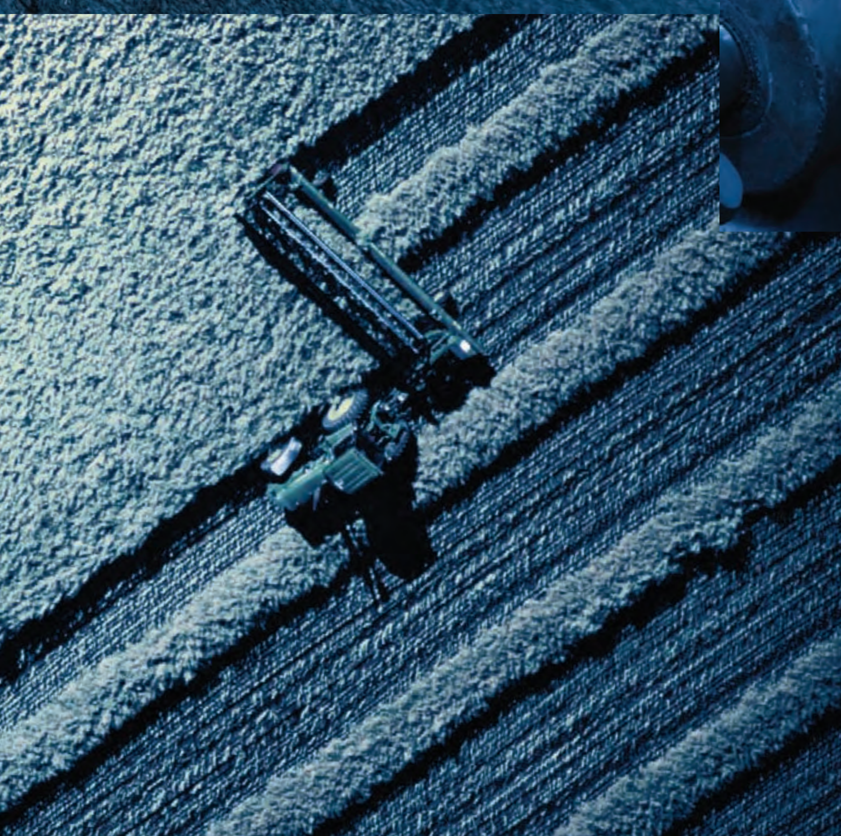



2 0 1 3
ANNUAL REPORT

BDO Leasing






BDO Leasing

2013 ANNUAL REPORT

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CORPORATE PROFILE

BDO Leasing and Finance, Inc. is a subsidiary of BDO Unibank and has an established track record of service and innovation in the leasing and finance industry. It is a recognized leader in the market it serves and this is further proven by its consistent excellent financial results, as well as, a continuously growing clientele base.

Capitalizing on the Unibank's extensive market reach and its wide product range, the Company continued to be among the industry's dominant players in terms of total assets, capitalization and profitability. Net Income reached P420.3 million in 2013, while total loans and leasing portfolio levels reached P21.2 billion attributable to intensified marketing efforts and expedient but prudent loan underwriting.

The Company also continued to have the highest approved ceiling for short term commercial papers (STCP) in the financing industry, particularly with the recent approval by the Securities and Exchange Commission to increase its STCP license to P15.0 billion. Further, the Philippine Ratings Services Corp. (PhilRatings) assigned an improved PRS 2 rating reflecting the Company's strong capability for payment of the commercial paper issue on both interest and principal.

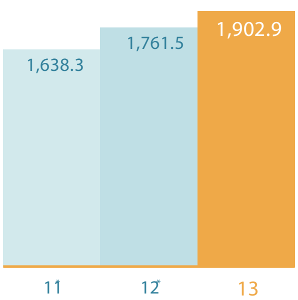
The BDO brand not only strengthened the Company's position in the industry but also revolutionized its capability to meet new sets of challenges and expectations.

FINANCIAL HIGHLIGHTS
IN MILLION PHP

	2013	2012*	2011*
FOR THE YEAR			
Gross Income	1,902.9	1,761.5	1,638.3
Total Expenses	1,337.1	1,234.6	1,247.2
Total Tax	145.5	116.2	82.8
Net Profit	420.3	410.7	308.3
Basic Earnings Per Share	0.19	0.19	0.14
AT YEAR END			
Total Assets	25,337.4	20,674.3	17,849.3
Loans & Other Receivables-Net	20,975.0	17,245.0	14,571.3
Equity	4,771.0	4,588.8	4,314.2

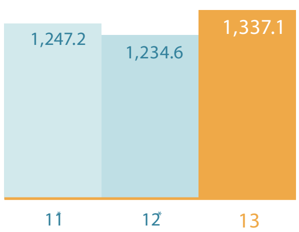
* as restated

GROSS INCOME



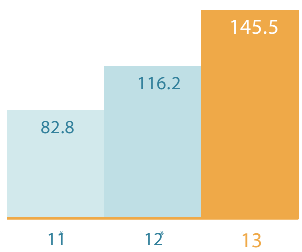
* as restated

TOTAL EXPENSES



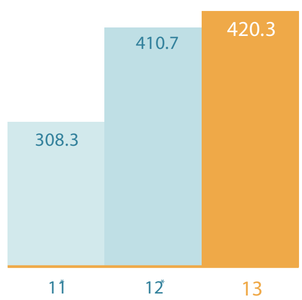
* as restated

TOTAL TAX



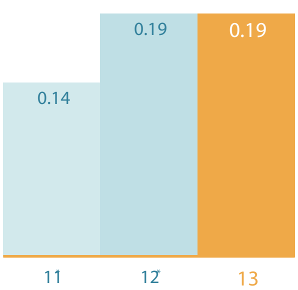
* as restated

NET INCOME



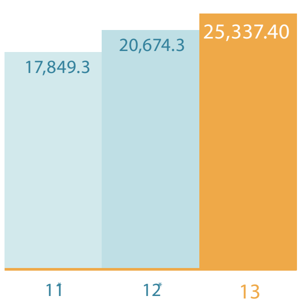
* as restated

BASIC EARNINGS PER SHARE



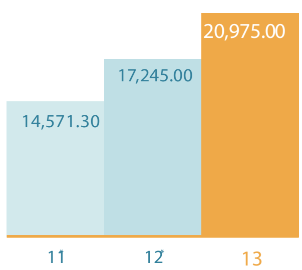
* as restated

TOTAL ASSETS



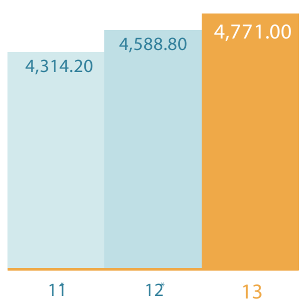
* as restated

LOANS AND OTHER RECEIVABLES-NET



* as restated

EQUITY



* as restated

MESSAGE FROM THE CHAIRPERSON AND VICE CHAIRMAN

"Moving forward, the Company aims to continuously give the clients the best quality of service at competitive terms."

Dear shareholders,

BDO Leasing and Finance, Inc. (BDOLF) continued to employ the group's "We find ways" principle via the offering of custom-made services to meet the retail and corporate clients' varied requirements.

This has resulted to a 22 percent growth in lease and loan portfolio to nearly P21 billion at the end of 2013.

Moving forward, the Company aims to continuously give the clients the best quality of service at competitive terms. Through our extensive branch network covering key areas of the country, finding ways to support their business will be achieved.

With BDOLF's various leasing options such as finance lease, operating lease, direct lease and sale-leaseback, clients are able to acquire assets vital to their operations. Also with leasing, clients can preserve their cash and credit lines for other purposes.

We wish to thank the management and staff for their hard work, the members of the Board for their continued guidance and support, and the shareholders for appreciating the business that we do.

Sincerely,

Teresita T. Sy
Chairperson

Roberto E. Lapid
Vice Chairman

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

BDO Leasing and Finance, Inc. (BDOLF) fully recognizes its role in the continued progress of the country's financial system. Apart from stability in financial position, it believes that implementing sound corporate governance practices are vital in attaining and preserving the public's trust and belief in the banking sector.

The corporate governance practices of the Company adheres to five (5) basic principles: accountability, fairness, integrity, transparency and performance. BDOLF believes that all directors, officers and staff are accountable to its stakeholders for their actions guided by respect for the rights of the minority shareholders, integrity in everything it does, and transparency in all its dealings.

In the end, having the highest governing standards rooted in its corporate way of life produce well-motivated people with the right attitude and ethical behavior leading to excellent business performance.

How the Company practices good corporate governance is mirrored in these efforts:

THE STRUCTURE

Board of Directors

It is composed of 11 members, three of whom are independent directors and complemented by board advisers. All are professionals from various fields of expertise such as banking, accounting, finance, law, merchandise marketing, bank regulation and strategy formulation.

The Board is collectively responsible for the long-term shareholder value of the institution and has the responsibility to approve, oversee and review the implementation of strategic objectives; financial plans and annual budgets; key operational initiatives; major funding and investment proposals consistent with long-term strategic goals; compliance and accountability systems; enterprise risk strategy and financial performance reviews to ensure the continued success of the organization.

Of equal importance is its task to implement good corporate governance cascaded down to the management and employees. It ensures that the Organization is being run in a sound and prudent manner to fulfill its obligations to all shareholders while upholding and protecting the interests of different constituencies.

The Board holds regular monthly meetings in addition to special meetings as needed. In 2013, it met 13 times to evaluate and approve various matters related to the Company's operations.

The following sets forth the attendance of the Board for the calendar year January to December 2013:

NAME OF DIRECTOR	NO. OF MEETINGS ATTENDED	TOTAL NO. OF MEETINGS	PERCENTAGE RATING
Teresita T. Sy	12	13	92%
Roberto E. Lapid	13	13	100%
Georgiana A. Gamboa*	13	13	100%
Jesse H.T. Andres (Independent)	12	13	92%
Antonio N. Cotoco	11	13	85%
Ma. Leonora V. De Jesus (Independent)	13	13	100%
Luis S. Reyes Jr.	9	13	69%
Nestor V. Tan	10	13	77%
Jesus G. Tirona (Independent)	13	13	100%
Exequiel P. Villacorta Jr.	13	13	100%
Walter C. Wassmer	11	13	85%

* resigned effective January 31, 2014

Board Committees

The Board is supported by five (5) committees with their respective mandates as follows:

1. Executive Committee
   Chairperson:
   Teresita T. Sy
   Members:
   Antonio N. Cotoco
   Georgiana A. Gamboa
   Roberto E. Lapid
   Nestor V. Tan
   Walter C. Wassmer.

The Executive Committee acts on behalf of the Board as the main approving body for Company exposures particularly approval/ confirmation of credit proposals, investments, disposal of acquired assets and other projects or initiatives to enhance the Company's operating and service delivery capabilities. In 2013, the Committee met at least once a week of every month, of which attendance from all the members ranged from 76% to 94%.

2. Audit Committee
   Chairperson:
   Ma. Leonora V. De Jesus
   (Independent Director)
   Members:
   Jesse H.T. Andres
   (Independent Director)
   Jesus G. Tirona
   (Independent Director)
   Adviser:
   Shirley M. Sangalang

The Audit Committee provides oversight of the internal and external audit functions and ensures both the independence from management of internal audit activities as well as the compliance with the regulations governing accounting standards on financial reporting. It approves the annual audit plan, the annual audited financial statements, and the analysis of quarterly results of operations as submitted by the Internal and External Auditors. It reviews the results of the audits and evaluates with the external and internal auditors the system of internal controls, governance processes and risk management policies as designed and implemented by senior management for adequacy, effectiveness and improvements. It has authority to investigate any matter within its Terms of Reference.

For the 2013 financial year, the Audit Committee has reviewed the audited financial statements with management and external auditors and believes that the financial statements are fairly presented in conformity with the relevant financial reporting standards in all material aspects.

The Committee met 13 times in 2013 with all members in attendance.

3. Corporate Governance Committee
   Chairperson:
   Jesus G. Tirona
   (Independent Director)
   Members:
   Jesse H.T. Andres
   (Independent Director)
   Antonio N. Cotoco
   Ma. Leonora V. De Jesus
   (Independent Director)
   Adviser:
   Ismael G. Estela

The Corporate Governance Committee is primarily tasked to assist the Board in formulating the policies and overseeing the implementation of the corporate governance practices of the Company and its subsidiaries and affiliates. It conducts periodic performance evaluation of the Board of Directors, its Committees (including the Corporate Governance Committee itself), and Executive Management. It also oversees the implem entation of the Directors Orientation and Continuing Education Program.

In line with this, the Committee undertook the annual performance evaluation and detailed analysis of the survey results for improvements; revised the Corporate Governance Manual to align with the requirements of BSP Circular 749; and, published the Company's compliance with the Organization for Economic Cooperation and Development (OECD) principles on Corporate Governance. In 2013, it also initiated review of the succession plan of the Corporation.

It also initiated the creation of the Lead Director position in the Board of Directors to chair the periodic meetings of the independent and non-executive directors with the external auditor, heads of internal audit, compliance and risk management without the presence of senior management. This was approved by the Committee on December 11, 2013 and Independent Director Mr. Jesus G. Tirona was appointed as the Lead Director.

On the continuing education of directors, a seminar on Anti-Money Laundering regulations was conducted with AMLC and attended by the directors and senior officers of the Company.

The Committee met 5 times in 2013 with all members in attendance.

4. Nominations Committee
   Chairperson:
   Jesse H.T. Andres
   (Independent Director)
   Members:
   Antonio N. Cotoco
   Ma. Leonora V. De Jesus
   (Independent Director)

The Nominations Committee leads the process of identifying and recommending candidates for appointment as Directors and for other key positions giving full consideration to succession planning and the leadership needs of the Company. It recommends the composition and chairmanship of the various committees. It reviews the structure, size and composition of the Board, including the balance of skills, knowledge and experience and the independence of the non-executive Directors, and recommends changes if necessary. It also reviews all nominations for the appointment, re-appointment, election or re-election of Directors of the Company and members of the various committees and makes recommendations to the Board on appointment of new Directors, when necessary.

In 2013, the Committee nominated Mr. Jesus G. Tirona as Lead Director.

The Committee met once in 2013 with all members in attendance.

5. Risk Management Committee
   Chairperson:
   Nestor V. Tan
   Members:
   Antonio N. Cotoco
   Georgiana A. Gamboa
   Roberto E. Lapid

The Risk Management Committee is responsible for the development of the Company's risk policies, defines the appropriate strategies for identifying, quantifying, managing and controlling risk exposures including preventing and/or minimizing the impact of losses when they occur. It supports the Board in performing its risk oversight functions and reviews the overall risk management philosophy, risk strategy and risk tolerance levels, oversees the implementation and review of the risk management plan on an integrated enterprise-wide basis, system of limits of management of discretionary authority delegated by the Board and takes immediate corrective actions when breached. It is also responsible for reassessing the continued relevance, comprehensiveness and effectiveness of the risk management plan, and revises it when needed. The Committee also reviews risk reports that controls and monitors risk exposures and limits.

The Committee met 4 times in 2013 with Messrs. Tan , Lapid, and Ms. Gamboa attended all the meeting. Mr. Cotoco present in 3 meetings.

GOVERNANCE MECHANISMS

In promoting good governance across the Organization, the Company put in place the following policies and practices:

Independence of Directors

Four of 11 directors are independent and non-executive and could therefore exercise unfettered and independent judgment, free from any business or other relationship that could materially interfere with the exercise of their ability to act in the best interest of the Company. In determining the independence of directors, each independent and non-executive director is required to submit an annual disclosure of all relevant information related to his/her business interests and affi liation. The Board has also adopted a procedure to ensure that it operates independently of management. A Lead Director was appointed to chair the meetings of independent and non-executive directors together with the external auditor and heads of internal audit, compliance and risk without the presence of senior management.

Segregation of Roles

The roles of the Board Chairman and the Company President are separate and distinct from each other to achieve a balance of authority, clear accountability, and capacity for independent decision-making by the Board.

The Chairman's primary responsibility is for leading the Board and ensuring its effectiveness while the President is responsible for running the Company's business.

INDEPENDENT CHECKS & BALANCES

The Company has institutionalized the following independent functions to ensure the safety and soundness of its operations:

Internal Audit

Under the direct supervision of the Board Audit Committee, the Internal Audit Group is tasked to provide independent assessment and reasonable assurance of the adequacy and effectiveness of the Company's system of internal controls, risk management and governance processes of all units of the Company including subsidiaries and affiliates. It has implemented the risk-based approach in auditing major areas of operations and prioritized their work based on assessment of risk exposures. It is staffed by individuals with relevant qualifications and has unfettered access to the Audit Committee, Board and senior management. The Internal Audit Group Head reports directly to the Audit Committee which is responsible for the appointment and removal of the Internal Auditor.

External Audit

Punongbayan and Araullo was reappointed External Auditors of the Company at the last Annual Stockholders Meeting on April 17, 2013. It is tasked to perform audit risk assessment, conduct an independent audit of the Group's financial statements, render an opinion thereof and report the results of the audit to the Board of Directors and stockholders. The Audit Committee makes the recommendations to the Board for the appointment, reappointment and removal of the external auditors including the audit fees and terms of engagement.

