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Report of Independent Auditors

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

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.

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.

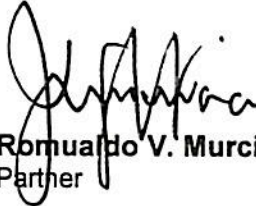
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation 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 2019	Group 2018	Parent Company 2019	Parent Company 2018
ASSETS					
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
TOTAL ASSETS		**P 30,947.9**	P 41,540.2	**P 28,922.5**	P 39,081.9
LIABILITIES AND EQUITY					
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
TOTAL LIABILITIES AND EQUITY		**P 30,947.9**	P 41,540.2	**P 28,922.5**	P 39,081.9

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)

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

		Group			Parent Company		
	Notes	**2019**	2018	2017	**2019**	2018	2017
NET PROFIT		**P 46.8**	P 330.7	P 570.5	**P 46.8**	P 330.7	P 570.5
OTHER COMPREHENSIVE INCOME (LOSS)							
Items that will not be reclassified subsequently to profit or loss							
Fair valuation of equity investments at fair value through other comprehensive income (FVOCI):							
Fair value 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	-
		174.8	(316.0)	(24.2)	**174.8**	(316.0)	(24.2)
Tax income	22	**7.2**	4.6	7.3	**7.2**	4.6	7.3
		182.0	(311.4)	(16.9)	**182.0**	(311.4)	(16.9)
Item that will be reclassified subsequently to profit or loss							
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		**-**	-	(0.2)	**-**	-	(0.2)
		42.5	(54.5)	(28.4)	**42.5**	(54.5)	(28.4)
Tax income	22	**-**	-	0.1	**-**	-	0.1
		42.5	(54.5)	(28.3)	**42.5**	(54.5)	(28.3)
Other Comprehensive Income (Loss) - net of tax		**224.5**	(365.9)	(45.2)	**224.5**	(365.9)	(45.2)
TOTAL COMPREHENSIVE INCOME (LOSS)		**P 271.3**	(P 35.2)	P 525.3	**P 271.3**	(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)

		Group										
						Net Unrealized Fair Value Gains (Losses) on			**Retained Earnings**			
	Notes	**Capital Stock**	**Additional Paid-in Capital**	**Treasury Shares, At Cost**	**Net Accumulated Actuarial Losses**	**Financial Assets at Other Comprehensive Income**	**Available-for-Sale Financial Assets**	**Accumulated Share in Other Comprehensive Income of Associate**	**Reserves**	**Free**	**Total**	**Total Equity**
Balance at January 1, 2019		P 2,225.2	P 571.1	P 489.3	(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		**P 2,225.2**	**P 571.1**	**P 489.3**	**(P 72.0)**	**P 41.1**	**P -**	**P -**	**P 141.7**	**P 2,789.0**	**P 2,930.7**	**P 5,614.3**
Balance at January 1, 2018												
As previously reported		P 2,225.2	P 571.1	P 489.3	(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	489.3	(59.7)	170.2	-	-	142.6	2,626.8	2,769.4	5,594.4
Total comprehensive income (loss)		-	-	-	(1.1)	(365.2)	-	0.4	-	330.7	330.7	(35.2)
Cash dividends	18	-	-	-	-	-	-	-	-	(216.2)	(216.2)	(216.2)
Appropriation	18	-	-	-	-	-	-	-	4.4	(4.4)	-	-
Balance at December 31, 2018		P 2,225.2	P 571.1	P 489.3	(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
Balance at January 1, 2017		P 2,225.2	P 571.1	(P 81.8)	(P 42.8)	P -	P 197.3	P -	P -	P 2,480.5	P 2,480.5	P 5,349.5
Total comprehensive income (loss)		-	-	-	(16.9)	-	(28.3)	-	-	570.5	570.5	525.3
Cash dividends	18	-	-	-	-	-	-	-	-	(432.5)	(432.5)	(432.5)
Balance at December 31, 2017		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

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			Retained Earnings			
	Notes	Capital Stock	Additional Paid-in Capital	Treasury Shares, At Cost	Net Accumulated Actuarial Losses	Financial Assets at Other Comprehensive Income	Available-for-Sale Financial Assets	Accumulated Share in Other Comprehensive Income of Associate	Reserves	Free	Total	Total Equity
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 5,160.2
Total comprehensive income (loss)		-	-	-	(11.2)	236.1	-	(0.4)	-	46.8	46.8	271.3
Appropriation	17	-	-	-	-	-	-	-	(5.3)	5.3	-	-
Balance at December 31, 2019		**P 2,225.2**	**P 571.1**	**(P 81.8)**	**(P 72.0)**	**P 41.1**	**P -**	**P -**	**P 141.7**	**P 2,789.0**	**P 2,930.7**	**P 5,431.5**
Balance at January 1, 2018												
As previously reported		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
Effect of adoption of PFRS 9		-	-	-	-	129.1	(169.0)	-	0.9	8.3	9.2	(30.7)
As restated		2,225.2	571.1	(81.8)	(59.7)	170.2	-	-	142.6	2,626.8	2,769.4	5,411.6
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		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
Balance at January 1, 2017		P 2,225.2	P 571.1	(P 81.8)	(P 42.8)	P -	P 197.3	P -	P -	P 2,480.5	P 2,480.5	P 5,349.5
Total comprehensive income (loss)		-	-	-	(16.9)	-	(28.3)	-	-	570.5	570.5	525.3
Cash dividends	18	-	-	-	-	-	-	-	-	(432.5)	(432.5)	(432.5)
Balance at December 31, 2017		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

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)

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

Supplemental Information on Non-cash Investing Activities:

1. 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).
2. 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 39th 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.

