 ASTRA STREET, BEL AIR 4, MAKATI CITY		
From:	Office of the Corporate Secretary (CorSec) 14/F - North Tower Cost Center: 6510		
Particulars:	(X) Deliver ( ) Pick-up ( ) Mail 190306		
	AGENDA FOLDER ➤ BDOLF → REGULAR BOARD MEETING JULY 31, 2019 -- 2 PM 190306		
Other Instructions:			
Requested By:	LANI CELEMEN 840-7000 loc. 3-2332 AGSD USE ONLY	AUTHORIZED BY:	Ms. ABETH BENEMILE
Check By:	Messenger 1	RECEIVED BY:	<i>[Signature]</i>
		SIGNATURE OVER PRINTED NAME	
		DATE/TIME	
		ACKNOWLEDGED COPY	
		RECEIVED BY:	
		DATE/TIME	

BDO		Transmittal Slip	
TO:	MR. VICENTE S. PEREZ, JR.	Date:	JULY 26, 2019
Address:	LEVEL 3B, PASEO DE ROXAS BUILDING 111 PASEO DE ROXAS CORNER LEGAZPI STREET LEGASPI VILLAGE, MAKATI 190307		
From:	Office of the Corporate Secretary (CorSec) 14/F - North Tower Cost Center: 6510		
Particulars:	(X) Deliver ( ) Pick-up ( ) Mail 190307		
	AGENDA FOLDER ➤ BDOLF → REGULAR BOARD MEETING JULY 31, 2019 -- 2 PM		
Other Instructions:			
Requested By:	LANI CELEMEN 840-7000 loc. 3-2332 AGSD USE ONLY	AUTHORIZED BY:	Ms. ABETH BENEMILE
Check By:	Messenger 1	RECEIVED BY:	<i>[Signature]</i>
		SIGNATURE OVER PRINTED NAME	
		DATE/TIME	
		ACKNOWLEDGED COPY	
		RECEIVED BY:	
		DATE/TIME	



**Annex E**  
Compliance Officer profile and  
qualifications

**VICENTE S. PÉREZ, JR.**

Independent Director  
61 years old, Filipino

Mr. Pérez was first elected to the Board of Directors of the Company on April 7, 2017, and is the Chairman of the Company's Risk Management Committee. He is currently an Independent Director of BDO Unibank, Inc., BDO Capital & Investment Corporation, BDO Finance Corporation, and Double Dragon Properties Corp. He is also a Non-Executive Director of Singapore Technologies Telemedia Pte Ltd. Mr. Pérez is currently the Chairman of the Alternergy Group, Philippine renewable power companies in wind, hydro and solar. He was Philippine Energy Secretary from 2001 to 2005. Mr. Pérez briefly served in early 2001 as Undersecretary at the Department of Trade and Industry and as Managing Head of the Board of Investments. Prior to his government service, Mr. Pérez had 17 years banking experience, first in Latin America debt restructuring at Mellon Bank in Pittsburg, and later in debt capital markets in emerging countries at Lazard in London, New York and Singapore. At 35, he became General Partner at New York investment bank Lazard Frères as head of its Emerging Markets Group. He was Managing Director of Lazard Asia in Singapore from 1995 until 1997, when he co-founded Next Century Partners, a private equity firm based in Singapore. In 2005, he was briefly a government appointed director of Philippine National Bank until its privatization. Mr. Pérez obtained his Masters in Business Administration from the Wharton Business School of the University of Pennsylvania in 1983 and a Bachelor's degree in Business Economics from the University of the Philippines in 1979. He was a 2005 World Fellow at Yale University where he lectured an MBA class on renewable power at the Yale School of Management.

**JOSEPH JASON M. NATIVIDAD**

Corporate Secretary  
47 years old, Filipino

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

***Independent Directors***

The independent directors of the Company are Atty. Jesse H.T. Andres, Mr. Vicente S. Pérez, Jr., and Ms. Ma. Leonora V. De Jesus.