Risk Management

The Risk Management Unit is the one responsible for developing guidelines and policies for effective risk management of the Company. It is also responsible in identifying the key risk exposures, assessing and measuring the extent of risk exposures of the Company in the conduct of its business on an enterprise wide basis. It performs independent monitoring and objective assessment of decisions to accept particular risks whether these are consistent with board approved policies on risk tolerance and the effectiveness of the corresponding risk mitigation measures. On a regular basis, it reports to senior management and to the Board of Directors the results of their assessment and monitoring. Risk Management is staffed by competent personnel with sufficient experience, qualifications, knowledge of the banking business as well as mastery of risk disciplines. It is headed by a Chief Risk Officer (CRO) who is independent from any revenue-generating and executive functions, business line responsibilities and operations. The CRO reports directly to the Risk Management Committee and could only be appointed and replaced with prior approval from the Board.

The BDO Group uses an integrated risk management framework covering the parent bank and subsidiaries to address the material risks it faces in its banking activities particularly credit, market, business cycle, liquidity and operational risks.

Compliance and Anti-Money Laundering

The Compliance and Anti-Money Laundering Unit is responsible to oversee, coordinate, monitor and ensure compliance with existing laws, rules and regulations through the implementation of the Company's compliance system and program in accordance with the requirements of the BSP, SEC and other regulatory agencies, including but not limited to the identification and control of compliance risks, prudential reporting obligations as well as compliance training. It has a robust compliance system focused on the enforcement of the Anti-Money Laundering Act and its implementing rules and regulations, Corporate Governance Manual, Code of Conduct and Personal Trading Policy and other regulatory requirements. It coordinates with regulators on their examinations and reports significant compliance issues and regulatory findings to senior management and the Board. The unit is headed by a Compliance Officer (CO) who was appointed by the Board. The CO reports directly to the Audit Committee.

CODE OF CONDUCT AND BUSINESS ETHICS

The Company institutionalizes the highest ethical standards through the strict implementation of the BDO Unibank Code of Conduct that outlines the principles and policies governing the activities of the institution, its directors, officers and employees. The Code specifies the fair treatment of customers, investors, stockholders, employees, suppliers, vendors, service providers, creditors, business partners and even competitors. The Company's Code of Conduct is available on the Company's website at www.bdo.com.ph/business/leasing-financing/about-us

Restrictions in Dealing in Securities

The Company has a Personal Trading Policy to eliminate the possibility, or even the appearance of insider trading. It is in place to regulate buying and selling of BDOLF, BDO and non-BDO shares by directors, advisors, officers and employees of the Company to ensure that material, non-public price-sensitive information on shares being traded are not being used for personal gain.

The Personal Trading Policy covers the required disclosures of trades of BDOLF shares within three (3) days from date of transactions, restrictions of trades of shares by company officers and employees directly managing banking relationship with publicly listed companies and the imposition of a trading blackout to take effect before and after the disclosure of the Company's net income figures quarterly to the Securities and Exchange Commission and the disclosure of the annual audited financial statement results.

Related Party Transactions

The Company complies fully with the legal and regulatory requirements pertaining to the approval and disclosure of related party transactions. It has put in place adequate procedures to implement them, if it or any person in the Group may enter into a related party transaction such as credit accommodations, products or services extended by the Company to directors and officers in their personal capacity or to their company and vice versa. Specifically, it has a way of determining the persons in its related party groups to whom a conflict of interest may arise vis-à-vis the Company and the criteria which have to be satisfied for proposed related party transaction such as but not limited to the terms and conditions that are not more favorable than similar transactions with non-related parties under similar circumstances. These transactions are all presented to the Executive Committee and are submitted to the Board for approval, where relevant, the affected related party or its representative abstains from participating and voting on the transaction.

Whistle Blower Protection

The Code enjoins anybody who becomes aware of any violations of law, regulations or policies to report his/her suspicions to any of the designated office or individuals without fear of reprisal. The Company has a whistle blower protection program that enables directors, all employees and even temporary staff to report in good faith irregularities, misconduct or raise serious concerns internally with high level of confidentiality and immunity so that appropriate remedial action could be taken.

TRANSPARENCY AND DISCLOSURES

The Company is fully committed to provide its investors and other stakeholders full transparency and timely information disclosures through filings with the Securities and Exchange Commission (SEC) and the Philippine Stock Exchange (PSE), as found in the following:

- General Information Sheet (GIS)
- Definitive Information Statement (DIS)
- SEC Form 17-A
- Audited Financial Statements (AFS)

Required disclosures relating to:

- Financial information is stated in the AFS and the DIS
- Shareholder matters are provided in the DIS
- Executive compensation policy is stated in the DIS
- Directors' fees are found in the DIS
- Corporate actions, among others, are provided in the PSE official website www.pse.com.ph

To ensure an even wider access by the investors and the public, these disclosures and other corporate information are also uploaded in the Company's official website www.bdo.com.ph/business/leasing-financing/about-us (See "Investor Relations" and "Corporate Governance"). The details of the established corporate governance policies could be found in the Revised Corporate Governance Manual. The Company also uses its Annual Report to highlight its corporate governance practices and corporate social responsibility.

STAKEHOLDERS' INTEREST

The Company has put in place various practices for the protection, fair treatment and dealings with all stakeholders. It is fully committed to its corporate mission to be the preferred Company in every market it serves by consistently providing cutting edge products and seamless delivery of services, proactively reinventing itself to meet market demands, creating shareholders' value through superior returns, giving importance to the betterment of its employees, and maintaining active involvement in the community it serves. (Additional information on the rights of shareholders, equitable treatment of shareholders and roles of stakeholders is provided further in the 2013 Definitive Information Statement.)

RECOGNITIONS OF CORPORATE GOVERNANCE PRACTICES

The implementation of best governance practices has earned the Company a place among the Top 50 publicly-listed companies in the Philippines in the recently released Institute of Corporate Directors report on the results of the ASEAN Scorecard for Corporate Governance.

More than the accolades and awards that the Company has received, it is the trust and confidence of the public and its stakeholders that BDOLF considers its biggest accomplishments in practicing good corporate governance. Not only will these recognitions translate to positive impact on its financial performance, these will also steer the Company to raise the bar of its corporate governance to meet stricter global standards.

BDO Leasing

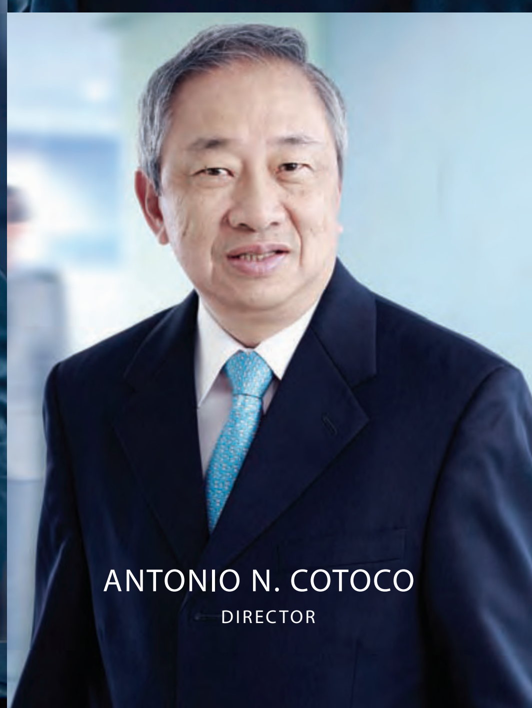
BOARD OF DIRECTORS

JESUS G. TIRONA
INDEPENDENT DIRECTOR

TERESITA T. SY
CHAIRPERSON

MA. LEONORA V. DE JESUS
INDEPENDENT DIRECTOR

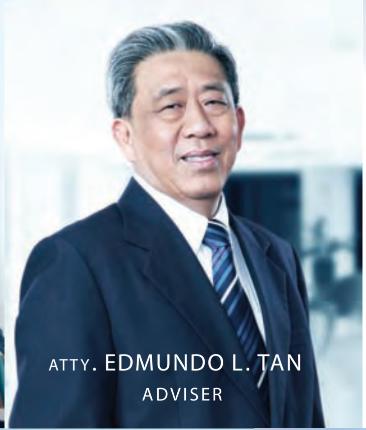
LUIS S. REYES, JR.
DIRECTOR



ANTONIO N. COTOCO
DIRECTOR

ROBERTO E. LAPID
VICE CHAIRMAN


ANTONIO A. HENSON
ADVISER


ATTY. EDMUNDO L. TAN
ADVISER


HON. JECI A. LAPUS
ADVISER


GEORGIANA A. GAMBOA
PRESIDENT & DIRECTOR
*UNTIL END OF JANUARY 31, 2014


WALTER C. WASSMER
DIRECTOR


ATTY. JESSE H. T. ANDRES
INDEPENDENT DIRECTOR


NESTOR V. TAN
DIRECTOR


EXEQUIEL P. VILLACORTA
NON-EXECUTIVE DIRECTOR


ATTY. JOSEPH JASON
M. NATIVIDAD
CORPORATE SECRETARY

STATEMENTS OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of BDO Leasing and Finance, Inc. and Subsidiary (the Group), is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2013, 2012 and 2011, in accordance with the Philippine Financial Reporting Standards (PFRS), including the following additional supplemental information filed separately from the basic financial statements:

a. Supplementary Schedules Required under Annex 68-E of the Securities Regulation Code Rule 68;
b. Reconciliation of Retained Earnings Available for Dividend Declaration;
c. Schedule of PFRS Effective as of December 31, 2013;
d. Schedule of Financial Indicators for December 31, 2013 and 2012;
e. Map Showing the Relationship Between and Among the Company and its Related Entities;

Management responsibility on the financial statements include designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate policies; and making accounting estimated that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements, and the additional supplementary information, and submits the same to the stockholders.

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

TERESITA T. SY
Chairperson

ROBERTO E. LAPID
Vice Chairman/ Officer in Charge

ROSALISA B. KAPUNO
Comptroller

Signed this 10th day of March 2014.

SUBSCRIBED and SWORN to me before this 14th day of March, 2014 affiant exhibiting to me his/her Social Security Number, as follows:

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

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Book No. 297
Series of 2014

(Sgd.) Atty. DELFIN R. AGCAOILI JR.
Notary Public
Until 31 December 2014
PTR No. 2413105 / 2014 MLA
IBP No. 943989 / 2014 MLA.
Roll No. 24655 / TIN No. 144-519-066
MCLE III - 0013521
Commission No. 2013-023

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and to the Stockholders
BDO Leasing and Finance, Inc.
(A Subsidiary of BDO Unibank, Inc.)
BDO Leasing Centre, Corinthian Gardens
Ortigas Avenue, Quezon City

We have audited the accompanying financial statements of BDO Leasing and Finance, Inc. and subsidiary (the "Group") and BDO Leasing and Finance, Inc. (the "Parent Company") which comprise the statements of financial position as at December 31, 2013, 2012 and 2011, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of BDO Leasing and Finance, Inc. and subsidiary and of BDO Leasing and Finance, Inc. as at December 31, 2013, 2012 and 2011, and their financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Emphasis of Matter

As discussed in Note 21 to the financial statements, the Parent Company presented the supplementary information required by the Bureau of Internal Revenue for the year ended December 31, 2013 in a supplementary schedule filed separately from the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards; it is neither a required disclosure under the Philippine Securities and Exchange Commission rules and regulations covering the form and content of financial statements under Securities Regulation Code Rule 68, as amended.

PUNONGBAYAN & ARAULLO

By: Romualdo V. Murcia III
Partner

CPA Reg. No. 0095626
TIN 906-174-059
PTR No. 3671457, January 2, 2013, Makati City
SEC Group A Accreditation
Partner - No. 0628-AR-2 (until Sept. 5, 2016)
Firm - No. 0002-FR-3 (until Jan. 18, 2015)
BIR AN 08-002511-22-2013 (until Nov. 7, 2016)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

February 26, 2014

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2013, 2012 AND 2011
(Amounts in Millions of Philippine Pesos)

		Group			Parent Company		
ASSETS	Notes	2013	2012 (As Restated— see Note 2)	2011 (As Restated— see Note 2)	2013	2012 (As Restated— see Note 2)	2011 (As Restated— see Note 2)
CASH AND CASH EQUIVALENTS	7	**P 138.0**	P 69.4	P 87.7	**P 129.1**	P 63.5	P 86.3
AVAILABLE-FOR-SALE FINANCIAL ASSETS	8	**2,093.5**	2,022.0	2,043.1	**2,093.5**	2,022.0	2,043.1
LOANS AND OTHER RECEIVABLES - Net	9	**20,975.0**	17,245.0	14,571.3	**20,971.2**	17,242.3	14,563.1
PROPERTY AND EQUIPMENT - Net	10	**1,424.2**	643.7	503.2	**7.5**	11.0	12.5
INVESTMENT PROPERTIES - Net	11	**145.7**	379.5	428.9	**145.7**	379.5	428.9
OTHER ASSETS - Net	12	**561.0**	314.7	215.1	**720.8**	562.1	484.6
TOTAL ASSETS		**P 25,337.4**	P 20,674.3	P 17,849.3	**P 24,067.8**	P 20,280.4	P 17,618.5
LIABILITIES AND EQUITY							
BILLS PAYABLE	13	**P 16,448.5**	P 12,697.0	P 10,582.6	**P 15,517.4**	P 12,531.4	P 10,529.5
ACCOUNTS PAYABLE AND OTHER LIABILITIES	14	**258.1**	112.6	219.2	**196.5**	99.6	211.1
DIVIDENDS PAYABLE		**-**	-	216.2	**-**	-	216.2
INCOME TAX PAYABLE		**27.5**	91.7	28.8	**27.5**	91.7	28.7
DEFERRED TAX LIABILITY - Net	21	**15.2**	13.0	62.4	**15.2**	12.9	69.6
LEASE DEPOSITS	15	**3,817.1**	3,171.2	2,425.9	**3,774.6**	3,127.6	2,381.9
Total Liabilities		**20,566.4**	16,085.5	13,535.1	**19,531.2**	15,863.2	13,437.0
CAPITAL STOCK	16	**2,225.2**	2,225.2	2,225.2	**2,225.2**	2,225.2	2,225.2
ADDITIONAL PAID-IN CAPITAL		**571.1**	571.1	571.1	**571.1**	571.1	571.1
TREASURY SHARES		**(81.8)**	(81.8)	(81.8)	**(81.8)**	(81.8)	(81.8)
RETAINED EARNINGS	2	**1,986.2**	1,890.3	1,587.7	**1,751.8**	1,718.7	1,455.0
UNREALIZED FAIR VALUE GAIN ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	8	**112.2**	41.1	62.0	**112.2**	41.1	62.0
NET ACCUMULATED ACTUARIAL LOSSES	2	**(41.9)**	(57.1)	(50.0)	**(41.9)**	(57.1)	(50.0)
Total Equity		**4,771.0**	4,588.8	4,314.2	**4,536.6**	4,417.2	4,181.5
TOTAL LIABILITIES AND EQUITY		**P 25,337.4**	P 20,674.3	P 17,849.3	**P 24,067.8**	P 20,280.4	P 17,618.5

See Notes to Financial Statements.

STATEMENTS OF INCOME

DECEMBER 31, 2013, 2012 AND 2011
(Amounts in Millions of Philippine Pesos)

	Notes	Group 2013	Group 2012 (As Restated—see Note 2)	Group 2011 (As Restated—see Note 2)	Parent Company 2013	Parent Company 2012 (As Restated—see Note 2)	Parent Company 2011 (As Restated—see Note 2)
REVENUES							
Interest and discounts	9	**P 1,296.9**	P 1,271.2	P 1,166.4	**P 1,296.8**	P 1,271.8	P 1,166.7
Rent	18	**380.8**	229.8	244.5	**1.2**	-	-
Other income	17	**225.2**	260.5	227.4	**198.3**	251.2	199.0
		1,902.9	1,761.5	1,638.3	**1,496.3**	1,523.0	1,365.7
OPERATING COSTS AND EXPENSES							
Interest and financing charges	13, 15	**418.6**	463.2	391.0	**400.2**	458.4	384.6
Occupancy and equipment-related expenses	10, 11, 12	**352.2**	220.8	329.2	**61.1**	45.6	92.2
Employee benefits	19	**183.4**	164.6	154.0	**183.4**	164.6	154.0
Taxes and licenses	21	**148.7**	134.7	122.6	**144.0**	132.2	114.7
Impairment and credit losses	9, 11, 12	**126.0**	112.5	139.1	**126.0**	112.5	139.1
Litigation/assets acquired expenses		**17.0**	47.9	25.4	**17.0**	47.9	25.4
Others	20	**91.2**	90.9	85.9	**88.9**	90.6	60.4
		1,337.1	1,234.6	1,247.2	**1,020.6**	1,051.8	970.4
PROFIT BEFORE TAX		**565.8**	526.9	391.1	**475.7**	471.2	395.3
TAX EXPENSE	21	**145.5**	116.2	82.8	**118.2**	99.4	82.1
NET PROFIT		**P 420.3**	P 410.7	P 308.3	**P 357.5**	P 371.8	P 313.2
Basic / Diluted Earnings Per Share	22	**P 0.19**	P 0.19	P 0.14	**P 0.17**	P 0.17	P 0.14

See Notes to Financial Statements.