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

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:

	Leasing	Financing	Total
For the Year Ended December 31, 2019			
Statement of Income			
Segment revenues	**P 1,735.6**	**P 1,021.6**	**P 2,757.2**
Segment expenses	**(1,689.6)**	**(994.5)**	**(2,684.1)**
	P 46.0	**P 27.1**	**73.1**
Others			**5.5**
Segment results			**78.6**
Tax expense			**(33.6)**
Net profit			**P 45.0**
December 31, 2019			
Statement of Financial Positions			
Segment assets	**P 15,271.1**	**P 11,202.8**	**P 26,474.9**
Unallocated assets			**4,474.0**
Total assets			**P 30,947.9**
Segment liabilities	**P 13,611.3**	**P 11,262.7**	**P 24,874.0**
Unallocated			**459.6**
Total liabilities			**P 25,333.6**
Other segment information			
Capital expenditures	**P 485.9**	**P -**	**P 485.9**
Depreciation and amortization	**P 757.8**	**P -**	**P 757.8**
For the Year Ended December 31, 2018			
Statement of Income			
Segment revenues	P 1,833.5	P 998.4	P 2,831.9
Segment expenses	(1,593.8)	(867.9)	(2,461.7)
	P 239.7	P 130.5	370.2
Others			85.1
Segment results			455.3
Tax expense			(89.6)
Net profit			P 365.7

	Leasing	Financing	Total
December 31, 2018			
Statement of Financial Positions			
Segment assets	P 22,254.8	P 14,024.5	P 36,279.3
Unallocated assets			5,260.9
Total assets			P 41,540.2
Segment liabilities	P 20,816.9	P 14,793.3	P 35,610.2
Unallocated			587.0
Total liabilities			P 36,197.2
Other segment information			
Capital expenditures	P 888.9	P -	P 888.9
Depreciation and amortization	P 861.4	P -	P 861.4
For the Year Ended December 31, 2017			
Statement of Income			
Segment revenues	P 1,775.7	P 979.3	P 2,755.0
Segment expenses	(1,367.5)	(815.2)	(2,182.7)
	P 408.2	P 164.1	572.3
Others			267.0
Segment results			839.3
Tax expense			(148.8)
Net profit			P 690.5
December 31, 2017			
Statement of Financial Positions			
Segment assets	P 20,498.1	P 15,606.7	P 36,104.8
Unallocated assets			1,370.5
Total assets			P 37,475.3
Segment liabilities	P 19,400.4	P 17,066.5	P 36,466.9
Unallocated			932.4
Total liabilities			P 37,399.3
Other segment information			
Capital expenditures	P 776.5	P -	P 776.5
Depreciation and amortization	P 814.5	P -	P 814.5

Segment expenses are allocated on the basis of gross income.

4.5 Reconciliation

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

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:

	2019	
	Leasing	**Financing**
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	-	(37.7)
	13,771.2	11,428.0
Equipment under lease	1,840.3	-
	15,611.5	11,428.0
Allowance for impairment	(340.4)	(225.2)
	P 15,271.1	**P 11,202.8**

	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)
	20,315.2	14,238.4
Equipment under lease	2,246.1	-
	22,561.3	14,238.4
Allowance for impairment	(306.5)	(213.9)
	P 22,254.8	P 14,024.5

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:

	2019	2018
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)
	P 37.9	P 30.7

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.

	2019		2018	
	Depreciation of Peso	**Appreciation of Peso**	Depreciation of Peso	Appreciation of Peso
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.

	Increase in Interest Rate	Decrease in Interest Rate
2019:		
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)**
2018:		
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 that 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

			Stage 1	Stage 2	Stage 3	Total
2019						
Receivables from customers – corporate						
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
			15,353.0	331.5	1,133.1	16,817.6
Expected credit loss allowance			(44.5)	(11.5)	(418.4)	(474.4)
Carrying amount			P 15,308.5	P 320.0	P 714.7	P 16,343.2

			Stage 1	Stage 2	Stage 3	Total
Receivables from customers – consumer						
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**
			7,989.2	**83.3**	**365.5**	**8,438.0**
Expected credit loss allowance			**(21.7)**	**(4.5)**	**(65.0)**	**(91.2)**
Carrying amount			**P 7,967.5**	**P 78.8**	**P 300.5**	**P 8,346.8**
Other receivables						
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**
			269.4	**-**	**47.4**	**316.8**
Expected credit loss allowance			**0.2**	**-**	**(29.3)**	**(29.1)**
Carrying amount			**P 269.6**	**P -**	**P 18.1**	**P 287.7**
Debt investment securities at FVOCI						
Grades AAA to B	:	Current	**P 1,162.4**	**P -**	**P -**	**P 1,162.4**
2018						
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
			25,420.9	55.9	891.6	26,368.4
Expected credit loss allowance			(111.3)	(1.8)	(333.4)	(446.5)
Carrying amount			P 25,309.6	P 54.1	P 558.2	P 25,921.9
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
			7,937.5	70.7	240.9	8,249.1
Expected credit loss allowance			(23.7)	(3.2)	(47.0)	(73.9)
Carrying amount			P 7,913.8	P 67.5	P 193.9	P 8,175.2

			Stage 1	Stage 2	Stage 3	Total
Other receivables						
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
			243.0	12.4	30.5	285.9
Expected credit loss allowance			(0.7)	(0.3)	(29.4)	(30.4)
Carrying amount			P 242.3	P 12.1	P 1.1	P 255.5
Debt investment securities at FVOCI						
Grades AAA to B	:	Current	P 1,119.8	P -	P -	P 1,119.8