***Senior Executive Officers:***

The members of senior management, subject to control and supervision of the Board, collectively have direct charge of all business activities of the Company. They are responsible for the implementation of the policies set by the Board. The following is a list of the Company's key officers, and their business experiences for the past five (5) years:

**ANGELITA C. TAD-Y**

First Vice President/Chief Risk & Compliance Officer  
Filipino, 55 years old

Ms. Tad-y was appointed as Chief Risk and Compliance Officer of the Company on December 16, 2017. She is concurrently the Company's Data Privacy and Information Security Officer. She joined the Asset Management Group of BDO Unibank in 2008 and transferred to Risk Management Group from 2010 to

December 15, 2017. Prior to BDO Unibank, Ms. Tad-y worked for Philamlife Insurance Company as Associate Controller, Asset Management & Compliance Officer for five years, and for JP Morgan Chase Bank as Credit Officer for 12 years. Ms. Tad-y earned her Bachelor of Science Degree major in Accounting from De La Salle University.

**AGERICO MELECIO S. VERZOLA**

First Vice President & Marketing Head  
Filipino, 62 years old

Mr. Verzola was appointed as First Vice President & Marketing Head of the Company on October 1, 2014. He is a Director of BDO Rental. Mr. Verzola has been involved in Credit, Corporate Banking, Commercial Banking, Branch Banking and Branch Lending, and Investment Banking over the past 38 years. He graduated with a degree of AB Economics from the University of the Philippines School of Economics, Diliman, and finished a six-month Advanced Senior Management Course at the Asian Institute of Management.

**ROSARIO C. CRISOSTOMO**

First Vice President  
Filipino, 51 years old

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

**MA. THERESA M. SORIANO**

First Vice President  
Filipino, 50 years old

Ms. Soriano is the current Head of Metro Manila Marketing Unit 2 of the Company, and has been with the Company for the last 25 years (since its predecessor PCI Leasing and Finance Inc.) where she rose from the ranks from being an Account Officer to a Unit Head. She obtained her baccalaureate degrees in Economics and Management of Financial Institutions as well as Masteral Degree in Business Administration from De La Salle University.

**COSME S. TRINIDAD JR.**

First Vice President  
Filipino, 55 years old

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

***Board and Senior Management Performance***

An annual self-assessment is conducted focusing on the performance of the Board, Directors, Committees and Senior Management, through the Corporate Governance Committee, using an approved set of questionnaires. The performance evaluation process begins with sending out customized Board Evaluation Questionnaires to each director and adviser. They are required to complete the questionnaire explaining the rationale and objectives of the performance evaluation. Based on the returns from each respondent, the ratings and responses are tabulated and consolidated. The Corporate Governance Officer prepares the overall report and presents this to the Corporate Governance Committee for discussion and endorsement to the Board, including the recommended actions and focus areas to improve effectiveness.



## **Annex F**

Certificate of Attendance of  
Ms. Angelita C. Tad-y





## *Certificate of Attendance*

This certificate is given to

**ANGELITA C. TAD-Y**


**Chief Risk & Compliance Officer, BDO Leasing and Finance, Inc.**

for having attended the

**"2019 Corporate Governance Seminar  
of BDO Unibank, Inc."**

*Given this 24th day of July, 2019*

*at the Antonio Molina Hall, BDO Corporate Center, Makati City.*

  
**Federico P. Tancongco**  
Chief Compliance Officer  
BDO Unibank, Inc.





## **Annex G**

Certificate of attendance of Board meetings and committee meetings



## CERTIFICATION

Based on records, I hereby certify that the members of the Board of Directors and Board Committees of **BDO LEASING AND FINANCE, INC.** have attended the regular/special meetings thereof as well as the organizational meeting of the said Board/Committees for the **year 2019** as follows:

### REGULAR AND ORGANIZATIONAL BOARD MEETINGS - 2019

BDOLF Board Members	Position	January 9	January 30	February 20	April 12	April 12 (Organizational)	May 8	May 29	July 3	July 31	September 4	October 2	November 6	December 11	% (Total # of meetings - 13)
Teresita T. Sy	Chairperson	✓	✓	✓	✓	✓	✓	X	✓	✓	✓	✓	✓	✓	92.31%
Roberto E. Lapid	Vice Chairman/ President	✓	✓	✓	✓	✓	✓	X	✓	✓	✓	✓	✓	✓	92.31%
Jesse H. T. Andres	Independent Director	✓	✓*	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
Antonio N. Cotoco	Director	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
Ma. Leonora V. De Jesus	Independent Director	✓	✓	✓	✓	✓	X	✓	✓	✓	✓	✓	✓	✓	92.31%
Vicente S. Pérez, Jr.	Independent Director	✓	✓	X	✓	✓	✓*	✓	✓	✓*	X	X	✓	✓	76.92%
Jeci A. Lapus	Director	✓	✓*	✓	✓	✓	✓	X	✓	✓	✓	✓	✓	X	84.61%
Luis S. Reyes, Jr.	Director	✓	✓	✓	X	X	✓	✓	✓	✓	X	✓	✓	✓	76.92%
Nestor V. Tan	Director	✓	✓	✓	✓	✓	✓	✓	✓	✓	X	X	✓	✓	84.61%
Exequiel P. Villacorta, Jr.	Director	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
Walter C. Wassmer	Director	✓	✓	✓	✓	✓	✓	X	✓	✓	X	✓	✓	✓	84.61%

### BDOLF BOARD AUDIT COMMITTEE - 2019

BDOLF BAC Members	Position	January 15	February 19	March 19	April 23	May 21	June 26	July 16	August 20	September 25	October 15	November 21	December 18	% (Total # of meetings - 12)
Ma. Leonora V. De Jesus	Chairperson	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
Jesse H. T. Andres	Independent Member	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
Vicente S. Pérez, Jr.	Independent Member	X	X	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	83.33%

\* participated via teleconference

**BDOLF RELATED PARTY TRANSACTIONS COMMITTEE - 2019**

Related Party Transactions Committee Members	Position	February 19	March 19	April 11	May 21	June 26	September 18	September 20	September 25	October 28	December 4	% (Total # of meetings - 10)
Jesse H. T. Andres	Chairman	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
Ma. Leonora V. De Jesus	Independent Member	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%
Jeci A. Lapus	Member	✓	✓*	✓*	✓*	✓	✓*	✓	✓	✓	✓*	100%

**BDOLF CORPORATE GOVERNANCE COMMITTEE - 2019**

Corporate Governance Members	Position	January 15	February 19	March 19	April 23	December 18	% (Total # of meetings - 5)
Jesse H. T. Andres	Chairman	✓	✓	✓	✓	✓	100%
Ma. Leonora V. De Jesus	Independent Member	✓	✓	✓	✓	✓	100%
Vicente S. Pérez, Jr.	Independent Member	✓*	X	✓	✓	✓	80%

**BDOLF RISK MANAGEMENT COMMITTEE - 2019**

Risk Management Committee Members	Position	March 19	May 21	August 29	November 14	% (Total # of meetings - 4)
Vicente S. Pérez, Jr.	Chairman	✓	✓	✓	✓	100%
Jesse H. T. Andres	Independent Member	✓	✓	✓	✓	100%
Nestor V. Tan	Member	✓	✓	✓	✓	100%

**BDOLF NOMINATION COMMITTEE - 2019**

Nomination Committee	Position	March 19	% (Total # of meeting - 1)
Jesse H. T. Andres	Chairman	✓	100%
Ma. Leonora V. De Jesus	Independent Member	✓	100%
Antonio N. Cotoco	Member	✓	100%

\* participated via teleconference

CERTIFIED BY:

  
**JOSEPH JASON M. NATIVIDAD**  
 Corporate Secretary