STATEMENTS OF COMPREHENSIVE INCOME

DECEMBER 31, 2013, 2012 AND 2011
(Amounts in Millions of Philippine Pesos)

		Group			Parent Company		
	Notes	2013	2012 (As Restated— see Note 2)	2011 (As Restated— see Note 2)	2013	2012 (As Restated— see Note 2)	2011 (As Restated— see Note 2)
NET PROFIT		**P 420.3**	P 410.7	P 308.3	**P 357.5**	P 371.8	P 313.2
OTHER COMPREHENSIVE INCOME (LOSS)							
Items that will not be reclassified subsequently to profit or loss							
Remeasurements of post-employment defined benefit plan	2, 19	**21.7**	(10.1)	(39.2)	**21.7**	(10.1)	(39.2)
Tax income (expense)	21	**(6.5)**	3.0	11.7	**(6.5)**	3.0	11.7
		15.2	(7.1)	(27.5)	**15.2**	(7.1)	(27.5)
Items that will be reclassified subsequently to profit or loss							
Unrealized fair value gains (losses) on revaluation of available-for-sale financial assets	8	**71.5**	(21.0)	(185.0)	**71.5**	(21.0)	(185.0)
Tax income (expense)	21	**(0.4)**	0.1	0.9	**(0.4)**	0.1	0.9
		71.1	(20.9)	(184.1)	**71.1**	(20.9)	(184.1)
Other Comprehensive Income (Loss) - net of tax		**86.3**	(28.0)	(211.6)	**86.3**	(28.0)	(211.6)
TOTAL COMPREHENSIVE INCOME		**P 506.6**	P 382.7	P 96.7	**P 443.8**	P 343.8	P 101.6

See Notes to Financial Statements.

STATEMENTS OF
CHANGES IN EQUITY

DECEMBER 31, 2013, 2012 AND 2011
(Amounts in Millions of Philippine Pesos)

		Group						
	Notes	Capital Stock	Additional Paid-in Capital	Treasury Shares, At Cost	Retained Earnings	Net Accumulated Actuarial Losses	Unrealized Fair Value Gains on Available-for-Sale Financial Assets	Net Equity
Balance at January 1, 2013								
As previously reported	16	P 2,225.2	P 571.1	(P 81.8)	P 1,878.7	P -	P 41.1	P 4,634.3
Prior period adjustments, net of tax	2	-	-	-	11.6	(57.1)	-	(45.5)
As restated		2,225.2	571.1	(81.8)	1,890.3	(57.1)	41.1	4,588.8
Total comprehensive income		-	-	-	420.3	15.2	71.1	506.6
Cash dividends	16	-	-	-	(324.4)	-	-	(324.4)
Balance at December 31, 2013		**P 2,225.2**	**P 571.1**	**(P 81.8)**	**P 1,986.2**	**(P 41.9)**	**P 112.2**	**P 4,771.0**
Balance at January 1, 2012								
As previously reported	16	P 2,225.2	P 571.1	(P 81.8)	P 1,584.5	P -	P 62.0	P 4,361.0
Prior period adjustments, net of tax	2	-	-	-	3.2	(50.0)	-	(46.8)
As restated		2,225.2	571.1	(81.8)	1,587.7	(50.0)	62.0	4,314.2
Total comprehensive income (loss)		-	-	-	410.7	(7.1)	(20.9)	382.7
Cash dividends	16	-	-	-	(108.1)	-	-	(108.1)
Balance at December 31, 2012		P 2,225.2	P 571.1	(P 81.8)	P 1,890.3	(P 57.1)	P 41.1	P 4,588.8
Balance at January 1, 2011								
As previously reported	16	P 2,225.2	P 571.1	(P 81.8)	P 1,605.2	P -	P 246.1	P 4,565.8
Prior period adjustments, net of tax	2	-	-	-	(1.4)	(22.5)	-	(23.9)
As restated		2,225.2	571.1	(81.8)	1,603.8	(22.5)	246.1	4,541.9
Total comprehensive income (loss)		-	-	-	308.3	(27.5)	(184.1)	96.7
Cash dividends	16	-	-	-	(324.4)	-	-	(324.4)
Balance at December 31, 2011		P 2,225.2	P 571.1	(P 81.8)	P 1,587.7	(P 50.0)	P 62.0	P 4,314.2

See Notes to Financial Statements.

STATEMENTS OF
CHANGES IN EQUITY

DECEMBER 31, 2013, 2012 AND 2011
(Amounts in Millions of Philippine Pesos)

		Parent Company						
	Notes	Capital Stock	Additional Paid-in Capital	Treasury Shares, At Cost	Retained Earnings	Net Accumulated Actuarial Losses	Unrealized Fair Value Gains on Available-for-Sale Financial Assets	Net Equity
Balance at January 1, 2013								
As previously reported	15	P 2,225.2	P 571.1	(P 81.8)	P 1,707.1	P -	P 41.1	P 4,462.7
Prior period adjustments, net of tax	2	-	-	-	11.6	(57.1)	-	(45.5)
As restated		2,225.2	571.1	(81.8)	1,718.7	(57.1)	41.1	4,417.2
Total comprehensive income		-	-	-	357.5	15.2	71.1	443.8
Cash dividends	15	-	-	-	(324.4)	-	-	(324.4)
Balance at December 31, 2013		**P 2,225.2**	**P 571.1**	**(P 81.8)**	**P 1,751.8**	**(P 41.9)**	**P 112.2**	**P 4,536.6**
Balance at January 1, 2012								
As previously reported	15	P 2,225.2	P 571.1	(P 81.8)	P 1,451.8	P -	P 62.0	P 4,228.3
Prior period adjustments, net of tax	2	-	-	-	3.2	(50.0)	-	(46.8)
As restated		2,225.2	571.1	(81.8)	1,455.0	(50.0)	62.0	4,181.5
Total comprehensive income (loss)		-	-	-	371.8	(7.1)	(20.9)	343.8
Cash dividends	15	-	-	-	(108.1)	-	-	(108.1)
Balance at December 31, 2012		P 2,225.2	P 571.1	(P 81.8)	P 1,718.7	(P 57.1)	P 41.1	P 4,417.2
Balance at January 1, 2011								
As previously reported	15	P 2,225.2	P 571.1	(P 81.8)	P 1,467.6	P -	P 246.1	P 4,428.2
Prior period adjustments, net of tax	2	-	-	-	(1.4)	(22.5)	-	(23.9)
As restated		2,225.2	571.1	(81.8)	1,466.2	(22.5)	246.1	4,404.3
Total comprehensive income (loss)		-	-	-	313.2	(27.5)	(184.1)	101.6
Cash dividends	15	-	-	-	(324.4)	-	-	(324.4)
Balance at December 31, 2011		P 2,225.2	P 571.1	(P 81.8)	P 1,455.0	(P 50.0)	P 62.0	P 4,181.5

See Notes to Financial Statements.

STATEMENTS OF CASH FLOW

DECEMBER 31, 2013, 2012 AND 2011
(Amounts in Millions of Philippine Pesos)

	Notes	Group 2013	Group 2012 (As Restated— see Note 2)	Group 2011 (As Restated— see Note 2)	Parent Company 2013	Parent Company 2012 (As Restated— see Note 2)	Parent Company 2011 (As Restated— see Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit before tax		P 565.8	P 526.9	P 391.1	P 475.7	P 471.2	P 395.3
Adjustments for:							
Interest received		1,316.8	1,252.4	1,194.2	1,311.5	1,252.8	1,193.8
Interest income	9	(1,296.9)	(1,271.2)	(1,166.7)	(1,296.8)	(1,271.8)	(1,166.7)
Interest and financing charges paid		(419.0)	(436.1)	(376.5)	(409.6)	(436.1)	(375.2)
Interest and financing charges	13, 15	418.6	463.2	391.0	400.2	458.4	384.6
Depreciation and amortization	10, 11, 12	324.6	195.1	301.5	33.7	19.9	64.4
Impairment and credit losses	9, 11, 12	126.0	112.5	139.1	126.0	112.5	139.1
Gain on sale of property and equipment and investment properties	10, 11	(24.5)	(55.1)	(13.5)	(4.7)	(51.5)	(40.4)
Day one loss (gain)		0.6	5.5	(1.8)	3.0	6.5	(0.9)
Operating profit before changes in operating assets and liabilities		1,012.0	793.2	858.4	639.0	561.9	594.0
Increase in loans and other receivables		(3,839.1)	(2,750.0)	(2,762.2)	(3,832.8)	(2,755.7)	(2,744.9)
Increase in other assets		(377.1)	(194.3)	(68.5)	(262.2)	(164.3)	(36.0)
Increase (decrease) in accounts payable and other liabilities		145.3	(39.6)	412.9	96.9	(44.3)	410.3
Increase in lease deposits		644.3	746.8	137.0	644.7	747.2	127.6
Cash used in operations		(2,414.6)	(1,443.9)	(1,422.4)	(2,714.4)	(1,655.2)	(1,649.0)
Cash paid for income taxes		(154.0)	(81.8)	(90.0)	(154.0)	(81.8)	(89.9)
Net Cash Used in Operating Activities		(2,568.6)	(1,525.7)	(1,512.4)	(2,868.4)	(1,737.0)	(1,738.9)
CASH FLOWS FROM INVESTING ACTIVITIES							
Acquisition of available-for-sale financial assets	8	-	-	(700.0)	-	-	(700.0)
Acquisition of property and equipment	10	(1,091.0)	(334.0)	(270.7)	(3.5)	(6.5)	(4.2)
Net decrease in investment properties	11	192.3	63.8	270.3	192.3	63.8	270.3
Proceeds from disposal of property and equipment and investment properties	10, 11	104.1	8.6	23.0	71.7	-	-
Net Cash From (Used in) Investing Activities		(794.6)	(261.6)	(677.4)	260.5	57.3	(433.9)
CASH FLOWS FROM FINANCING ACTIVITIES							
Net availments of bills payable	13	3,756.2	2,093.4	2,530.0	2,997.9	1,981.3	2,514.3
Payments of cash dividends	16	(324.4)	(324.4)	(324.4)	(324.4)	(324.4)	(324.4)
Net Cash From Financing Activities		3,431.8	1,769.0	2,205.6	2,673.5	1,656.9	2,189.9
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		68.6	(18.3)	15.8	65.6	(22.8)	17.1
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		69.4	87.7	71.9	63.5	86.3	69.2
CASH AND CASH EQUIVALENTS AT END OF YEAR	7	P 138.0	P 69.4	P 87.7	P 129.1	P 63.5	P 86.3

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013, 2012 AND 2011
(Amounts in Millions of Philippine Pesos, Except Per Share Data or As Indicated)

1. CORPORATE INFORMATION

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

The Parent Company's principal office is located at BDO Leasing Centre, Corinthian Gardens, Ortigas Avenue, Quezon City. It has nine branches located in the cities of Makati, Cebu, Davao, Dagupan, San Pablo, Cagayan de Oro and Iloilo and in the provinces of Pampanga and Cavite. The registered address of BDO Unibank is located at BDO Corporate Center, 7899 Makati Avenue, Makati City.

1.02 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, 2013 (including the comparatives as of and for the years ended December 31, 2012 and 2011) were authorized for issue by the Board of Directors (BOD) on February 26, 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.01 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 (IASB).

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

(b) Presentation of Financial Statements

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

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

The Group's adoption of PAS 19 (Revised), *Employee Benefits*, resulted in material retrospective restatements on certain accounts as of December 31, 2012 and 2011 [see Note 2.02(a)(ii)]. Accordingly, the Group presents a third statement of financial position as of December 31, 2011 without the related notes, except for the disclosures required under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors.*

(c) Functional and Presentation Currency

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

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

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

2.02 Adoption of New and Amended PFRS

(a) Effective in 2013 that are Relevant to the Group

In 2013, the Group adopted the following new PFRS, revisions and thereto that are relevant to the Company and effective for financial statements for the annual period beginning on or after July 1, 2012 or January 1, 2013:

PAS 1 (Amendment)	:	Financial Statements Presentation – Presentation of Items of Other Comprehensive Income
PAS 19 (Revised)	:	Employee Benefits
PFRS 7 (Amendment)	:	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
PFRS 10	:	Consolidated Financial Statements
PFRS 12	:	Disclosure of Interests in Other Entities
PAS 27 (Revised)	:	Separate Financial Statements
PAS 28 (Revised)	:	Investments in Associate and Joint Venture
PFRS 10, 11 and PFRS 12 (Amendment)	:	Amendments to PFRS 10, 11 and 12- Transition Guidance to PFRS 10, 11 and 12
PAS 34 (Amendment)	:	Interim Financial Reporting – Interim Financial Reporting and Segment Information for Total Assets and Liabilities
PFRS 13	:	Fair Value Measurements
Annual Improvements	:	Annual improvements to PFRS (2009-2011 Cycle)

Discussed below are the relevant information about these amended standards.

(i) PAS 1 (Amendment), *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income* (effective from July 1, 2012). The amendment requires an entity to group items presented in other comprehensive income into those that, in accordance with other PFRS: (a) will not be reclassified subsequently to profit or loss, and, (b) will be reclassified subsequently to profit or loss when specific conditions are met. The amendment has been applied retrospectively, hence, the presentation of other comprehensive income has been modified to reflect the changes. In 2013, the Company also opted to present two separate statements for the statement of income and statement of comprehensive income. Prior period comparatives have been restated as a consequence of this change in presentation.

(ii) PAS 19 (Revised), *Employee Benefits* (effective from January 1, 2013). This revised standard made a number of changes to the accounting for employee benefits. The most significant changes relate to defined benefit plans as follows:

- eliminates the corridor approach and requires the recognition of remeasurements (including actuarial gains and losses) arising in the reporting period in other comprehensive income;
- changes the measurement and presentation of certain components of the defined benefit cost. The net amount in profit or loss is affected by the removal of the expected return on plan assets and interest cost components and their replacement by a net interest expense or income based on the net defined benefit liability or asset; and,
- enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

The Group has applied PAS 19 (Revised) retrospectively in accordance with its transitional provisions. Consequently, it restated the comparative amounts disclosed in prior years and adjusted the cumulative effect of the changes against the 2012 and 2011 balances of the affected assets, liabilities, and equity components as shown below.

Group

	December 31, 2012		
	As Previously Reported	Effect of Adoption of PAS 19	As Restated
Change in asset and liability:			
Retirement benefit asset*	P 61.9	(P 61.2)	P 0.7
Deferred tax liability	(28.7)	15.7	(13.0)
Net decrease in equity		(P 45.5)	
Changes in components of equity:			
Accumulated actuarial losses – net of tax	P -	(P 57.1)	(P 57.1)
Retained earnings	1,878.7	11.6	1,890.3
Net decrease in equity		(P 45.5)	

	December 31, 2011		
	As Previously Reported	Effect of Adoption of PAS 19	As Restated
Change in asset and liability:			
Retirement benefit obligation	(P 2.7)	(P 66.9)	(P 69.6)
Deferred tax liability	(82.5)	20.1	(62.4)
Net decrease in equity		(P 46.8)	
Changes in components of equity:			
Accumulated actuarial losses – net of tax	P -	(P 50.0)	(P 50.0)
Retained earnings	1,584.5	3.2	1,587.7
Net decrease in equity		(P 46.8)	

** included as part of Other Assets – net account*

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013, 2012 AND 2011
(Amounts in Millions of Philippine Pesos, Except Per Share Data or As Indicated)

Parent Company

	December 31, 2012		
	As Previously Reported	Effect of Adoption of PAS 19	As Restated
Change in asset and liability:			
Retirement benefit asset*	P 61.9	(P 61.2)	P 0.7
Deferred tax liability	(28.6)	15.7	(12.9)
Net decrease in equity		(P 45.5)	
Changes in components of equity:			
Accumulated actuarial losses – net of tax	P -	(P 57.1)	(P 57.1)
Retained earnings	1,707.1	11.6	1,718.7
Net decrease in equity		(P 45.5)	

	December 31, 2011		
	As Previously Reported	Effect of Adoption of PAS 19	As Restated
Change in asset and liability:			
Retirement benefit obligation	(P 2.7)	(P 66.9)	(P 69.6)
Deferred tax liability	(89.7)	20.1	(69.6)
Net decrease in equity		(P 46.8)	
Changes in components of equity:			
Accumulated actuarial losses – net of tax	P -	(P 50.0)	(P 50.0)
Retained earnings	1,451.8	3.2	1,455.0
Net decrease in equity		(P 46.8)	

** included as part of Other Assets – net account*

The effects of prior period adjustments on certain line items in the statements of income and statements of comprehensive income for the years ended December 31, 2012 and 2011 are summarized below.