Parent

			Stage 1	**Stage 2**	**Stage 3**	**Total**
2019						
Receivables from customers – corporate						
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**
			15,353.0	**331.5**	**1,133.1**	**16,817.6**
Expected credit loss allowance			**(44.5)**	**(11.5)**	**(418.4)**	**(474.4)**
Carrying amount			**P 15,308.5**	**P 320.0**	**P 714.7**	**P 16,343.2**
Receivables from customers – consumer						
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**
			7,989.2	**83.3**	**365.5**	**8,438.0**
Expected credit loss allowance			**(21.7)**	**(4.5)**	**(65.0)**	**(91.2)**
Carrying amount			**P 7,967.5**	**P 78.8**	**P 300.5**	**P 8,346.8**
Other receivables						
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**
			58.2	**-**	**47.4**	**105.6**
Expected credit loss allowance			**0.2**	**-**	**(29.1)**	**(28.9)**
Carrying amount			**P 58.4**	**P -**	**P 18.3**	**P 76.7**
Debt investment securities at FVOCI						
Grades AAA to B	:	Current	**P 1,162.4**	**P -**	**P -**	**P 1,162.4**

2018			Stage 1	Stage 2	Stage 3	Total
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
			25,420.9	55.9	891.6	26,368.4
Expected credit loss allowance			(111.3)	(1.8)	(333.4)	(446.5)
Carrying amount			P 25,309.6	P 54.1	P 558.2	P 25,921.9
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
			7,937.5	70.7	240.9	8,249.1
Expected credit loss allowance			(23.7)	(3.2)	(47.0)	(73.9)
Carrying amount			P 7,913.8	P 67.5	P 193.9	P 8,175.2
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	-	-	23.5	23.5
			80.8	9.4	30.4	120.6
Expected credit loss allowance			(0.7)	(0.3)	(29.2)	(30.2)
Carrying amount			P 80.1	P 9.1	P 1.2	P 90.4
Debt investment securities at FVOCI						
Grades AAA to B	:	Current	P 1,119.8	P -	P -	P 1,119.8

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 heighten 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*
Group						
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	-
	P 130.0	**P 24,977.7**	**P 1,162.4**	P 274.6	P 34,352.6	P 1,119.8
Parent Company						
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	-
	P 107.2	**P 24,766.7**	**P 1,162.4**	P 228.5	P 34,187.5	P 1,119.8

**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
	P 16,659.8	**P 29,476.6**	P 26,222.8	P 46,498.1
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
	P 8,438.1	**P 15,169.7**	P 8,249.2	P 14,050.6
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**
Receivables from customers – corporate				
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	P 44.5	P 11.5	P 418.4	P 474.4
Receivables from customers – consumer				
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	P 21.7	P 4.5	P 65.0	P 91.2
Other receivables				
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	(P 0.2)	P -	P 29.3	P 29.1

	2018			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
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	P 111.3	P 1.8	P 333.4	P 446.5
Receivables from customers – consumer				
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	P 23.7	P 3.2	P 47.0	P 73.9
Other receivables				
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	P 0.7	P 0.3	P 29.4	P 30.4

Parent Company

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Receivables from customers – corporate				
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	**P 44.5**	**P 11.5**	**P 418.4**	**P 474.4**

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Receivables from customers – consumer				
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	**P 21.7**	**P 4.5**	**P 65.0**	**P 91.2**
Other receivables				
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	**(P 0.2)**	**P -**	**P 29.1**	**P 28.9**

	2018			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
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	P 111.3	P 1.8	P 333.4	P 446.5
Receivables from customers – consumer				
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	P 23.7	P 3.2	P 47.0	P 73.9
Other receivables				
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	P 0.7	P 0.3	P 29.2	P 30.2

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				
	One to Three Months	Three Months to One Year	One to Three Years	More Than Three Years	Total
2019					
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	1,549.8	1,977.5	9,538.7	11,911.7	24,977.7
	P 1,679.8	P 2,939.5	P 9,739.0	P 13,940.3	P 28,298.6
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	607.4	604.7	2,526.8	997.3	4,736.2
	P 13,792.3	P 3,220.3	P 7,268.7	P 999.4	P 25,278.7

	Parent Company				
	One to Three Months	**Three Months to One Year**	**One to Three Years**	**More Than Three Years**	**Total**
Financial assets					
Cash and cash equivalents	**P 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	**1,532.5**	**1,783.6**	**9,538.7**	**11,911.9**	**24,766.7**
	P 1,639.7	**P 2,745.6**	**P 9,739.0**	**P 13,940.5**	**P 28,064.8**
Financial liabilities					
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	**593.8**	**584.9**	**2,464.0**	**983.5**	**4,626.2**
	P 11,865.0	**P 3,200.5**	**P 7,206.0**	**P 983.6**	**P 23,255.1**

	Group				
	One to Three Months	Three Months to One Year	One to Three Years	More Than Three Years	Total
2018					
Financial assets					
Cash and cash equivalents	P 274.6	P -	P -	P -	P 274.6
Financial assets at FVOCI	-	-	1,107.3	2,484.6	3,591.9
Loans and other receivables	1,843.3	3,317.6	13,128.5	16,063.2	34,352.6
	P 2,117.9	P 3,317.6	P 14,235.8	P 18,547.8	P 38,219.1
Financial liabilities					
Bills payable	P 23,396.3	P 3,765.6	P 1,815.9	P -	P 28,977.8
Accounts payable and other liabilities	539.8	-	-	-	539.8
Lease deposits	620.2	1,058.1	3,210.2	1,743.8	6,632.3
	P 24,556.3	P 4,823.7	P 5,026.1	P 1,743.8	P 36,149.9