Group

	December 31, 2012		
	As Previously Reported	Effect of Adoption of PAS 19	As Restated
Changes in profit or loss:			
Employee benefits	P 178.2	(P 13.6)	P 164.6
Interest and financing charges	461.6	1.6	463.2
Net increase in profit		(P 12.0)	
Changes in other comprehensive income:			
Remeasurements of post-employment defined benefit plan – net of tax	P -	P 7.1	P 7.1

Group

	December 31, 2011		
	As Previously Reported	Effect of Adoption of PAS 19	As Restated
Changes in profit or loss:			
Employee benefits	P 163.9	(P 9.9)	P 154.0
Interest and financing charges	387.7	3.3	391.0
Net increase in profit		(P 6.6)	
Changes in other comprehensive income:			
Remeasurements of post-employment defined benefit plan – net of tax	P -	P 27.4	P 27.4

Parent Company

	December 31, 2012		
	As Previously Reported	Effect of Adoption of PAS 19	As Restated
Changes in profit or loss:			
Employee benefits	P 178.2	(P 13.6)	P 164.6
Interest and financing charges	456.8	1.6	458.4
Net increase in profit		(P 12.0)	
Changes in other comprehensive income:			
Remeasurements of post-employment defined benefit plan – net of tax	P -	P 7.1	P 7.1

	December 31, 2011		
	As Previously Reported	Effect of Adoption of PAS 19	As Restated
Changes in profit or loss:			
Employee benefits	P 163.9	(P 9.9)	P 154.0
Interest and financing charges	381.3	3.3	384.6
Net increase in profit		(P 6.6)	
Changes in other comprehensive income:			
Remeasurements of post-employment defined benefit plan – net of tax	P -	P 27.4	P 27.4

The prior period adjustments have the following effect on the statements of cash flows for the years ended December 31, 2012 and 2011:

Group

	December 31, 2012		
	As Previously Reported	Effect of Adoption of PAS 19	As Restated
Profit before tax	P 514.9	P 12.00	P 526.9
Adjustments for:			
Other assets	178.2	(13.6)	164.6
Interest and financing charges	461.6	1.6	463.2
		P -	

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Group

	December 31, 2011		
	As Previously Reported	Effect of Adoption of PAS 19	As Restated
Profit before tax	P 384.5	P 6.6	P 391.1
Adjustments for:			
Accounts payable and other liabilities	163.9	(9.9)	154.0
Interest and financing charges	387.7	3.3	391.0
		P -	

Parent Company

	December 31, 2012		
	As Previously Reported	Effect of Adoption of PAS 19	As Restated
Profit before tax	P 459.2	P 12.00	P 471.2
Adjustments for:			
Other assets	178.2	(13.6)	164.6
Interest and financing charges	456.8	1.6	458.4
		P -	

	December 31, 2011		
	As Previously Reported	Effect of Adoption of PAS 19	As Restated
Profit before tax	P 388.7	P 6.6	P 395.3
Adjustments for:			
Accounts payable and other liabilities	163.9	(9.9)	154.0
Interest and financing charges	381.3	3.3	384.6
		P -	

(iii) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Offsetting of Financial Assets and Financial Liabilities* (effective from January 1, 2013). The amendment requires qualitative and quantitative disclosures relating to gross and net amounts of recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation*. The amendment also requires disclosure of information about recognized financial instruments which are subject to enforceable master netting arrangements or similar agreements, even if they are not set-off in the statement of financial position, including those which do not meet some or all of the offsetting criteria under PAS 32 and amounts related to a financial collateral. These disclosures allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with recognized financial assets and financial liabilities on the entity's statement of financial position. This amendment did not have a significant impact on the Group's financial statements as the Group is not setting off financial instruments in accordance with PAS 32 and does not have relevant offsetting arrangements.

(iv) Consolidation, Associates and Disclosures

This package of consolidation, joint arrangements, associates and disclosures standards comprise of PFRS 10, *Consolidated Financial Statements,* PFRS 12, *Disclosure of Interests in Other Entities,* PAS 27 (revised 2011), *Separate Financial Statements* and PAS 28 (revised 2011), *Investments in Associates and Joint Ventures*

- PFRS 10 changes the definition of control focusing on three elements which determines whether the investor has control over the investee such as the (a) power over the investee, (b) exposure or rights to variable returns from involvement with the investee, and, (c) ability to use such power to affect the returns. This standard also provides additional guidance to assist in determining controls when this is difficult to assess, particularly in situation where an investor that owns less than 50% of the voting rights in an investee may demonstrate control to the latter.

- PFRS 12 integrates and makes consistent the disclosure requirements for entities that have interest in subsidiaries, joint arrangements, associates, special purpose entities and unconsolidated structured entities. In general, this requires more extensive disclosures about the risks to which an entity is exposed from its involvement with structured entities.

- PAS 27 (Amendment), *Separate Financial Statements*. This amended standard now covers the requirements pertaining solely to separate financial statements after the relevant discussions on control and consolidated financial statements have been transferred and included in PFRS 10.

- PAS 27 (Revised) deals with the requirements pertaining solely to separate financial statements while PAS 28 (revised) includes the requirements for joint ventures, as well as for associates, to be accounted for using the equity method.

Subsequent to the issuance of these standards, amendments to PFRS 10 and PFRS 12 were issued to clarify certain transitional guidance for the first-time application of the standards. The guidance clarifies that an entity is not required to apply PFRS 10 retrospectively in certain circumstances and clarifies the requirements to present adjusted comparatives. The guidance also made changes to PFRS 10 and PFRS 12 which provide similar relief from the presentation or adjustment of comparative information for periods prior to the immediately preceding period. Further, it provides relief by removing the requirement to present comparatives for disclosures relating to unconsolidated structured entities for any period before the first annual period for which PFRS 12 is applied.

The Group has evaluated the various facts and circumstances related to its interests in other entities and has determined that the adoption of the foregoing standards, revisions and amendments had no material impact on the amounts recognized in the financial statements.

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(v) PFRS 13, *Fair Value Measurement* (effective from January 1, 2013). This new standard clarifies the definition of fair value and provides guidance and enhanced disclosures about fair value measurements. The requirements under this standard do not extend the use of fair value accounting but provide guidance on how it should be applied to both financial instrument items and non-financial items for which other PFRS' require or permit fair value measurements or disclosures about fair value measurements, except in certain circumstances. This new standard applies prospectively from annual period beginning January 1, 2013, hence, disclosure requirements need not be presented in the comparative information in the first year of application.

Other than the additional disclosures presented in Note 6.02, the application of this new standard had no significant impact on the amounts recognized and disclosures presented in the financial statements of the Group.

(vi) PAS 34 (Amendment), *Interim Financial Reporting and Segment Information for Total Assets and Liabilities* (effective from January 1, 2013). This standard clarifies the requirements on segment information for total resources and liabilities for each reportable segment to enhance consistency with the requirements in paragraph 23 of IFRS 8, *Operating Segments*. It also clarifies that the total resources and liabilities for a particular reportable segment are required to be disclosed if, and only if: (a) a measure of total resources or of total liabilities (or both) is regularly provided to the chief operating decision maker; and, (b) there has been a material change from those measures disclosed in the last annual financial statements for that reportable segment. The adoption of this amendment did not have an effect on the Group's financial statements as the form and content of these complete set of financial statements conform to the requirements of PAS 34.

(vii) 2009-2011 Annual Improvements to PFRS. Annual improvement to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS. Among those improvements, the following are relevant to the Group.

(a) PAS 1 (Amendment), *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information*. The amendment clarifies that a statement of financial position as at the beginning of the preceding period (third statement of financial position) is required when an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the third statement of financial position. The amendment specifies that other than disclosure of certain specified information in accordance with PAS 8, related notes to the third statement of financial position are not required to be presented.

Consequent to the Group's adoption of PAS 19 (Revised) in the current year which resulted in retrospective restatement of the prior years' financial statements, the Group has presented a third statement of financial position as of December 31, 2011 without the related notes, except for the disclosure requirements of PAS 8 and the SEC for listed entities.

(b) PAS 32 (Amendment), *Financial Instruments – Presentation – Tax Effect of Distributions to Holders of Equity Instruments.* The amendment clarifies that the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with PAS 12. Accordingly, income tax relating to distributions to holders of an equity instrument is recognized in profit or loss while income tax related to the transaction costs of an equity transaction is recognized in equity. This amendment had no effect on the Group's financial statements as it has been recognizing the effect of distributions to holders of equity instruments and transaction costs of an equity transaction in accordance with PAS 12.

(b) Effective in 2013 that are not Relevant to the Group

The following amendments, annual improvements and interpretations to PFRS are mandatory for accounting periods beginning on or after January 1, 2013 but are not relevant to the Group's financial statements:

PFRS 1 (Amendment)	:	First-time Adoption of PFRS – Government Loans
PFRS 11	:	Joint Arrangements
Annual Improvements:		
PFRS 1 (Amendment)	:	First-time Adoption of PFRS – Repeated Application of PFRS 1 and Borrowing Costs
PAS 16 (Amendment)	:	Property, Plant and Equipment – Classification of Servicing Equipment
PAS 38 (Amendment)	:	Intangible Assets
Philippine Interpretations International Financial Reporting Interpretations Committee 20	:	Stripping Costs in the Production Phase of a Surface Mine

(c) Effective Subsequent to 2013 but not Adopted Early

There are new PFRS, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2013. Management has initially determined the following pronouncements, which the Group will apply in accordance with their transitional provisions, to be relevant to its financial statements:

(i) PAS 19 (Amendment), *Employee Benefits - Defined Benefit Plans - Employee Contributions* (effective from January 1, 2014). The amendment clarifies that if the amount of the contributions from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit. Management has initially determined that this amendment will have no impact on the Group's financial statements.

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(ii) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2014). The amendment clarifies that the requirements for the disclosure of information about the recoverable amount of assets or cash-generating units is limited only to the recoverable amount of impaired assets that is based on fair value less cost of disposal. It also introduces an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount based on fair value less cost of disposal is determined using a present value technique. The Group does not expect this amendment to have a significant impact on its financial statements since there are no significant items of financial assets and liabilities that are offset.

(iii) PAS 36 (Amendment), *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets* (effective from January 1, 2014). The amendment clarifies that the requirements for the disclosure of information about the recoverable amount of assets or cash-generating units is limited only to the recoverable amount of impaired assets that is based on fair value less cost of disposal. It also introduces an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount based on fair value less cost of disposal is determined using a present value technique. Management will reflect in its subsequent years' financial statements the changes arising from this relief on disclosure requirements, if the impact of the amendment will be applicable.

(iv) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting* (effective from January 1, 2014). The amendment provides some relief from the requirements on hedge accounting by allowing entities to continue the use of hedge accounting when a derivative is novated to a clearing counterparty resulting in termination or expiration of the original hedging instrument as a consequence of laws and regulations, or the introduction thereof. As the Group neither enters into transactions involving derivative instruments nor it applies hedge accounting, the amendment will not have an impact on the financial statements.

(v) PFRS 9, *Financial Instruments: Classification and Measurement*. This is the first part of a new standard on financial instruments that will replace PAS 39, *Financial Instruments: Recognition and Measurement*, in its entirety. The first phase of the standard was issued in November 2009 and October 2010 and contains new requirements and guidance for the classification, measurement and recognition of financial assets and financial liabilities. It requires financial assets to be classified into two measurement categories: amortized cost or fair value. Debt instruments that are held within a business model whose objective is to collect the contractual cash flows that represent solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other debt instruments and equity instruments are measured at fair value. In addition, PFRS 9 allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

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

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in case where the fair value option is taken for financial liabilities, the part of a fair value change due to the liability's credit risk is recognized in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

In November 2013, the IASB has published amendments to International Financial Reporting Standard (IFRS) 9 that contain new chapter and model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures. The amendment also now requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather in profit or loss. It also includes the removal of the January 1, 2015 mandatory effective date of IFRS 9.

To date, the remaining chapter of IFRS 9 and PFRS 9 dealing with impairment methodology is still being completed. Further, the IASB is currently discussing some limited modifications to address certain application issues regarding classification of financial assets and to provide other considerations in determining business model.

The Group does not expect to implement and adopt PFRS 9 until its effective date. In addition, management is currently assessing the impact of PFRS 9 on the financial statements of the Group and it plans to conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

(vi) Annual Improvements to PFRS. Annual improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) made minor amendments to a number of PFRS, which are effective for annual period beginning on or after July 1, 2014. Among those improvements, the following amendments are relevant to the Group but management does not expect a material impact on the Group's financial statements:

Annual Improvements to PFRS (2010-2012 Cycle)

(a) PAS 16 (Amendment), *Property, Plant and Equipment.* The amendments clarify that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.

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(b) PAS 24 (Amendment), *Related Party Disclosures*. The amendment clarifies that entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also requires and clarifies that the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity should be disclosed in the financial statements, and not the amounts of compensation paid or payable by the key management entity to its employees or directors.

(c) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment, through a revision only in the basis of conclusion of PFRS 13, clarifies that issuing PFRS 13 and amending certain provisions of PFRS 9 and PAS 39 related to discounting of financial instruments, did not remove the ability to measure short-term receivables and payables with no stated interest rate on an undiscounted basis, when the effect of not discounting is immaterial.

Annual Improvements to PFRS (2011-2013 Cycle)

(a) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of, and accounted for in accordance with, PAS 39 or PFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in PAS 32.

(b) PAS 40 (Amendment), *Investment Property*. The amendment clarifies the interrelationship of PFRS 3, *Business Combinations*, and PAS 40 in determining the classification of property as an investment property or owner-occupied property, and explicitly requires entity to use judgment in determining whether the acquisition of an investment property is an acquisition of an asset or a group of asset, or a business combination in reference to PFRS 3.

2.03 Basis of Consolidation and Investment in a Subsidiary

The Group obtains and exercises control through voting rights. The Group's financial statements comprise the accounts of the Parent Company and its subsidiary, after the elimination of material intercompany transactions. All intercompany balances and transactions with its subsidiary, including income, expenses and dividends, are eliminated in full. Unrealized profits and losses from intercompany transactions, if any, that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment is recognized in the consolidated financial statements.

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

A subsidiary is an entity over which the Group has the power to control the former's 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 and convertible are considered when assessing whether the Group controls another entity. A subsidiary is consolidated from the date the Group obtains control until such time that such control ceases.

The acquisition method is applied to account for any acquired subsidiaries. This requires recognizing and measuring the identifiable assets 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 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.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the 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 in profit or loss as gain.

The results of subsidiary acquired or disposed of during the year, if any, are included in profit or loss from the date of acquisition or up to the date of disposal, as appropriate.

The Parent Company's investment in a subsidiary is accounted for in these separate financial statements at cost, less any impairment loss (see Note 12).

2.04 Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

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

In identifying its operating segments, management generally follows the Group's products and services 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 are the same as those used in its consolidated financial statements.

2.05 Financial Assets

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instrument. Financial assets, other than those designated and effective as hedging instruments are classified into the following categories: financial assets at fair value through profit or loss (FVTPL), loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

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

The categories of financial instruments relevant to the Group are more fully described below.

(a) Loans and Receivables

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

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Impairment loss is provided when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate.

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

(b) *AFS Financial Assets*

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

All financial assets within this category are measured at fair value, unless otherwise disclosed, with changes in value recognized in other comprehensive income, net of taxes. Gains and losses arising from securities classified as AFS are recognized in other comprehensive income when these are sold or when the investment is impaired.

In case of impairment, any loss previously recognized in equity is transferred to other comprehensive income. Losses recognized in other comprehensive income on equity instruments are not reversed through other comprehensive income. Losses recognized in prior period statement of comprehensive income resulting from the impairment of debt instruments are reversed through the statement of comprehensive income, when there is recovery in the amount of previously recognized impairment losses.

AFS financial assets are presented as a separate line item in the statement of financial position.

Impairment losses recognized on financial assets are included as part of Impairment and Credit Losses under Operating Costs and Expenses in the statement of comprehensive income.

For investments that are actively traded in organized financial markets, fair value is determined by reference to stock exchange-quoted market closing prices on each reporting date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows (such as dividend income) of the underlying net asset base of the investment.

A financial asset is considered as being traded in an active market if quoted prices or market values are readily and periodically available from stock or debt markets, exchanges, dealers, brokers, industry groups, pricing service entities or regulatory agencies. In such cases, those prices or values represent actual and regularly occurring market transactions on an arm's length basis. Otherwise, the market is regarded as being inactive. Indications that a market is inactive when there are few recent transactions or market participants have not engaged in transactions for at least one year.

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

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party.

2.06 Other Assets

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

2.07 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; expenditures for repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and amortization and any impairment losses are removed from the accounts and any resulting gain or loss is reflected in profit or loss for the period.

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.19).

The residual values and estimated useful lives 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 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.

2.08 Non-current Assets 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.

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 value less costs to sell. Assets classified as held-for-sale are not subject to depreciation or amortization. The profit or loss arising from the sale of held-for-sale assets is recognized in profit or loss in the year the asset is disposed.

2.09 Investment Properties

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

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

The fair value 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 their 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.

2.10 Financial Liabilities

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

Bills payable are raised for support of long-term 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 value 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 Gain under Other Income account in the statement of income (see Note 17). Meanwhile, interest expense on the amortization of lease deposits using the effective interest method is included as part of Interest and Financing Charges under Operating Costs and Expenses in the statement of income.

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

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

2.11 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 Offsetting Financial Instruments

Financial assets and liabilities are offset and the resulting net amount is reported in the statement of financial position when there is a 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.

2.13 Residual Value of Leased Assets

The residual value of leased assets, which approximates the amount of lease deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the disposal of the leased asset at the end of the lease term. At the end of the lease term, the residual value of the leased asset is generally applied against the lease deposit of the lessee.

2.14 Equity

Common 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.

Unrealized fair value gain (loss) on AFS financial assets pertains to cumulative mark-to-market valuation of AFS financial assets.

Net accumulated actuarial losses arises from the changes in the actuary's assumptions in the valuation of the Group's retirement benefits.

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

2.15 Revenue and Expense Recognition

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

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

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

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

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

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

(c) *Rent* – Revenue from operating lease contracts is recognized in profit or loss on a straight-line basis over the lease term, or on another systematic basis which is more representative of the time pattern in which the use or benefit derived from the leased asset is diminished.

(d) *Service fees* – Fees related to the administration and servicing a loan are recognized as revenue as the services are rendered. This account is included under Other Income.

Operating costs and expenses are recognized in profit or loss upon utilization of the assets or services or at the date they are incurred.

2.16 Leases

The Group accounts for its leases as follows:

(a) *Group as a Lessor*

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

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

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

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

(b) *Group as a Lessee*

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

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

2.17 Foreign Currency Transactions and Translation

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

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

2.18 Impairment of Financial Assets

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

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

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

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

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

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

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

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

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

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment is recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

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

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

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

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

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

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

2.19 Impairment of Non-financial Assets

The Group's property and equipment, investment properties and other assets and the Parent Company's investment in a subsidiary are subject to impairment testing.

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.

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. Impairment loss is charged pro-rata to the other assets in the cash generating unit.

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.

2.20 Employee Benefits

The Group provides post-employment benefits to employees through a defined benefit plan, as well as a defined contribution plan.

(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, noncontributory and administered by a trustee.

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

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

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

(b) Defined Benefit Contribution Plan

A defined contribution plan is a pension 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. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

(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 when it is demonstrably committed to either: (i) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (ii) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of each reporting period are discounted to present value.

(d) *Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of each reporting period. They are included in Accounts 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.

2.21 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current 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.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

2.22 Earnings Per Share (EPS)

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

2.23 Related Party Relationships and Transactions

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

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

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

2.24 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.01 Critical Management Judgments in Applying Accounting Policies

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

(a) Distinguishing Operating and Finance Leases

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

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

(b) Evaluating Impairment of AFS Financial Assets

The Group follows the guidance of PAS 39 in determining when an investment is permanently impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows. No impairment loss is recognized in 2013 and 2012 for AFS financial assets.

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

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

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

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

The Group classifies its acquired properties as Non-current Assets Held-for-Sale 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.

(e) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosures of provisions and contingencies are discussed in Note 2.11 and relevant disclosures are presented in Note 24.

3.02 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 financial year.

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

The Group estimates the useful lives of property and equipment and investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment and investment properties 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, and investment properties are presented in Notes 10 and 11, respectively. Based on management's assessment as of December 31, 2013, there is no change in estimated useful lives of property and equipment and investment properties during the year. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

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(b) Determining Allowance for Impairment of Loans and Other Receivables

Allowance is made for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Group's relationship with the customers, the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience. The Group also considers the loan loss provisioning requirements of the BSP and The Financing Company Act.

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

(c) Estimating Impairment of Non-financial Assets

The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.19. 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 these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Impairment losses recognized on investment properties and other assets are presented in Notes 11 and 12, respectively.

(d) Determining Fair Value Measurement for Financial Instruments

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

The carrying values of the Company's financial instruments are disclosed in Notes 6.

(e) 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 assessed that some of the deferred tax assets recognized as at December 31, 2013 and 2012 may not be actually recoverable.

Accordingly, in 2013 and 2012, the Group partially derecognized its deferred tax asset arising from the setting up of general loan loss provision on loans and receivables. The carrying value of the remaining deferred tax assets as of the end of 2013 and 2012 is disclosed in Note 21.

(f) *Determining Post-employment Defined Benefits*

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, expected return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the expense and obligation to be recognized in such future periods.

The amounts of retirement benefit obligation and expense and an analysis of the movements in the estimated present value of retirement benefit obligation are presented in Note 19.02.

4. SEGMENT REPORTING

4.01 Business Segments

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

The products under the leasing segment are the following:
- Operating leases; and
- Finance leases.

The products under the financing segment are the following:
- Amortized commercial loans;
- Amortized retail loans;
- Installment paper purchases;
- Floor stock financing; and
- Factoring of receivables.

The Group's products and services are marketed in the Metro Manila head office and in its nine branches.

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4.02 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 operating liabilities and consist principally of accounts, wages, taxes currently payable and accrued liabilities. Segment assets and liabilities do not include deferred taxes.

4.03 Intersegment Transactions

Intersegment transactions in 2013 and 2012 pertain to service fees charged by BDORI to the Parent Company.

4.04 Analysis of Segment Information

Segment information can be analyzed as follows:

	Leasing	Financing	Others	Eliminations	Group
For the year ended December 31, 2013					
Statement of Income					
Segment revenues					
External	P 1,032.3	P 629.6	P 241.0	P -	P 1,902.9
Inter-segment	-	-	5.3	(5.3)	-
	1,032.3	629.6	246.3	(5.3)	1,902.9
Segment expenses					
External	725.2	442.3	169.6	-	1,337.1
Inter-segment	-	-	5.3	(5.3)	-
	725.2	442.3	174.9	(5.3)	1,337.1
Segment results	P 307.1	P 187.3	P 71.4	P -	565.8
Tax expense					(145.5)
Net profit					**P 420.3**
December 31, 2013					
Statement of Financial Position					
Segment assets	P 13,678.5	P 8,545.8	P -	P -	P 22,224.3
Unallocated assets					3,113.1
Total assets					**P 25,337.4**
Segment liabilities	P 11,991.9	P 8,283.6	P -	P -	P 20,275.5
Unallocated liabilities					290.9
Total liabilities					**P 20,566.4**
Other segment information:					
Capital expenditures	**P 1,087.4**	**P -**	**P 3.5**	**P -**	**P 1,090.9**
Depreciation and amortization	**290.9**	**-**	**6.9**	**-**	**297.9**
Impairment losses	**-**	**-**	**126.0**	**-**	**126.0**

	Leasing	Financing	Others	Eliminations	Group
For the year ended December 31, 2012					
Statement of Income					
Segment revenues					
External	P 718.9	P 767.1	P 275.5	P -	P 1,761.5
Inter-segment	-	-	8.4	(8.4)	-
	718.9	767.1	283.9	(8.4)	1,761.5
Segment expenses					
External	508.8	543.0	182.8	-	1,234.6
Inter-segment	-	-	8.4	(8.4)	-
	508.8	543.0	191.2	(8.4)	1,234.6
Segment results	P 210.1	P 224.1	P 92.7	P -	526.9
Tax expense					(116.2)
Net profit					P 410.7
December 31, 2012					
Statement of Financial Position					
Segment assets	P 9,702.4	P 7,720.5	P -	P -	P 17,422.9
Unallocated assets					3,251.4
Total assets					P 20,674.3
Segment liabilities	P 8,793.0	P 7,046.5	P -	P -	P 15,839.5
Unallocated liabilities					246.0
Total liabilities					P 16,085.5
Other segment information:					
Capital expenditures	P 327.5	P -	P 6.5	P -	P 334.0
Depreciation and amortization	175.2	-	19.9	-	195.1
Impairment losses	-	-	112.5	-	112.5

Segment expenses are allocated on the basis of gross income.

Net segment assets are comprised of the following:

	2013	
	Leasing	**Financing**
Receivables	P 9,823.4	P 8,864.4
Residual value of leased assets	3,782.6	-
Unearned income	(1,137.2)	(97.7)
Client's equity	-	(34.1)
	12,468.8	8,732.6
Equipment under lease	1,416.7	-
	13,885.5	8,732.6
Allowance for impairment	(207.0)	(186.8)
	P 13,678.5	**P 8,545.8**

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	2012	
	Leasing	Financing
Receivables	P 7,279.0	P 8.086.4
Residual value of leased assets	3,128.8	-
Unearned income	(919.5)	(168.1)
Client's equity	-	(35.3)
	9,488.3	7,883.0
Equipment under lease	360.2	-
	9,848.5	7,883.0
Allowance for impairment	(146.1)	(162.3)
	P 9,702.4	P 7,720.7

Bills payable to BDO Unibank amounting to P6,119.8 and P6,731.7 as of December 31, 2013 and 2012, respectively, is allocated between the leasing and financing segments based on the carrying amounts of receivables of these segments. Deposits on lease amounting to P3,817.1 and P3,171.2 as of December 31, 2013 and 2012, respectively, are included in the leasing segment.

5. RISK MANAGEMENT

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

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

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

5.01 Foreign Exchange Risk

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

The Group's foreign-currency denominated financial assets and liabilities translated into Philippine pesos at the closing rate at December 31, 2013 and 2012 and Philippine peso-denominated financial assets and liabilities as of December 31, 2013 and 2012 are as follows:

	2013		
	US Dollar	**Philippine Peso**	**Total**
Cash and cash equivalents	P 19.1	P 118.9	P 138.0
Loans and other receivables	1,083.5	19,891.5	20,975.0
Bills payable	(1,011.5)	(15,437.0)	(16,448.5)
Lease deposits	(30.4)	(3,786.7)	(3,817.1)
	P 60.7	**P 786.7**	**P 847.4**

	2012		
	US Dollar	Philippine Peso	Total
Cash and cash equivalents	P 14.3	P 55.1	P 69.4
Loans and other receivables	-	17,245.0	17,245.0
Lease deposits	(11.5)	(3,159.7)	(3,171.2)
	P 2.8	P 14,140.4	P 14,143.2

At December 31, 2013 and 2012, the currency exchange rates used to translate U.S. dollar denominated financial assets and liabilities to the Philippine pesos is approximately P44.40 and P41.05, respectively.

The following table illustrates the sensitivity of the net result for the year and equity with regard to the Group's financial assets and financial liabilities and the U.S. dollar – Philippine peso exchange rate. It assumes a +/-24.00% change and +/-14.00% change of the Philippine peso/U.S. dollar exchange rate at December 31, 2013 and 2012, respectively. These percentages have been determined based on the average market volatility in exchange rates in the previous 12 months. The sensitivity analysis is based on the Group's foreign currency financial instruments held at the end of each reporting period.

	2013		2012	
	Increase in exchange rate	**Decrease in exchange rate**	Increase in exchange rate	Decrease in exchange rate
Profit before tax	**(P 14.6)**	**P 14.6**	(P 0.4)	P 0.4
Equity	**(14.6)**	**14.6**	(0.4)	0.4

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

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5.02 Interest Rate Risk

At December 31, 2013 and 2012, the Group is exposed to changes in market interest rates through its bills payable and a portion of BDO Leasing's loans and other receivables, which are subject to periodic interest rate repricing. All other financial assets and liabilities have fixed rates.

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

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

The table in the succeeding page illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates for bills payable of +/-0.39% at December 31, 2013 and +/-0.25% at December 31, 2012 and loans and other receivables of +/-1.30% at December 31, 2013 and +/-1.10% at December 31, 2012. These changes are considered to be reasonably possible based on observation of current market conditions for the past 12 months. 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.

	2013	
Loans and other receivables	+1.30%	-1.30%
Bills payable	+0.39%	-0.39%
Group		
Increase (decrease) in:		
Profit before tax	P 16.4	(P 16.4)
Equity	11.5	(11.5)
Parent Company		
Increase (decrease) in:		
Profit before tax	P 14.0	(P 14.0)
Equity	9.8	(9.8)

	2012			
Loans and other receivables	+1.10%		-1.10%	
Bills payable	+0.25%		-0.25%	
Group				
Increase (decrease) in:				
Profit before tax	P	13.7	(P	13.7)
Equity		9.6	(	9.6)
Parent Company				
Increase (decrease) in:				
Profit before tax	P	12.8	(P	12.8)
Equity		9.0	(	9.0)

5.03 Credit Risk

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

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

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

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

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

Group

	2013		2012	
	Cash and Cash Equivalents	**Loans and Other Receivables**	Cash and Cash Equivalents	Loans and Other Receivables
Concentration by sector:				
Financial intermediaries	**P 138.0**	**P 834.7**	P 69.4	P 1,537.9
Manufacturing	**-**	**3,676.9**	-	2,685.1
Transportation, communication and energy	**-**	**4,307.6**	-	2,717.0
Wholesale and retail trade and personal activities	**-**	**2,336.6**	-	2,142.4
Real estate, renting and business activities	**-**	**5,657.7**	-	4,328.1
Agriculture, fishing and forestry	**-**	**94.4**	-	263.1
Other community, social and personal activities	**-**	**4,067.1**	-	3,571.4
	P 138.0	**P 20,975.0**	P 69.4	P 17,245.0

Parent Company

	2013		2012	
	Cash and Cash Equivalents	**Loans and Other Receivables**	Cash and Cash Equivalents	Loans and Other Receivables
Concentration by sector:				
Financial intermediaries	**P 129.1**	**P 834.7**	P 63.5	P 1,537.9
Manufacturing	**-**	**3,676.9**	-	2,685.1
Transportation, communication and energy	**-**	**4,307.6**	-	2,717.0
Wholesale and retail trade and personal activities	**-**	**2,336.6**	-	2,142.4
Real estate, renting and business activities	**-**	**5,657.7**	-	4,328.1
Agriculture, fishing and forestry	**-**	**94.4**	-	263.1
Other community, social and personal activities	**-**	**4,063.3**	-	3,568.7
	P 129.1	**P 20,971.2**	P 63.5	P 17,242.3

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

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

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

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

(i) Unclassified

These are individual credits that do not have a greater-than-normal risk and do not possess the characteristics of adversely classified loans as to be defined below. These are credits that have the apparent ability to satisfy their obligations in full and therefore, no loss 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.

(ii) Watchlisted

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

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

(iii) Adversely Classified

a. Loans Especially Mentioned (LEM)

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

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

b. *Substandard*

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

c. *Doubtful*

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

d. *Loss*

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

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

The following table shows the exposure to credit risk as of December 31, 2013 and 2012 for each internal risk grade and the related allowance for impairment:

	Group		Parent	
	2013	2012	**2013**	2012
Carrying Amount	**P 20,975.0**	P 17,245.0	**P 20,971.2**	P 17,242.3
Individually impaired:				
Grade C: LEM	**51.9**	11.3	**51.9**	11.3
Grade D: Substandard	**242.5**	145.8	**242.5**	145.8
Grade E: Doubtful	**166.0**	97.6	**166.0**	97.6
Grade F: Loss	**159.6**	56.3	**159.6**	56.3
Gross amount	**620.0**	311.0	**620.0**	311.0
Allowance for impairment	**(171.8)**	(126.9)	**(171.8)**	(126.9)
Carrying amount	**448.2**	184.1	**448.2**	184.1
Past due but not impaired:				
Aging of past due				
30-60 days	**3.7**	-	**3.7**	-
61-90 days	**-**	-	**-**	-
91-180 days	**-**	-	**-**	-
More than 180 days	**-**	-	**-**	-
Carrying amount	**3.7**	-	**3.7**	-
Neither past due nor impaired				
Grade B: Watchlisted	**130.7**	-	**130.7**	-
Unclassified	**20,392.4**	17,060.9	**20,388.6**	17,058.2
Carrying amount	**20,523.1**	17,060.9	**20,519.3**	17,058.2
Total carrying amount	**P 20,975.0**	P 17,245.0	**P 20,971.2**	P 17,242.3

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

The carrying value of loans and receivables whose terms have been renegotiated amounted to P31.1 as of December 31, 2012. There was no similar transaction in 2013.

The Group holds collateral against loans and other receivables in the form of mortgage interests over real and personal properties. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are periodically updated especially when a loan is individually assessed as impaired. Collateral is held against available-for-sale securities amounting to P1,970.0 at December 31, 2013 and 2012 (see Note 13).

An estimate of the fair value of collateral and other security enhancements held against loans and other receivables that are not impaired as of December 31, 2013 and 2012 is shown below.

	2013	2012
Against neither past due but not impaired		
Real property	**P 3,817.3**	P 2,972.0
Personal property	**18,816.8**	12,943.0
	P 22,634.1	P 15,915.0

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An estimate of the fair value of collateral and other security enhancements held against loans and other receivables that are impaired as of December 31, 2013 and 2012 is shown below.

	2013	2012
Real property	P 160.8	P 201.2
Personal property	670.7	1,578.3
	P 831.5	P 1,779.5

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

The Group's manner of disposing the collateral for impaired loans and receivables is normally through sale of these assets after foreclosure proceedings have taken place. Aside from the foregoing, there are no other credit enhancements on the Group's financial assets held as of December 31, 2013 and 2012.

5.04 Liquidity Risk

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

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

The Group believes that it currently has adequate debt funding from banks, other financial institutions, and through the issuance of Short-Term Commercial Papers (STCPs). The Group currently has a license from the SEC to issue P15.0 billion STCPs. The SEC granted the license related to the P15.0 billion STCP on December 12, 2013.