	Parent Company				
	One to Three Months	Three Months to One Year	One to Three Years	More Than Three Years	Total
Financial assets					
Cash and cash equivalents	P 228.5	P -	P -	P -	P 228.5
Financial assets at FVOCI	-	-	1,107.3	2,484.6	3,591.9
Loans and other receivables	1,832.6	3,163.1	13,128.5	16,063.3	34,187.5
	P 2,061.1	P 3,163.1	P 14,235.8	P 18,547.9	P 38,007.9
Financial liabilities					
Bills payable	P 21,142.4	P 3,765.6	P 1,815.9	P -	P 26,723.9
Accounts payable and other liabilities	427.4	-	-	-	427.4
Lease deposits	603.3	1,052.9	3,179.2	1,707.0	6,542.4
	P 22,173.1	P 4,818.5	P 4,995.1	P 1,707.0	P 33,693.7

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.

	Group		Parent	
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
2019				
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	24,977.7	24,597.7	24,766.7	24,386.7
	25,107.7	24,727.7	24,873.9	24,493.9
Financial assets at FVOCI	3,190.9	3,190.9	3,190.9	3,190.9
	P 28,298.6	**P 27,918.6**	**P 28,064.8**	**P 27,684.8**
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	4,736.2	4,369.1	4,626.2	4,266.6
	P 25,278.7	**P 24,879.2**	**P 23,255.1**	**P 22,871.6**

	Group		Parent	
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
2018				
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	34,352.6	33,668.7	34,187.5	33,503.6
	34,627.2	33,943.3	34,416.0	33,732.1
Financial assets at FVOCI	3,591.9	3,591.9	3,591.9	3,591.9
	P 38,219.1	P 37,535.2	P 38,007.9	P 37,324.0
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	6,632.3	5,299.9	6,542.4	5,218.7
	P 36,149.9	P 34,166.3	P 33,693.7	P 31,734.2

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.

	Note	Level 1	Level 2	Level 3	Total
December 31, 2019					
Financial assets at FVOCI:					
Equity securities	8	**P 617.5**	**P 1,411.0**	**P -**	**P 2,028.5**
Debt securities		**1,162.4**	**-**	**-**	**1,162.4**
		P 1,779.9	**P 1,441.0**	**P -**	**P 3,190.9**
December 31, 2018					
Financial assets at FVOCI:					
Equity securities	8	P 1,240.2	P 1,231.9	P -	P 2,472.1
Debt securities		1,119.8	-	-	1,119.8
		P 2,360.0	P 1,231.9	P -	P 3,591.9

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.

		Group			
	Notes	**Level 1**	**Level 2**	**Level 3**	**Total**
December 31, 2019					
Financial assets:					
Cash and cash equivalents	7	**P 130.0**	**P -**	**P -**	**P 130.0**
Loans and other receivables	9	**-**	**-**	**24,597.7**	**24,597.7**
		P 130.0	**P -**	**P 24,597.7**	**P 24,727.7**
Financial liabilities:					
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	**-**	**-**	**4,369.1**	**4,369.1**
		P -	**P -**	**P 24,879.2**	**P 24,879.2**

	Notes	Group			
		Level 1	Level 2	Level 3	Total
December 31, 2018					
Financial assets:					
Cash and cash equivalents	7	P 274.6	P -	P -	P 274.6
Loans and other receivables	9	-	-	33,668.7	33,668.7
		P 274.6	P -	P 33,668.7	P 33,943.3
Financial liabilities:					
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
		P -	P -	P 34,166.3	P 34,166.3

	Notes	**Parent Company**			
		Level 1	**Level 2**	**Level 3**	**Total**
December 31, 2019					
Financial assets:					
Cash and cash equivalents	7	**P 107.2**	**P -**	**P -**	**P 107.2**
Loans and other receivables	9	**-**	**-**	**24,386.7**	**24,386.7**
		P 107.2	**P -**	**P 24,386.7**	**P 24,493.9**
Financial liabilities:					
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**
		P -	**P -**	**P 22,871.6**	**P 22,871.6**
December 31, 2018					
Financial assets:					
Cash and cash equivalents	7	P 228.5	P -	P -	P 228.5
Loans and other receivables	9	-	-	33,503.6	33,503.6
		P 228.5	P -	P 33,503.6	P 33,732.1
Financial liabilities:					
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
		P -	P -	P 31,734.2	P 31,734.2

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.

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

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:

	Group		Parent Company	
	2019	2018	**2019**	2018
Cash on hand and in banks	**P 126.2**	P 270.3	**P 103.4**	P 224.2
Cash equivalents	**3.8**	4.3	**3.8**	4.3
	P 130.0	P 274.6	**P 107.2**	P 228.5

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:

	2019	2018
Equity securities:		
Smart Communication Inc. perpetual notes (Smart Notes)	**P 1,400.0**	P 1,400.0
San Miguel Corporation preferred shares (SMC Shares)	**597.5**	1,232.1
Other equity investments	**0.8**	0.8
	1,998.3	2,632.9
Debt securities:		
8990 Holdings Inc. fixed rate bonds (8990 Holdings Bonds)	**937.2**	937.2
Sta. Lucia Land Inc. fixed rate bonds (Sta. Lucia Bonds)	**200.0**	200.0
	1,137.2	1,137.2
	3,135.5	3,770.1
Accumulated unrealized fair value gains (losses) – net	**43.1**	(190.7)
Accrued interest receivable	**12.3**	12.5
	P 3,190.9	P 3,591.9

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

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

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:

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

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:

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

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

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

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

	2019	2018
Finance lease receivables	**P 650.8**	P 416.0
Loans and receivables	**847.9**	688.2
	P 1,498.7	P 1,104.2

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.