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 are the financial assets and liabilities as of December 31, 2013 and 2012 analyzed according to when these are expected to be recovered or settled.

	One to Three Months	Three Months to One Year	One to Three Years	More than Three Years	Total
2013					
Group					
Financial assets					
Cash and cash equivalents	P 138.0	P -	P -	P -	P 138.0
Available-for-sale financial assets	2,093.5	-	-	-	2,093.5
Loans and other receivables	2,754.8	5,517.5	9,161.4	3,541.3	20,975.0
	P 4,986.3	**P 5,517.5**	**P 9,161.4**	**P 3,541.3**	**P 23,206.5**
Financial liabilities					
Bills payable	P 14,195.5	P 2,253.0	P -	P -	P 16,448.5
Accounts payable and other liabilities	196.4	2.6	-	-	199.0
Lease deposits	568.6	525.1	1,977.2	746.2	3,817.1
	P 14,960.5	**P 2,780.7**	P 1,977.2	P 746.2	**P 20,464.6**
Parent Company					
Financial assets					
Cash and cash equivalents	P 129.1	P -	P -	P -	P 129.1
Available-for-sale financial assets	2,093.5	-	-	-	2,093.5
Loans and other receivables	2,751.0	5,517.5	9,161.4	3,541.3	20,971.2
	P 4,973.6	**P 5,517.5**	**P 9,161.4**	**P 3,541.3**	**P 23,193.8**
Financial liabilities					
Bills payable	P 13,970.9	P 1,546.5	P -	P -	P 15,517.4
Accounts payable and other liabilities	139.6	-	-	-	139.5
Lease deposits	557.3	504.4	1,970.7	742.2	3,774.6
	P 14,667.8	**P 2,050.9**	**P 1,970.7**	**P 742.2**	**P 19,431.5**
2012					
Group					
Financial assets					
Cash and cash equivalents	P 69.4	P -	P -	P -	P 69.4
Available-for-sale financial assets	2,022.0	-	-	-	2,022.0
Loans and other receivables	2,158.6	3,558.1	7,190.8	4,337.5	17,245.0
	P 4,250.0	P 3,558.1	P 7,190.8	P 4,337.5	P 19,336.4
Financial liabilities					
Bills payable	P 10,819.7	P 1,547.5	P 329.3	P 0.5	P 12,697.0
Accounts payable and other liabilities	101.4	7.6	3.6	-	112.6
Lease deposits	370.8	558.0	1,613.0	629.4	3,171.2
	P 11,291.9	P 2,113.1	P 1,945.9	P 629.9	P 15,980.8

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	One to Three Months	Three Months to One Year	One to Three Years	More than Three Years	Total
2012					
Parent Company					
Financial assets					
Cash and cash equivalents	P 63.5	P -	P -	P -	P 63.5
Available-for-sale financial assets	2,022.0	-	-	-	2,022.0
Loans and other receivables	2,155.9	3,558.1	7,190.8	4,337.5	17,242.3
	P 4,241.4	P 3,558.1	P 7,190.8	P 4,337.5	P 19,327.8
Financial liabilities					
Bills payable	P 10,654.1	P 1,547.5	P 329.3	P 0.5	P 12,531.4
Accounts payable and other liabilities	88.4	7.6	3.5	-	99.6
Lease deposits	355.5	543.7	1,599.0	629.4	3,127.6
	P 11,098.0	P 2,098.8	P 1,931.8	P 629.9	P 15,758.6

The Group and the Parent Company's maturing financial liabilities within the one to three month period pertain to bills payable due to various private entities and individuals. 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.

5.05 Price Risk

The Group is exposed to the changes in the market values of AFS financial assets held as of December 31, 2013 and 2012. The Group manages its risk by identifying, analyzing and measuring relevant or likely market price risks. To manage its price risk arising from its AFS financial assets, the Group does not concentrate its investment in any single counterparty.

If the prices of AFS financial assets changed by +/-2.86% in 2013, then other comprehensive income would have increased/decreased by P60.0. If the prices of AFS financial assets changed by +/-2.12% in 2012, then other comprehensive income would have increased/decreased by P42.9. The analysis is based on the assumption on the change of the correlated equity indices, with all other variables held constant.

6. CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

6.01 Carrying Amounts and Fair Values by Category

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

	2013			
	Group		Parent	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	P 138.0	P 138.0	P 129.1	P 129.1
Loans and other receivables	20,975.0	21,998.2	20,971.2	21,994.3
	21,113.0	22,136.2	21,100.3	22,123.4
AFS financial assets	2,093.5	2,093.5	2,093.5	2,093.5
	P 23,206.5	P 24,229.7	P 23,193.8	P 24,216.9
Financial Liabilities				
At amortized cost:				
Bills payable	P 16,448.5	P 16,335.9	P 15,517.4	P 15,427.8
Accounts payable and other liabilities	199.0	199.0	139.6	139.6
Lease deposits	3,817.1	3,817.1	3,774.6	3,774.6
	P 20,464.6	P 20,352.0	P 19,431.6	P 19,342.0

	2012			
	Group		Parent	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	P 69.4	P 69.4	P 63.5	P 63.5
Loans and other receivables	17,245.0	18,303.9	17,242.3	18,301.2
	17,314.4	18,373.3	17,305.8	18,364.7
AFS financial assets	2,022.0	2,022.0	2,022.0	2,022.0
	P 19,336.4	P 20,395.3	P 19,327.8	P 20,386.7
Financial Liabilities				
At amortized cost:				
Bills payable	P 12,697.0	P 12,620.9	P 12,531.4	P 12,474.6
Accounts payable and other liabilities	112.6	112.6	99.6	99.6
Lease deposits	3,171.2	3,171.2	3,127.6	3,127.6
	P 15,980.8	P 15,904.7	P 15,758.6	P 15,701.8

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

(i) Cash and cash equivalents

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

(ii) AFS financial assets

The fair value of available-for-sale securities is determined by direct reference to published price quoted in an active market for traded securities.

(iii) Loans and other receivables

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

(iv) Bills payable

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

(v) Accounts payable and other liabilities

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

(vi) Lease deposits

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

6.02 Fair Value Hierarchy

Financial assets and liabilities measured at fair value are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

(a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

(b) 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,

(c) 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.

The financial assets and liabilities as of December 31, 2013 and 2012 are grouped into the fair value hierarchy as presented in the following table. 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.

Group

	Notes	Level 1	Level 2	Level 3	Total
December 31, 2013					
Financial assets:					
Cash and cash equivalents	7	**P 138.0**	**P -**	**P -**	**P 138.0**
AFS financial assets					
Equity securities - quoted	8	**2,093.5**	**-**	**-**	**2,093.5**
Loans and other receivables	9	**-**	**-**	**21,998.2**	**21,998.2**
		P 2,231.5	**P -**	**P 21,998.2**	**P 24,229.7**
Financial liabilities:					
Bills payable	13	**P -**	**P -**	**P 16,335.9**	**P 16,335.9**
Accounts payable and other liabilities	14	**-**	**-**	**256.9**	**256.9**
Lease deposits	15	**-**	**-**	**3,817.1**	**3,817.1**
		P -	**P -**	**P 20,409.9**	**P 20,409.9**
December 31, 2012					
Financial assets:					
Cash and cash equivalents	7	P 69.4	P -	P -	P 69.4
AFS financial assets					
Equity securities - quoted	8	2,022.0	-	-	2,022.0
Loans and other receivables	9	-	-	18,303.9	18,303.9
		P 2,091.4	P -	P 18,303.9	P 20,395.3
Financial liabilities:					
Bills payable	13	P -	P -	P 12,620.9	P 12,620.9
Accounts payable and other liabilities	14	-	-	112.6	112.6
Lease deposits	15	-	-	3,171.2	3,171.2
		P -	P -	P 15,904.7	P 15,904.7

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Parent Company

	Notes	Level 1	Level 2	Level 3	Total
December 31, 2013					
Financial assets:					
Cash and cash equivalents	7	P 129.1	P -	P -	P 129.1
AFS financial assets					
Equity securities - quoted	8	2,093.5	-	-	2,093.5
Loans and other receivables	9	-	-	21,994.3	21,994.3
		P 2,222.6	P -	P 21,994.3	P 24,216.9
Financial liabilities:					
Bills payable	13	P -	P -	P 15,427.8	P 15,427.8
Accounts payable and other liabilities	14	-	-	196.5	196.5
Lease deposits	15	-	-	3,774.6	3,774.6
		P -	P -	P 19,398.9	P 19,398.9
December 31, 2012					
Financial assets:					
Cash and cash equivalents	7	P 63.5	P -	P -	P 63.5
AFS financial assets					
Equity securities - quoted	8	2,022.0	-	-	2,022.0
Loans and other receivables	9	-	-	18,301.2	18,301.2
		P 2,085.5	P -	P 18,301.2	P 20,386.7
Financial liabilities:					
Bills payable	13	P -	P -	P 12,474.6	P 12,474.6
Accounts payable and other liabilities	14	-	-	99.6	99.6
Lease deposits	15	-	-	3,127.6	3,127.6
		P -	P -	P 15,701.8	P 15,701.8

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

Summarized below and in the succeeding pages 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. As of December 31, 2013 and 2012, the Group holds preferred shares which are listed in the PSE and are classified as AFS financial assets and are the only financial assets which are 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 cutoff dates.

(b) Financial instruments in Level 2

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

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

(c) Financial instruments in Level 3

The Group classifies financial instruments that have no quoted prices or observable market data where reference of fair value can be derived, hence, fair value is determined based on their cost which management estimates to approximate their fair values.

Details of the Group and Parent Company's investment properties and the information about the fair value hierarchy as of December 31, 2013 are shown below.

	Level 1	Level 2	Level 3	Total
Land	P -	P -	P 257.2	P 257.2
Building and improvements	-	-	57.1	57.1
	P -	P -	P 314.3	P 314.3

The fair value of the investment properties of the Group and the Parent Company as of December 31, 2013 and 2012, determined under Level 3 measurement, was derived 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. The fair value of investment properties was derived using the market approach that reflects the recent transaction prices for similar properties in nearby locations, adjusted for differences in property size, age, condition, and location. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

There has been no change to the valuation technique during the year and there were no transfers between Levels 1 and 2 during the year.

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7. CASH AND CASH EQUIVALENTS

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

	Group		Parent Company	
	2013	2012	**2013**	2012
Cash on hand and in banks	**P 119.6**	P 53.2	**P 110.8**	P 47.3
Cash equivalents	**18.4**	16.2	**18.4**	16.2
	P 138.0	P 69.4	**P 129.1**	P 63.5

Cash in banks earn interest at rates based on daily bank deposit rates. Cash equivalents represent a special savings account and time deposit with annual interest rates ranging from 0.3% to 1.5% in 2013 and 1.0% to 4.0% in 2012.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	2013	2012
San Miguel Corporation preferred shares	**P 1,270.0**	P 1,270.0
First Gen Corp. Series "F" preferred shares	**700.0**	700.0
Club shares and other equity investments	**0.8**	0.8
	1,970.8	1,970.8
Accumulated unrealized fair value gains	**122.7**	51.2
	P 2,093.5	P 2,022.0

In August 2011, the Group acquired 7,000,000 perpetual Series "F" preferred shares issued by First Gen Corp. (First Gen shares) at P100 per share. The First Gen shares carry an interest rate of 8% per annum and are cumulative, non-voting, non-participating and non-convertible. On the seventh anniversary of the issue date or any dividend payment thereafter, First Gen shall have the option, but not the obligation to redeem all of the First Gen preferred shares outstanding. The First Gen shares were listed at the PSE on November 15, 2011. As of December 31, 2013 and 2012, the closing price of the First Gen shares is at P113 and P108 per share, respectively.

Accordingly, the Group recognized unrealized fair value gains on its investment in First Gen preferred shares of P31.0 in 2013 and P52.2 in 2012, net of P4.0 and P3.8 deferred stock transaction tax, respectively, based on 1/2 of 1% of the total market value of P791.0 and P756.0 as of December 31, 2013 and 2012, respectively.

Also in August 2011, the Group purchased 8,466,600 each of Series "2B" and "2C" Preferred Shares of SMC listed at the PSE at P75 per share or a total of P1,270.0 and bear annual interest at 8%. The shares closed at the price of P76.30 for Series "2B" and P77.5 for Series "2C" as of December 31, 2013 and P75.0 for Series "2B" and P74.5 for Series"2C" per share as of December 31, 2012. Thus, the Group recognized unrealized fair value gain of P29.9 and unrealized fair value loss of P20.9 in 2013 and 2012, respectively, net of deferred stock transaction tax at 1/2 of 1% of the total market value of P1,302.2 and P1,265.8 or P6.5 and P6.3, as of December 31, 2013 and 2012, respectively, as the unrealized fair value gain amounted to P32.2 and P4.1, is included under Unrealized Fair Value Gain on Available-for-Sale Financial Assets account in the statements of financial position, respectively while the deferred stock transaction tax was recognized in the statements of comprehensive income and as part of Deferred Tax Liabilities account as of December 31, 2013 and 2012, respectively (see Note 21).

Club shares and other equity investments, consisting of Philippine Long Distance Telephone Co. (PLDT) preferred and golf and country club shares of stock, have fair values of P0.4 and P0.3 as of December 31, 2013 and 2012, respectively.

9. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	Group		Parent Company	
	2013	2012	**2013**	2012
Receivable from customers:				
Finance lease receivables	**P 9,823.4**	P 7,279.0	**P 9,823.4**	P 7,279.0
Residual value of leased assets	**3,782.6**	3,128.8	**3,782.6**	3,128.8
Unearned leased income	**(1,137.2)**	(919.5)	**(1,137.2)**	(919.5)
	12,468.8	9,488.3	**12,468.8**	9,488.3
Loans and receivables financed	**8,864.4**	8,086.4	**8,864.4**	8,086.4
Unearned finance income	**(97.7)**	(168.2)	**(97.6)**	(168.1)
Client's equity	**(34.1)**	(35.3)	**(34.1)**	(35.3)
	8,732.6	7,882.9	**8,732.6**	7,883.0
Other receivables:				
Accrued interest receivable	**88.2**	102.9	**88.2**	102.9
Dividends receivable	**51.4**	51.4	**51.4**	51.4
Sales contract receivable	**18.2**	16.5	**18.2**	16.5
Accounts receivable	**8.6**	12.3	**8.7**	11.7
Accrued rental receivable	**4.0**	2.2	**-**	-
	170.4	185.3	**166.5**	182.5
Total	**21,371.8**	17,556.5	**21,368.0**	17,553.8
Allowance for impairment	**(396.8)**	(311.5)	**(396.8)**	(311.5)
	P 20,975.0	P 17,245.0	**P 20,971.2**	P 17,242.3

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As of December 31, 2013 and 2012, 56% and 88%, respectively, of the total receivables from customers of the Group are subject to periodic interest repricing. Remaining receivables from customers earn annual fixed interest rates ranging from 4% to 30% in 2013 and 6.5% to 30% in 2012.

Interest income on receivables pertaining to the residual value of assets under finance lease accrued using the effective interest method amounted to P2.9, P1.9 and P3.4, in 2013, 2012 and 2011, respectively, and is presented as part of Interest and Discounts in the Group and Parent Company statements of income.

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

	Group		Parent Company	
	2013	2012	**2013**	2012
Secured				
Chattel mortgage	**P 14,321.7**	P 10,478.9	**P 14,321.7**	P 10,478.9
Real estate mortgage	**770.3**	871.5	**770.3**	871.5
Others	**2,258.4**	3,409.8	**2,258.4**	3,409.8
	17,350.4	14,760.2	**17,350.4**	14,760.2
Unsecured	**3,624.6**	2,484.8	**3,620.8**	2,482.1
	P 20,975.0	P 17,245.0	**P 20,971.2**	P 17,242.3

An analysis of the Group's and Parent Company's finance lease receivables as of December 31, 2013 and 2012 is shown below:

	2013	2012
Maturity of gross investment in:		
Finance lease receivables		
Within one year	**P 612.3**	P 697.7
Beyond one year but not beyond five years	**9,205.2**	6,553.1
Beyond five years	**5.9**	28.2
	9,823.4	7,279.0
Residual value of leased assets		
Within one year	**1,060.8**	897.8
Beyond one year but not beyond five years	**2,721.8**	2,222.4
Beyond five years	**-**	8.6
	3,782.6	3,128.8
Gross finance lease receivable	**13,606.0**	10,407.8
Unearned lease income	**(1,137.2)**	(919.5)
Net investment in finance lease receivables	**P 12,468.8**	P 9,488.3

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

	2013	2012
Due within one year	**P 1,624.0**	P 1,536.6
Due beyond one year but not beyond five years	**10,840.0**	7,921.7
Beyond five years	**4.8**	30.0
	P 12,468.8	P 9,488.3

Past due finance lease receivables amounted to P203.3 and P209.5 as of December 31, 2013 and 2012, respectively.

Past due loans and receivables financed amounted to P109.3 and P128.1 as of December 31, 2013 and 2012, respectively.

In 2012, the BOD approved the write-off of certain loans and receivables financed and finance lease receivables with total amount of P31.5. There was no similar transaction in 2013.

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

	Group		
	2013	2012	2011
Finance lease receivables	**P 661.6**	P 494.2	P 444.3
Loans and receivable financed	**634.8**	776.4	721.1
Cash and cash equivalents	**0.5**	0.6	1.0
	P 1,296.9	P 1,271.2	P 1,166.4

	Parent Company		
	2013	2012	2011
Finance lease receivables	**P 661.6**	P 494.2	P 444.3
Loans and receivables financed	**634.7**	777.0	721.8
Cash and cash equivalents	**0.5**	0.6	0.6
	P 1,296.8	P 1,271.8	P 1,166.7

Interest income recognized on impaired loans and receivables amounted to P5.4 in 2013, P14.9 in 2012 and P12.2 in 2011.

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

	2013	2012	2011
Balance at beginning of year	P 311.5	P 285.1	P 234.3
Impairment losses during the year	86.0	87.3	117.1
Reclassification	(0.7)	-	-
Accounts written off	-	(60.9)	(66.3)
Balance at end of year	P 396.8	P 311.5	P 285.1

10. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of 2013 and 2012 are shown below.

	Transportation and Other Equipment	Furniture, Fixtures and Others	Leasehold Improve-ments	Total
Group				
December 31, 2013				
Cost	P 2,028.8	P 30.6	P 26.2	P 2,085.6
Accumulated depreciation and amortization	(612.1)	(25.3)	(24.0)	(661.4)
Net carrying amount	P 1,416.7	P 5.3	P 2.2	P 1,424.2
December 31, 2012				
Cost	P 1,128.8	P 28.0	P 25.5	P 1,182.3
Accumulated depreciation and amortization	(496.1)	(22.2)	(20.3)	(538.6)
Net carrying amount	P 632.7	P 5.8	P 5.2	P 643.7
January 1, 2012				
Cost	P 854.5	P 25.8	P 23.8	P 904.1
Accumulated depreciation and amortization	(363.8)	(21.1)	(16.0)	(400.9)
Net carrying amount	P 490.7	P 4.7	P 7.8	P 503.2
Parent Company				
December 31, 2013				
Cost	P -	P 30.6	P 26.2	P 56.8
Accumulated depreciation and amortization	-	(25.3)	(24.0)	(49.3)
Net carrying amount	P -	P 5.3	P 2.2	P 7.5

	Transportation and Other Equipment	Furniture, Fixtures and Others	Leasehold Improve-ments	Total
Parent Company				
December 31, 2012				
Cost	P -	P 28.0	P 25.5	P 53.5
Accumulated depreciation and amortization	-	(22.2)	(20.3)	(42.5)
Net carrying amount	P -	P 5.8	P 5.2	P 11.0
January 1, 2012				
Cost	P -	P 25.8	P 23.8	P 49.6
Accumulated depreciation and amortization	-	(21.1)	(16.0)	(37.1)
Net carrying amount	P -	P 4.7	P 7.8	P 12.5

A reconciliation of the carrying amounts of property and equipment at the beginning and end of 2013 and 2012 is shown below.

	Transportation and Other Equipment	Furniture, Fixtures and Others	Leasehold Improve-ments	Total
Group				
Balance at January 1, 2013, net of accumulated depreciation and amortization	P 632.7	P 5.8	P 5.2	P 643.7
Additions	1,087.5	2.8	0.7	1,091.0
Disposals	(12.6)	-	-	(12.6)
Depreciation and amortization charges for the year	(290.9)	(3.3)	(3.7)	(297.9)
Balance at December 31, 2013, net of accumulated depreciation and amortization	**P 1,416.7**	**P 5.3**	**P 2.2**	**P 1,424.2**

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Group

	Transportation and Other Equipment	Furniture, Fixtures and Others	Leasehold Improvements	Total
Balance at January 1, 2012, net of accumulated depreciation and amortization	P 490.7	P 4.7	P 7.8	P 503.2
Additions	327.4	4.9	1.7	334.0
Disposals	(10.2)	-	-	(10.2)
Depreciation and amortization charges for the year	(175.2)	(3.8)	(4.3)	(183.3)
Balance at December 31, 2012, net of accumulated depreciation and amortization	P 632.7	P 5.8	P 5.2	P 643.7

Parent Company

	Transportation and Other Equipment	Furniture, Fixtures and Others	Leasehold Improvements	Total
Balance at January 1, 2013, net of accumulated depreciation and amortization	P -	P 5.8	P 5.2	P 11.0
Additions	-	2.8	0.7	3.5
Depreciation and amortization charges for the year	-	(3.3)	(3.7)	(7.0)
Balance at December 31, 2013, net of accumulated depreciation and amortization	**P -**	**P 5.3**	**P 2.2**	**P 7.5**
Balance at January 1, 2012, net of accumulated depreciation and amortization	P -	P 4.7	P 7.8	P 12.5
Additions	-	4.8	1.7	6.5
Depreciation and amortization charges for the year	-	(3.7)	(4.3)	(8.0)
Balance at December 31, 2012, net of accumulated depreciation and amortization	P -	P 5.8	P 5.2	P 11.0

The cost of fully depreciated assets that are still being used in operations amounted to P99.6 and P65.7 for the Group as of December 31, 2013 and 2012, respectively, and P20.4 and P1.7 for the Parent Company as of December 31, 2013 and 2012, respectively.

Depreciation and amortization charges for 2013 and 2012 are included as part of Occupancy and Equipment-related Expenses account in the statements of income.

As of December 31, 2013 and 2012, 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 P1,416.7 and P632.7, respectively.

In 2013 and 2012, the Group disposed of certain transportation equipment with carrying value of P12.6 and P10.2, respectively, resulting to gain on sale of P19.8 and P3.6, respectively (see Note 17).

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 2013 and 2012 in the Group and Parent Company financial statements are shown below.

	Land	Building and Improve-ments	Total
December 31, 2013			
Cost	P 175.0	P 46.2	P 221.2
Accumulated depreciation	-	(25.8)	(25.8)
Accumulated impairment	(49.7)	-	(49.7)
Net carrying amount	**P 125.3**	**P 20.4**	**P 145.7**
December 31, 2012			
Cost	P 389.6	P 105.3	P 494.9
Accumulated depreciation	-	(59.2)	(59.2)
Accumulated impairment	(54.9)	(1.3)	(56.2)
Net carrying amount	P 334.7	P 44.8	P 379.5
January 1, 2012			
Cost	P 461.1	P 109.4	P 570.5
Accumulated depreciation	-	(50.0)	(50.0)
Accumulated impairment	(40.2)	(51.4)	(91.6)
Net carrying amount	P 420.9	P 8.0	P 428.9

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A reconciliation of the carrying amounts at the beginning and end of 2013 and 2012 of investment properties in the Group and Parent Company financial statements is shown below.

	Land	Building and Improvements	Total
Balance at January 1, 2013, net of accumulated depreciation and impairment	P 334.7	P 44.8	P 379.5
Additions	7.9	6.2	14.1
Disposals	(23.4)	(6.9)	(30.3)
Reclassifications	(186.9)	(19.6)	(206.5)
Depreciation and amortization charges for the year	-	(4.1)	(4.1)
Impairment losses during the year	(7.0)	(-)	(7.0)
Balance at December 31, 2013, net of accumulated depreciation and impairment	**P 125.3**	**P 20.4**	**P 145.7**
Balance at January 1, 2012, net of accumulated depreciation and impairment	P 420.9	P 8.0	P 428.9
Additions	1.4	76.4	77.8
Disposals	(72.9)	(17.3)	(90.2)
Depreciation and amortization charges for the year	-	(11.8)	(11.8)
Impairment losses during the year	(14.7)	(10.5)	(25.2)
Balance at December 31, 2012, net of accumulated depreciation and impairment	P 334.7	P 44.8	P 379.5

The appraised values of the investment properties as of December 31, 2013 and 2012 follow:

	2013	2012
Land	**P 257.2**	P 748.9
Building and improvements	**57.1**	127.4
	P 314.3	P 876.3

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

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

Gain on sale of investment properties of the Parent Company included under Gain on sale of property and equipment and investment properties as part of Other Income amounted to P4.7, P51.5 and P40.4 in 2013, 2012 and 2011, respectively (see Note 17).

12. OTHER ASSETS

Other assets consist of the following:

		Group		Parent Company	
	Note	**2013**	2012 (As Restated - see Note 2)	**2013**	2012 (As Restated - see Note 2)
Prepaid expenses		**P 103.8**	P 107.3	**P 26.8**	P 21.6
Non-current assets held-for-sale – net		**237.4**	94.4	**237.4**	94.4
Deferred input value-added tax (VAT)		**163.1**	65.3	**-**	-
Retirement benefit asset	19	**43.1**	0.7	**43.1**	0.7
Repossessed chattels and other equipment - net		**2.8**	29.2	**2.8**	29.2
Investment in a subsidiary		**-**	-	**400.0**	400.0
Miscellaneous - net		**10.8**	17.8	**10.7**	16.2
		P 561.0	P 314.7	**P 720.8**	P 562.1

In 2013 and 2012, the Group reclassified certain investment properties and repossessed chattel and other equipment to non-current assets held-for-sale, respectively. All chattel and personal properties repossessed in 2012 were also recognized by the Group as assets held-for-sale. Management intends to dispose of these properties within one year from the date of reclassification. These properties are carried at the lower of cost and fair value less cost to sell.

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

	2013	2012
Cost	P 328.8	P 150.9
Accumulated impairment	(91.4)	(56.5)
	P 237.4	P 94.4

A reconciliation of the carrying amounts of non-current assets held-for-sale at the beginning and end of 2013 and 2012 is shown below.

	2013	2012
Balance at January 1, net of accumulated impairment	P 94.4	P -
Additions	3.1	155.5
Reclassifications	205.7	(54.2)
Disposals	(32.8)	(6.9)
Impairment loss for the year	(33.0)	-
Balance at December 31, net of accumulated impairment loss	P 237.4	P 94.4

The gross carrying amounts and accumulated depreciation of repossessed chattels and other equipment are shown below.

	2013	2012
Cost	P 53.9	P 56.1
Accumulated depreciation	(51.1)	(26.9)
	P 2.8	P 29.2

A reconciliation of the carrying amounts of repossessed chattels and other equipment at the beginning and end of 2013 and 2012 is shown below.

	2013	2012
Balance at January 1, net of accumulated depreciation	P 29.2	P 65.9
Reclassifications to held-for-sale	-	(9.8)
Disposals	(3.8)	-
Depreciation charges for the year	(22.6)	(26.9)
Balance at December 31, net of accumulated depreciation	P 2.8	P 29.2

No impairment loss was recognized on repossessed chattels and other equipment in 2013, 2012 and 2011.

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.

Investment in a subsidiary represents 100% ownership of the Parent Company in BDO Rental.

13. BILLS PAYABLE

This account consists of borrowings from:

	Group		Parent Company	
	2013	2012	**2013**	2012
Banks	**P 7,337.9**	P 10,376.5	**P 6,414.4**	P 10,211.3
Others	**9,086.7**	2,291.9	**9,086.7**	2,291.9
Accrued interest	**23.9**	28.6	**16.3**	28.2
	P 16,448.5	P 12,697.0	**P 15,517.4**	P 12,531.4

Bills payable to banks represent peso borrowings from local banks (including BDO Unibank as of December 31, 2013 and 2012 – see Note 20), with annual interest rates ranging from 2.2% to 6.9% in 2013 and 3.5% to 6.9% in 2012. As of December 31, 2013 and 2012, bills payable – others represent short-term notes issued to individual and corporate investors, with annual interest rates ranging from 2.3% to 3.5% and 3.5% to 4.0%, respectively. These rates approximate prevailing market rates. As of December 31, 2013 and 2012, bills payable amounting to P851.1 and P1,696.0, respectively, are secured by the Group's AFS financial assets amounting to P1,970.0 and certain loans receivables with carrying amount of P109.9 and P362.4, respectively.

Interest and financing charges consist of interest on:

		Group		
	Notes	**2013**	2012 [As Restated – see Note 2.02(a)]	2011 [As Restated – see Note 2.02(a)]
Bills payable - banks		**P 239.2**	P 134.9	P 95.7
Bills payable - others		**175.2**	322.2	280.0
Amortization on lease deposits	15	**4.2**	4.5	12.0
Interest on defined benefit plan	19	**-**	1.6	3.3
		P 418.6	P 463.2	P 391.0

		Parent Company		
	Notes	**2013**	2012 [As Restated – see Note 2.02(a)]	2011 [As Restated – see Note 2.02(a)]
Bills payable - banks		**P 222.6**	P 131.7	P 95.2
Bills payable - others		**175.1**	322.2	280.0
Amortization on lease deposits	15	**2.5**	2.9	6.1
Interest on defined benefit plan	19	**-**	1.6	3.3
		P 400.2	P 458.4	P 384.6

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14. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities consist of the following:

	Group				**Parent Company**			
	2013		2012		**2013**		2012	
Accounts payable	**P**	**151.4**	P	25.8	**P**	**94.1**	P	19.6
Accrued taxes and other expenses		**43.1**		29.2		**43.1**		29.2
Withholding taxes payable		**14.5**		10.6		**13.3**		10.4
Other liabilities		**49.1**		47.0		**46.0**		40.3
	P	**258.1**	P	112.6	**P**	**196.5**	P	99.6

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

15. LEASE DEPOSITS

This account represents deposits on:

	Group				**Parent Company**			
	2013		2012		**2013**		2012	
Finance leases	**P**	**3,774.6**	P	3,127.6	**P**	**3,774.6**	P	3,127.6
Operating leases		**42.5**		43.6		**-**		-
	P	**3,817.1**	P	3,171.2	**P**	**3,774.6**	P	3,127.6

Interest expense on lease deposits accrued using the effective interest method in the Group's financial statements amounted to P4.2, P4.5 and P12.0 in 2013, 2012 and 2011, respectively, and P2.5, P2.9 and P6.1 in 2013, 2012 and 2011, respectively, in the Parent Company financial statements (see Note 13). These are included as part of Interest and Financing Charges under Operating Costs and Expenses in the Group and Parent Company statements of income.

16. EQUITY

16.01 Capital Management Objectives, Policies and Procedures

The Group's capital management objectives are:

a. To provide an adequate return to shareholders by pricing products commensurately with the level of risk; and

b. To ensure the Group's ability to continue as a going concern.

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

The Group's capital and overall financing as of December 31, 2013 and 2012 are shown below:

		2013		2012
Total equity	**P**	**4,771.0**	P	4,588.8
Cash and cash equivalents	**(**	**138.0)**	(	69.4)
Net capital	**P**	**4,633.0**	P	4,519.4
Bills payable	**P**	**16,448.5**	P	12,697.0
Lease deposits		**3,817.1**		3,171.2
Total equity		**4,771.0**		4,588.8
Overall financing	**P**	**25,036.6**	P	20,457.0
Capital-to-overall financing ratio		**0.19:1**		0.22:1

Under RA No. 8556 the Group is required to maintain the following capital requirements:

- Minimum paid-up capital of P10 million; and

- Additional capital requirements for each branch of P1 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, 2013 and 2012, the Group is in compliance with this minimum paid-up capital requirement.

16.02 Preferred Shares

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

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

None of these authorized preferred shares are issued as of December 31, 2013 and 2012.

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16.03 Common Shares

As of December 31, 2013 and 2012, out of the total authorized capital stock of 3,400,000,000 common shares with par value of one peso per share, 2,162,475,312 common shares net of treasury shares of 62,693,718, amounting to P2,162.5 are issued and outstanding.

On April 17, 2013, the BOD approved the declaration of cash dividends at P0.15 per share amounting to P324.4. The dividends were declared in favor of stockholders of record as of May 17, 2013 and were paid subsequently on June 13, 2013.

On April 8, 2012, the BOD approved the declaration of cash dividends at P0.05 per share amounting to P108.1. The dividends were declared in favor of stockholders of record as of May 31, 2012 and were paid subsequently on June 27, 2012.

On December 7, 2011 and May 30, 2011, the BOD approved the declaration of cash dividends at P0.10 per share and P0.05 per share, respectively, amounting to P216.2 and P108.2 or for a total of P324.4 for the year. The December 2011 and May 2011 dividends were declared in favor of stockholders of record as of December 26, 2011 and June 14, 2011, respectively. As of December 31, 2011, the December 2011 dividends are still outstanding and is shown as Dividends Payable in the 2011 statement of financial position. The said dividends were paid subsequently on January 18, 2012.

16.04 Track Record of Registration of Securities

On January 6, 1997, the Parent Company was listed with the PSE with 106,100,000 new additional common shares and 15,120,000 existing common shares with par value of P1 per share. The listing was approved by the SEC in May 1996. As of December 31, 2013 and 2012, the Parent Company's number of shares registered totaled 2,225,169,030 with par value of P1.00 per share and closed at a price of P2.00 both in 2013 and 2012. The total number of stockholders is 1,177 and 1,199 as of December 31, 2013 and 2012, respectively.