	2019	2018
Gross NPLs	**P 1,047.5**	P 743.3
Allowance for impairment	**(479.8)**	(377.2)
	P 567.7	P 366.1

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:

	Group		
	2019	2018	2017
Loans and receivable financed	**P 1,019.5**	P 998.4	P 979.3
Finance lease receivables	**891.0**	895.2	853.5
Financial assets at FVOCI	**71.5**	71.6	-
Interest on defined benefit plan	**2.0**	1.3	3.1
Cash and cash equivalents	**0.5**	0.6	0.8
Available for sale financial assets	**-**	-	81.6
	P 1,984.5	P 1,967.1	P 1,918.3

	Parent Company		
	2019	2018	2017
Loans and receivables financed	**P 1,019.2**	P 998.0	P 978.9
Finance lease receivables	**891.0**	895.2	853.5
Financial assets at FVOCI	**71.5**	71.6	-
Interest on defined benefit plan	**2.0**	1.3	3.1
Cash and cash equivalents	**0.5**	0.6	0.8
AFS financial assets	**-**	-	81.6
	P 1,984.2	P 1,966.7	P 1,917.9

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.

	Group		
	2019	2018	2017
Balance at beginning of year	**P 550.8**	P 561.3	P 629.0
Reversal of impairment losses	**-**	(10.4)	-
Impairment losses during the year	**63.5**	0.2	63.5
Accounts written-off	**(19.6)**	(0.3)	(0.3)
Reclassification (see Note 11)	**-**	-	13.9
Balance at end of year	**P 594.7**	P 550.8	P 706.1

	Parent Company		
	2019	2018	2017
Balance at beginning of year	**P 550.6**	P 561.3	P 629.0
Reversal of impairment losses	**-**	(10.4)	-
Accounts written-off	**(19.6)**	(0.3)	(0.3)
Impairment losses during the year	**63.5**	-	63.5
Reclassification (see Note 11)	**-**	-	13.9
Balance at end of year	**P 594.5**	P 550.6	P 706.1

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.

	Transportation and Other Equipment	Furniture, Fixtures and Others	Leasehold Improvements	Right-of-Use Asset	Total
Group					
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	**P 1,840.3**	**P 6.4**	**P -**	**P 26.9**	**P 1,873.6**
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	P 2,246.0	P 8.9	P -	P -	P 2,254.9
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	P 2,249.5	P 6.7	P 0.4	P -	P 2,256.6

	Transportation and Other Equipment	Furniture, Fixtures and Others	Leasehold Improvements	Right-of-Use Asset	Total
Parent Company					
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	**P -**	**P 6.4**	**P -**	**P 26.9**	**P 33.3**
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	P -	P 8.9	P -	P -	P 8.9
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	P -	P 6.7	P 0.4	P -	P 7.1

A reconciliation of the carrying amounts of property and equipment at the beginning and end of 2019 and 2018 is shown below.

	Transportation and Other Equipment	Furniture, Fixtures and Others	Leasehold Improvements	Right-of-Use Asset	Total
Group					
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	**P 1,840.3**	**P 6.4**	**P -**	**P 26.9**	**P 1,873.6**
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	P 2,246.0	P 8.9	P -	P -	P 2,254.9

Parent Company

	Transportation and Other Equipment	Furniture, Fixtures and Others	Leasehold Improvements	Right-of-Use Asset	Total
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	**P -**	**P 6.4**	**P -**	**P 26.9**	**P 33.3**
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	P -	P 8.9	P -	P -	P 8.9

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.

	Land	Building and Improvements	Total
Group			
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	**P 340.7**	**P 53.1**	**P 393.8**
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	P 335.0	P 19.5	P 354.5
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	P 345.4	P 9.0	P 354.4
Parent Company			
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	**P 114.6**	**P 53.1**	**P 167.7**
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	P 108.9	P 19.5	P 128.4
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	P 119.3	P 9.0	P 128.3

A reconciliation of the carrying amounts at the beginning and end of 2019 and 2018 of investment properties is shown below.

	Land	Building and Improvements	Total
Group			
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	**-**	**(4.5)**	**(4.5)**
Balance at December 31, 2019, net of accumulated depreciation and amortization and impairment	**P 340.7**	**P 53.1**	**P 393.8**
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	-	(1.8)	(1.8)
Balance at December 31, 2018, net of accumulated depreciation and amortization and impairment	P 335.0	P 19.5	P 354.5
Parent Company			
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	**-**	**(4.5)**	**(4.5)**
Balance at December 31, 2019, net of accumulated depreciation and amortization and impairment	**P 114.6**	**P 53.1**	**P 167.7**
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	-	(1.8)	(1.8)
Balance at December 31, 2018, net of accumulated depreciation and amortization and impairment	P 108.9	P 19.5	P 128.4

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	**P**	**26.9**

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		15.6
	P	**27.8**

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:

	2019	2018	2017
Within one year	**P 663.3**	P 747.5	P 831.4
After one year but not more than five years	**584.0**	792.9	924.7
More than five years	**68.1**	79.3	87.7
	P 1,315.4	P 1,619.7	P 1,843.8

13. OTHER ASSETS

Other assets consist of the following:

		Group		**Parent Company**	
	Notes	**2019**	2018	**2019**	2018
Deferred input VAT	13.1	**P 211.3**	P 259.7	**P -**	P -
Deferred tax assets – net	22	**132.9**	126.2	**132.9**	126.2
Prepaid expenses		**20.7**	40.4	**20.3**	40.2
Retirement benefit asset	20.2	**13.5**	26.3	**13.5**	26.3
Intangible assets – net	13.3	**1.7**	15.5	**1.7**	15.5
Non-current assets held-for-sale – net	13.4	**1.3**	3.6	**1.3**	3.6
Equity investments	13.2	**-**	235.3	**486.7**	721.0
Repossessed chattels and other equipment – net	13.5	**-**	0.5	**-**	-
Miscellaneous – net	13.6	**0.5**	4.2	**0.3**	3.9
		P 381.9	P 711.7	**P 656.7**	P 936.7

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	Group 2019	Group 2018	Parent Company 2019	Parent Company 2018
Subsidiary – BDO Rental	100%	**P -**	P -	**P 486.7**	P 485.7
Associate – MMPC Auto Financial Services Corp. (MAFSC)	40%	**-**	235.3	**-**	235.3
		P -	P 235.3	**P 486.7**	P 721.0

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

	Subsidiary 2019	Subsidiary 2018	Associate 2019	Associate 2018
Acquisition costs	**P 250.0**	P 250.0	**P 300.0**	P 300.0
Accumulated equity in total comprehensive income				
Balance at beginning of year	**235.7**	281.2	**(64.7)**	(26.1)
Share in net profit (loss)	**1.0**	(10.5)	**(41.6)**	(39.0)
Dividend income	**-**	(35.0)	**-**	-
Share in other comprehensive income	**-**	-	**(0.4)**	0.4
Disposal	**-**	-	**(193.3)**	-
	236.7	235.7	**(300.0)**	(64.7)
	P 486.7	P 485.7	**P -**	P 235.3

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.

	Total Assets	Total Liabilities	Revenues	Net Profit (Loss)
December 31, 2019				
BDO Rental	**P 2,512.1**	**P 2,025.4**	**P 906.5**	**P 1.0**
December 31, 2018				
BDO Rental	P 2,944.1	P 2,458.4	P 974.1	(P 10.5)
MAFSC	P 7,727.9	P 7,139.6	P 789.2	(P 97.6)

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	40%
	P 235.3

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.

	2019	2018
Cost	**P 2.8**	P 5.8
Accumulated impairment	**(1.5)**	(2.2)
	P 1.3	P 3.6

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.

	2019	2018
Balance at January 1, net of accumulated impairment	**P 3.6**	P 9.8
Additions	**0.6**	1.3
Disposals	**(2.2)**	(7.1)
Reclassifications (see Note 11)	**(0.7)**	(0.4)
Balance at December 31, net of accumulated impairment	**P 1.3**	P 3.6

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
		577.3	592.4	**577.1**	592.4
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)
		(42.6)	(15.1)	**(42.6)**	(15.3)
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
		P 619.8	P 577.3	**P 619.6**	P 577.1

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
	P 20,137.8	P 28,977.8	**P 18,304.5**	P 26,723.9

Bills payable to banks and private institutions with their annual interest rates are presented below. These rates approximate prevailing market rates.

	Banks		Private Institutions	
	From	To	From	To
2019	**3.9%**	**4.6%**	**4.0%**	**4.8%**
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:

	Notes	**2019**	2018	2017
Group				
Bills payable - banks		**P 960.6**	P 850.1	P 487.8
Bills payable - others		**428.7**	314.5	356.7
Amortization on lease deposits	17	**7.7**	5.6	3.8
Lease liabilities	12	**2.2**	-	-
Others		**-**	-	2.0
		P 1,399.2	P 1,170.2	P 850.3
Parent Company				
Bills payable - banks		**P 843.8**	P 758.9	P 424.9
Bills payable - others		**428.7**	314.5	356.7
Amortization on lease deposits	17	**1.9**	1.4	0.4
Lease liabilities	12	**2.2**	-	-
Others		**-**	-	2.0
		P 1,276.6	P 1,074.8	P 784.0

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

	Group	Parent Company
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	161,426.1	148,781.1
Balance at December 31, 2019	**P 20,137.8**	**P 18,304.4**
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	172,614.9	160,345.9)
Balance at December 31, 2018	P 28,977.8	P 26,723.9

16. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities consist of the following:

	Group		Parent Company	
	2019	2018	**2019**	2018
Accounts payable	**P 265.0**	P 433.6	**P 187.0**	P 325.5
Unapplied advance payments	**88.0**	74.0	**85.8**	69.6
Accrued taxes and other expenses	**39.0**	24.6	**38.7**	23.5
Lease liabilities	**27.8**	-	**27.8**	-
Withholding taxes payable	**15.4**	22.7	**14.5**	21.7
Other liabilities	**24.4**	32.2	**23.8**	32.3
	P 459.6	P 587.1	**P 377.6**	P 472.6

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:

	Group		Parent Company	
	2019	2018	**2019**	2018
Finance leases	**P 4,626.2**	P 6,542.4	**P 4,626.2**	P 6,542.4
Operating leases	**110.0**	89.9	**-**	-
	P 4,736.2	P 6,632.3	**P 4,626.2**	P 6,542.4

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.

		2019		2018
Total equity	**P**	**5,614.3**	P	5,343.0
Cash and cash equivalents	**(**	**130.0)**	(	274.6)
Net capital	**P**	**5,484.3**	P	5,068.4
Bills payable	**P**	**20,137.8**	P	28,977.8
Lease deposits		**4,736.2**		6,632.3
Total equity		**5,614.3**		5,343.0
Overall financing	**P**	**30,488.3**	P	40,953.1
Capital-to-overall financing ratio		**0.18:1.00**		0.12:1.00

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:

		Group		
	Notes	**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
		P 202.8	P 310.1	P 316.0

Parent Company

	Notes	2019	2018	2017
Dividend income	8	**P 159.4**	P 206.0	P 215.2
Loss on sale of investment in an associate	13	**(27.6)**	-	-
Gain on sale of investment properties	11	**4.7**	17.4	59.1
Day-one gains – net		**0.1**	4.5	1.3
Miscellaneous – net	13, 21	**6.0**	36.8	48.3
		P 142.6	P 264.7	P 323.9

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	2019	2018	2017
Salaries and wages		**P 134.9**	P 134.7	P 130.9
Bonuses		**46.2**	48.6	42.2
Retirement – defined benefit plan	20.2	**17.8**	18.1	17.1
Employee stock option plan	21, 20.3	**14.8**	8.7	6.3
Fringe benefits		**14.0**	10.3	15.2
Directors' fee		**5.6**	5.5	5.5
Social security costs		**4.7**	4.1	3.9
Other benefits		**6.2**	5.7	5.9
		P 244.2	P 235.7	P 227.0

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:

	2019	2018
Fair value of plan assets	**P 289.5**	P 274.3
Present value of the obligation	**(275.3)**	(245.3)
Effect of asset ceiling	**(0.7)**	(2.7)
Balance at end of year	**P 13.5**	P 26.3

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

	2019	2018
Balance at beginning of year	**P 274.3**	P 279.4
Interest income	**20.6**	15.8
Contributions to the plan	**18.8**	18.8
Return on plan assets (excluding amounts included in net interest)	**(5.1)**	(15.5)
Benefits paid	**(19.1)**	(24.2)
Balance at end of year	**P 289.5**	P 274.3

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

	2019	2018
Balance at beginning of year	**P 245.3**	P 251.6
Current service cost	**17.8**	18.1
Interest expense	**18.4**	14.3
Benefits paid	**(19.1)**	(24.2)
Remeasurements:		
Actuarial losses (gains) arising from changes in:		
- experience adjustments	**(5.9)**	23.8
- financial assumptions	**18.8**	(20.6)
- demographic assumptions	**-**	(17.7)
Balance at end of year	**P 275.3**	P 245.3

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.

	2019	2018
Cash and cash equivalents	**P 0.3**	P 11.7
Unit investment trust funds	**75.6**	58.9
Loans	**0.1**	16.7
Equity instruments	**5.1**	5.4
Real estate	**3.2**	3.7
	84.3	96.4
Debt instruments:		
Government bonds	**111.4**	27.3
Other bonds	**94.0**	151.2
	205.4	178.5
Others	**(0.2)**	(0.6)
	P 289.5	P 274.3

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:

	2019	2018
Reported in profit or loss:		
Current service cost	**P 17.8**	P 18.1
Net interest income	**(2.0)**	(1.3)
	P 15.8	P 16.8
Reported in other comprehensive income:		
Actuarial losses (gains) arising from:		
- changes in financial assumptions	**P 18.8**	(P 20.6)
- experience adjustments	**(5.9)**	23.8
- demographic changes	**-**	(17.7)
Loss on plan assets (excluding amounts included in net interest)	**5.1**	15.5
Effect of asset ceiling	**(2.3)**	0.6
	P 15.7	P 1.6

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:

	2019	2018
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:

	Impact on Retirement Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
December 31, 2019			
Discount rate	**+/-1.0%**	**(P 16.2)**	**P 18.1**
Salary growth rate	**+/-1.0%**	**17.5**	**(16.0)**
December 31, 2018			
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:

	2019	2018
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	**216.7**	203.6
	P 404.2	P 384.0

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
Ultimate parent company (BDO Unibank)				
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
Subsidiary (BDO Rental)				
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
Under common ownership				
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**	-	-
Other related parties				
Loans	*(p)*	**198.7**	52.7	1,542.1
Key management personnel				
Short-term benefits	*(h)*	**57.4**	58.6	47.5
Post-employment benefits	*(h)*	**8.3**	8.7	7.0
Loans to officers	*(h)*	**3.7**	1.7	3.8

Related Party Category	Notes	Outstanding Balance 2019		Outstanding Balance 2018	
Ultimate parent company (BDO Unibank)					
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
Under common ownership					
Accounts receivable	*(k)*		**0.9**		0.8
Bills payable	*(l)*		**997.1**		1,988.8
Other related parties					
Loans	*(p)*		**497.7**		1,256.9
Key management personnel					
Loans to officers	*(h)*		**5.9**		5.1
Retirement benefit fund					
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:

	Group		
	2019	2018	2017
Documentary stamp tax	**P 188.2**	P 215.2	P 148.4
Gross receipts tax	**87.7**	93.2	86.2
Local taxes	**21.2**	20.2	19.9
Others	**12.4**	16.6	14.4
	P 309.5	P 345.2	P 268.9

	Parent Company		
	2019	2018	2017
Documentary stamp tax	**P 173.4**	P 199.4	P 137.6
Gross receipts tax	**87.7**	93.2	86.2
Local taxes	**13.3**	12.5	12.0
Others	**12.0**	15.1	10.8
	P 286.4	P 320.2	P 246.6

22.2 Current and Deferred Taxes

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

	Group		
	2019	2018	2017
Reported in statements of income			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	**P 18.3**	P 86.5	P 192.9
Final tax at 20%	**14.4**	14.4	16.8
Minimum corporate income tax (MCIT) at 2%	**0.4**	0.2	-
	33.1	101.1	209.7
Deferred tax income relating to origination and reversal of temporary differences	**0.5**	(11.5)	(60.9)
	P 33.6	P 89.6	P 148.8
Reported in statements of comprehensive income			
Deferred tax income on:			
Net actuarial losses	**(P 4.7)**	P 0.5	P 7.3
Unrealized fair value gains on financial assets at FVOCI	**(2.5)**	4.1	-
Unrealized fair value gains on AFS financial assets	**-**	-	0.1
Net deferred tax income (expense)	**(P 7.2)**	P 4.6	P 7.4

	Parent Company		
	2019	2018	2017
Reported in statements of income			
Current tax expense:			
RCIT at 30%	**P 18.3**	P 86.5	P 183.6
Final tax at 20%	**14.4**	14.4	16.8
	32.7	100.9	200.4
Deferred tax expense (income) relating to origination and reversal of temporary differences	**0.5**	(11.5)	(60.9)
	P 33.2	P 89.4	P 139.5
Reported in statements of comprehensive income			
Deferred tax income on:			
Net actuarial losses	**(P 4.7)**	P 0.5	P 7.3
Unrealized fair value gains on financial assets at FVOCI	**(2.5)**	4.1	-
Unrealized fair value gains on AFS financial assets	**-**	-	0.1
Net deferred tax income (expense)	**(P 7.2)**	P 4.6	P 7.4

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

	Group		
	2019	2018	2017
Tax on pretax profit	**P 24.1**	P 126.1	P 215.8
Adjustment for income subjected to lower tax rate	**(7.2)**	(7.2)	(8.4)
Tax effects of:			
Non-deductible expense	**35.4**	18.5	42.0
Non-taxable income	**(29.2)**	(46.9)	(48.0)
Non-deductible interest expense	**9.4**	8.8	8.3
Unrecognized deferred tax assets on:			
Net operating loss carry-over (NOLCO)	**0.7**	4.2	-
MCIT	**0.4**	0.2	-
Reversal of deferred tax liability	**-**	(7.2)	(43.7)
Deductible temporary differences not recognized	**-**	(6.9)	(17.2)
	P 33.6	P 89.6	P 148.8

	Parent Company		
	2019	2018	2017
Tax on pretax profit	**P 24.0**	P 126.0	P 213.0
Adjustment for income subjected to lower tax rate	**(7.2)**	(7.2)	(8.4)
Tax effects of:			
Non-deductible expense	**35.0**	21.3	40.4
Non-taxable income	**(26.3)**	(44.3)	(53.1)
Non-deductible interest expense	**7.7**	7.7	8.5
Deductible temporary differences not recognized	**-**	(6.9)	(17.2)
Reversal of deferred tax liability	**-**	(7.2)	(43.7)
	P 33.2	P 89.4	P 139.5

The components of net deferred tax assets (see Note 13) as of December 31, 2019 and 2018 follow:

	Statements of Financial Position			
	Group		Parent Company	
	2019	2018	**2019**	2018
Deferred tax assets:				
Allowance for impairment on:				
Loans and discounts	**P 93.9**	P 93.5	**P 93.9**	P 93.5
Investment properties and non-current assets held-for-sale	**7.5**	7.9	**7.5**	7.9
Accounts receivable	**8.6**	9.1	**8.6**	9.1
Retirement benefit obligation	**26.2**	22.2	**26.2**	22.2
	136.2	132.7	**136.2**	132.7
Deferred tax liabilities:				
Unrealized fair value gains on financial assets at FVOCI	**(3.7)**	(6.2)	**(3.7)**	(6.2)
Others	**0.4**	(0.3)	**0.4**	(0.3)
	(3.3)	(6.5)	**(3.3)**	(6.5)
Net deferred tax assets	**P 132.9**	P 126.2	**P 132.9**	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:

	Group and Parent Company		
	2019	2018	2017
In profit or loss:			
Deferred tax assets:			
Allowance for impairment on:			
Loans and discounts	**P 0.4**	P 5.6	P 16.0
Accounts receivable	**(0.4)**	1.2	5.3
Investment properties and non-current assets held-for-sale	**(0.4)**	(1.4)	(4.3)
Retirement benefit obligation	**(0.7)**	(0.8)	(0.1)
	(1.1)	4.6	16.9
Deferred tax liabilities:			
Lease income differential	**-**	7.2	43.7
Others	**0.6**	(0.3)	0.3
	0.6	6.9	44.0
Net deferred tax income (expense)	**(P 0.5)**	P 11.5	P 60.9
In other comprehensive income:			
Deferred tax income on:			
Net actuarial losses	**(P 4.7)**	P 0.5	P 7.3
Unrealized fair value gains on financial assets at FVOCI	**(2.5)**	4.1	-
Unrealized fair value gains on AFS financial assets	**-**	-	0.1
Net deferred tax income (expense)	**(P 7.2)**	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:

	Group		
	2019	2018	2017
Net profit	**P 46.8**	P 330.7	P 570.5
Divided by the weighted average number of outstanding common shares – net*	**2,162.0**	2,162.0	2,162.0
Basic earnings per share	**P 0.02**	P 0.15	P 0.26

* 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:

	2019	2018
Current ratio	**36.37%**	41.96%
Debt-to-equity ratio	**451.23%**	677.47%
Return on equity	**0.85%**	6.13%
Return on assets	**0.13%**	0.78%
Loans-to-assets	**80.71%**	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	
	Future MLPR	**PV of NMLPR**	Future MLPR	PV of NMLPR
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	**2,458.3**	**1,838.4**	4,008.9	3,053.9
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	**P 13,771.2**	**P 13,771.2**	P 20,315.2	P 20,315.2

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	28.8
	P 43.0

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
Assets:						
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
			P 30,947.9			**P 28,922.5**
Liabilities:						
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
			P 25,333.6			**P 23,308.2**

	2018					
	Group			Parent Company		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Assets:						
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
			P 41,540.2			P 39,081.9
Liabilities:						
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
			P 36,197.2			P 33,738.9

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.