17. OTHER INCOME

This account is composed of the following:

		Group		
	Notes	**2013**	2012	2011
Dividend income	8	**P 155.2**	P 160.9	P 125.7
Gain on sale of property and equipment and investment properties	10, 11	**24.5**	55.1	45.5
Fair value gains - net		**4.0**	2.6	0.5
Miscellaneous	10, 20	**41.5**	41.9	55.7
		P 225.2	P 260.5	P 227.4

	Notes	Parent Company 2013		2012		2011
Dividend income	8	**P 155.2**	P	160.9	P	125.7
Gain on sale of property and equipment and investment properties	10, 11	**4.7**		51.5		40.4
Fair value gains (losses) - net		**1.6**		1.5	(	0.8)
Miscellaneous	10, 20	**36.8**		37.3		33.7
		P 198.3	P	251.2	P	199.0

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

Fair value gains (losses) – 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 fair value losses on initial recognition of the residual value receivables under finance lease.

18. LEASES

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

In the ordinary course of business, the Group enters into various operating leases with lease terms ranging from 12 to 60 months. Operating lease income presented under Rent account in the Group statements of income for the years ended December 31, 2013, 2012 and 2011 amounted to P380.8, P229.8 and P244.5, respectively.

Future minimum rental receivables under operating leases follow:

	2013		2012		2011
Within one year	**P 91.7**	P	71.1	P	123.9
After one year but not more than five years	**890.0**		289.1		39.3
	P 981.7	P	360.2	P	163.2

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19. EMPLOYEE BENEFITS

19.01 Salaries and Employee Benefits Expense

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

	2013	2012	2011
Salaries and wages	**P 99.3**	P 97.8	P 85.3
Bonuses	**33.0**	30.9	31.0
Retirement – defined benefit plan	**16.4**	14.1	12.0
Social security costs	**3.4**	3.4	6.4
Other benefits	**31.3**	18.4	19.3
	P 183.4	P 164.6	P 154.0

19.02 Post-employment Benefits

(a) Characteristics of the Defined Benefit Plan

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

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

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the post-employment benefit costs and the related amount of contributions. All amounts presented in the succeeding pages are based on the actuarial valuation report obtained from an independent actuary in 2013 including the comparative year which has been restated in line with the adoption of PAS 19 (Revised), see Note 2.02(a).

The amounts of retirement benefit obligation (asset) of both Parent Company and the Group recognized in the statements of financial position are determined as follows:

	2013	2012 [As Restated – see Note 2.02(a)]	2011 [As Restated – see Note 2.02(a)]
Present value of the obligation	**P 159.4**	P 162.3	P 135.5
Fair value of plan assets	**(206.6)**	(163.1)	(65.9)
Effect of asset ceiling	**4.1**	0.04	-
Balance at end of year	**(P 43.1)**	(P 0.7)	P 69.6

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

	2013	2012 [As Restated – see Note 2.02(a)]	2011 [As Restated – see Note 2.02(a)]
Balance at beginning of year	**P 162.3**	P 135.5	P 101.5
Current service cost	**16.4**	14.1	8.9
Interest expense	**9.1**	8.6	8.4
Settlement loss	**-**	-	3.1
Remeasurements:			
Actuarial losses (gains) arising from:			
- changes in financial assumptions	**(1.7)**	1.4	(7.9)
- experience adjustments	**(22.1)**	9.0	45.5
Benefits paid	**(4.6)**	(6.3)	(24.0)
Balance at end of year	**P 159.4**	P 162.3	P 135.5

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

	2013	2012 [As Restated – see Note 2.02(a)]	2011 [As Restated – see Note 2.02(a)]
Balance at beginning of year	**P 163.1**	P 65.9	P 61.1
Interest income	**10.0**	7.0	5.1
Return on plan assets (excluding amounts included in net interest)	**2.0**	0.3	(1.7)
Contributions to the plan	**36.1**	96.2	25.4
Benefits paid	**(4.6)**	(6.3)	(24.0)
Balance at end of year	**P 206.6**	P 163.1	P 65.9

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.

	2013	2012
Cash and cash equivalents	**P 36.6**	P 7.9
Equity instruments	**2.1**	4.2
Loans	**13.3**	11.3
Unit investment trust funds	**30.4**	23.8
Real estate	**3.0**	3.5
	85.4	50.7
Debt instruments:		
Government bonds	**78.8**	76.8
Other bonds	**21.1**	16.9
	99.9	93.7
Others	**21.3**	18.7
	P 206.6	P 163.1

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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 P12.1 in 2013, P7.3 in 2012, and P3.4 in 2011.

Except for certain shares of stock of the Parent Company, plan assets do not comprise any of the Parent Company's own financial instruments or any of its assets occupied and/or used in its operations [see Note 20 (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:

	2013	2012 [As Restated – see Note 2.02(a)]	2011 [As Restated – see Note 2.02(a)]
Reported in profit or loss:			
Current service cost	**P 16.4**	P 14.1	P 8.9
Settlement loss	**-**	-	3.1
Net interest expense (income)	**(0.9)**	1.6	3.3
	P 15.5	P 15.7	P 15.3
Reported in other comprehensive income:			
Actuarial losses (gains) arising from changes in:			
- changes in financial assumptions	(P 1.7)	P 1.4	(P 7.9)
- experience adjustments	(22.1)	9.0	45.5
Return on plan assets (excluding amounts included in net interest)	(2.0)	(0.3)	1.7
Effect of asset ceiling	4.1	-	-
	(P 21.7)	P 10.1	P 39.2

The net interest expense (income) is included as part of Interest and Financing Charges and Other Income accounts, respectively, 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:

	2013	2012	2011
Discount rates	**4.69%**	5.62%	6.33%
Expected rate of salary increases	**8.00%**	9.45%	10.00%

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 bonds 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.

As of December 31, 2013 and 2012, the net accumulated actuarial losses amounted to P41.9 and P57.1, respectively, due mainly to the declining discount rates. Nevertheless, the Group has net retirement benefit asset amounting to P43.1 and P0.7 as of December 31, 2013 and 2012, respectively (see Note 12), due to higher contributions made in 2013 and 2012.

(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 Risk

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 bonds 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 has relatively balanced investment in cash and cash equivalents, equity securities and debt instruments. Due to the long-term nature of plan obligation, a level of continuing equity investments is an appropriate element of the Group's long-term strategy to manage the plans efficiently.

(ii) Longevity and Salary Risks

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

(d) Other Information

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

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(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the retirement benefit obligation as of December 31, 2013:

	Impact on retirement benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	+/-1%	(P 5.4)	P 6.1
Salary growth rate	+/-1%	5.1	(4.6)

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

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

(ii) Asset-liability matching strategy

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

(iii) Funding Arrangements and Expected Contributions.

The plan is currently overfunded by P43.1 based on the latest actuarial valuation.

The Parent Company expects to make contribution of P33.6 to the plan during the next financial year.

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

Within one year	P -
More than one year to five years	59.7
More than five years to ten years	95.2
	P 150.9

20. RELATED PARTY TRANSACTIONS

The Group's and Parent Company's related parties include BDO Unibank, affiliates, 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 2013, 2012 and 2011 are as follows:

Related Party Category	Notes	Amount of Transaction 2013	2012	2011
Ultimate Parent Company				
Interest income on savings and demand deposits	*(a)*	**P 0.2**	P 0.3	P 0.8
Interest expense on bills payable	*(b)*	**148.5**	98.3	86.7
Rent expense	*(d)*	**10.7**	11.0	11.5
Management fees	*(e)*	**2.4**	2.4	-
Subsidiary				
Interest income on loans	*(b)*	-	0.7	0.7
Service fees	*(c)*	**5.3**	8.4	9.9
Rent income	*(d)*	**0.4**	0.4	0.4
Management fees	*(e)*	**0.4**	0.4	0.8
Affiliate				
Service charges and fees	*(f)*	**2.2**	2.8	-
Key management personnel				
Short-term benefits	*(g)*	**61.7**	57.7	44.7
Post-employment benefits	*(g)*	**-**	17.0	13.2
Advances to officer	*(g)*	**0.9**	1.7	-

Related Party Category	Notes	Outstanding Balance 2013	2012
Parent Company			
Savings and demand deposits	*(a)*	**P 119.2**	P 52.7
Bills payable	*(b)*	**6,119.8**	6,731.7
Key management personnel			
Advances to officer	*(g)*	**2.2**	1.6
Retirement benefit fund			
Loans to officers and employees	*(h)*	**3.4**	P 3.4
Loans to members and beneficiaries	*(h)*	**2.4**	2.4
Shares of stock	*(i)*	**0.9**	0.9

(a) The Group maintains savings and demand deposit accounts with BDO Unibank. As of December 31, 2013 and 2012, savings and demand deposit accounts maintained with BDO Unibank are included under Cash and Cash Equivalents account in the statements of financial position (see Note 7). Interest income earned on deposits in 2013, 2012 and 2011 is included under Interest and Discounts as part of Revenues in the statements of income.

(b) The Group obtains short-term, unsecured bills payable from BDO Unibank. The amount outstanding from borrowings as of December 31, 2013 and 2012 is presented under Bills Payable account in the statements of financial position (see Note 13). Interest expense incurred on these bills payable in 2013, 2012 and 2011 is included under Interest and financing charges account as part of Operating Costs and Expenses account in the statements of income. Also, the Parent Company grants short-term, unsecured loans to BDO Rental. There is no outstanding balance arising from this transaction as of December 31, 2013 and 2012. Total interest income earned by the Parent Company on these loans in 2012 and 2011 is included under Interest and Discounts as part of Revenues in the statements of income.

(c) On January 4, 2010, the Parent Company and BDO Rental entered into a Service Agreement whereby BDO Rental will handle the collection of certain factored receivables of the Parent Company, for a fee as agreed by the Parent Company and the sellers of the factored receivables. Under the Service Agreement, BDO Rental shall perform the monitoring of the payment due dates of the factored receivables, remit to the Parent Company all collections made and send monthly statement of accounts to customers. The related expense charged to the Parent Company based on the Service Agreement is included under Other Operating Costs and Expenses in the Parent Company's statements of income. There are no outstanding intercompany payable and receivable from this transaction as of December 31, 2013 and 2012.

(d) The Parent Company leases its head office premises and certain branch offices from BDO Unibank for terms ranging from one to five years, renewable for such period and under such terms and conditions as may be agreed upon with the Parent Company and BDO Unibank. Related rent expense incurred in 2013, 2012 and 2011 is presented as part of Occupancy and equipment-related expenses under Operating Costs and Expenses account in the statements of income. On the other hand, the Parent Company charges BDO Rental for the spaces that the latter occupies in the head office premises. Rent changed to BDO Rental in 2013 and 2012 is presented as part of Other Income in the statements of income. There are no outstanding receivable and payable on these transactions as of the end of 2013 and 2012.

(e) In 2012, the Parent Company entered into a service level agreement with BDO Unibank wherein BDO Unibank will charge the Parent Company for certain management services that the former provides to the latter. Management fees paid by the Parent Company to BDO Unibank is shown as part of Other Operating Costs and Expenses in the statements of income.

Also, the Parent Company charges BDO Rental for the management services it renders to BDO Rental. This is presented as part of Other Income in the statements of income of the Parent Company. There are no outstanding receivable and payable on these transactions as of the end of 2013 and 2012.

(f) The Parent Company engaged the services of BDO Capital and Investment Corporation (BDO Capital), a wholly owned subsidiary of BDO Unibank for underwriting services related to the Parent Company's issuance of bills payable in 2012. Service charges and fees paid by the Parent Company to BDO Capital related to this transaction is included as part of Other Operating Costs and Expenses in the statements of income. There are no outstanding payable related on this transaction as of the end of 2013 and 2012.

(g) Compensation of key management personnel (covering officer positions starting from Assistant Vice President and up) is included as part of Employee Benefits under Operating Costs and Expenses in the statements of income of the Group and Parent Company. Short-term employee benefits include salaries, paid annual leave and paid sick leave, profit sharing and bonuses, and non-monetary benefits. The Group also incurred post-employment benefit expense related to key management personnel included as part of Employee Benefits under Operating Costs and Expenses. The Group also granted cash advances to an officer.

(h) The Group maintains a retirement benefit fund with BDO Unibank covering all regular full-time employees. In the normal course of business, the retirement benefit fund grants salary and housing loans to certain officers and employees of the Parent Company, and members and beneficiaries of the fund who are also officers of the Parent Company. The housing loans are secured by the mortgage on the property and bear interest at 9% per annum and have terms ranging from 13 to 20 years. The salary loans on the other hand, are unsecured and bear interest ranging from 9% to 10% per annum and have terms ranging from 18 months to 3 years. There is no impairment loss recognized on this loan.

(i) The retirement fund holds 442,750 shares of stock of the Parent Company [see Note 19 (b)] as an investment, which has a market value of P2.00 per share as of December 31, 2013 and 2012.

21. TAXES

21.01 Taxes and Licenses

This account is composed of the following:

	Group		
	2013	2012	2011
Gross receipts tax	**P 63.1**	P 62.8	P 52.2
Documentary stamp tax	**73.2**	60.9	51.3
Local taxes	**11.8**	10.5	13.4
Others	**0.6**	0.5	5.7
	P 148.7	P 134.7	P 122.6

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	Parent Company		
	2013	2012	2011
Documentary stamp tax	**P 70.2**	P 60.4	P 51.2
Gross receipts tax	**63.1**	62.8	52.2
Local taxes	**10.1**	8.5	7.7
Others	**0.6**	0.5	3.6
	P 144.0	P 132.2	P 114.7

21.02 *Current and Deferred Taxes*

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

	Group		
	2013	2012 (As Restated - see Note 2)	2011 (As Restated - see Note 2)
Reported in statements of income			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	**P 129.7**	P 166.1	P 88.8
Final tax at 20%	**20.5**	0.1	0.2
	150.2	166.2	89.0
Deferred tax income relating to origination and reversal of temporary difference	**(4.7)**	(50.0)	(6.2)
	P 145.5	P 116.2	P 82.8
Reported in statements of comprehensive income			
Deferred tax expense (income) relating to origination of temporary differences:			
AFS financial assets	**P 0.4**	(P 0.1)	(P 0.9)
Actuarial gains and losses	**6.5**	(3.0)	(11.7)
	P 6.9	(P 3.1)	(P 12.6)

	Parent Company		
	2013	2012 (As Restated - see Note 2)	2011 (As Restated - see Note 2)
Reported in statements of income			
Current tax expense:			
RCIT at 30%	**P 102.3**	P 156.6	P 88.8
Final tax at 20%	**20.5**	0.1	0.1
	122.8	156.7	88.9
Deferred tax income			
Deferred tax relating to origination and reversal of temporary difference	**(4.6)**	(57.3)	(6.8)
	P 118.2	P 99.4	P 82.1

	Parent Company		
	2013	2012 (As Restated - see Note 2)	2011 (As Restated - see Note 2)
Reported in statements of comprehensive income			
Deferred tax relating to			
origination of temporary differences:			
AFS financial assets	**P 0.4**	(P 0.1)	(P 0.9)
Actuarial gains and losses	**6.5**	(3.0)	(11.7)
	P 6.9	(P 3.1)	(P 12.6)

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

	Group		
	2013	2012 (As Restated - see Note 2)	2011 (As Restated - see Note 2)
Tax on pretax profit	**P 169.8**	P 158.1	P 117.4
Adjustment for income subjected to lower tax rates	**(3.7)**	(0.1)	(0.1)
Tax effects of:			
Non-deductible expense	**4.9**	3.9	4.5
Non-taxable income	**(27.2)**	(45.7)	(39.0)
Non-deductible interest expense	**1.7**	-	-
	P 145.5	P 116.2	P 82.8

	Parent Company		
	2013	2012 (As Restated - see Note 2)	2011 (As Restated - see Note 2)
Tax on pretax profit	**P 142.7**	P 141.4	P 118.6
Adjustment for income subjected to lower tax rates	**(3.7)**	-	-
Tax effects of:			
Non-deductible expense	**4.9**	3.4	2.1
Non-taxable income	**(26.5)**	(45.4)	(38.6)
Non-deductible interest expense	**0.8**	-	-
	P 118.2	P 99.4	P 82.1

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013, 2012 AND 2011
(Amounts in Millions of Philippine Pesos, Except Per Share Data or As Indicated)

The components of net deferred tax liabilities as of December 31, 2013 and 2012 follow:

	Statements of Financial Position			
	Group		Parent Company	
	2013	2012 (As Restated - see Note 2)	**2013**	2012 (As Restated - see Note 2)
Deferred tax assets:				
Allowance for impairment on:				
Loans	**P 85.3**	P 87.7	**P 85.3**	P 87.7
Investment properties and non-current assets held-for-sale	**42.3**	41.9	**42.3**	41.9
Accounts receivable	**0.9**	1.0	**0.9**	1.0
Retirement benefit obligation	**12.0**	16.8	**12.0**	16.8
Others	**3.8**	0.6	**3.7**	0.6
	144.3	148.0	**144.2**	148.0
Deferred tax liabilities:				
Lease income differential	**(148.6)**	(148.6)	**(148.6)**	(148.6)
Unrealized fair value gain on AFS	**(10.5)**	(10.1)	**(10.5)**	(10.1)
Unrealized gain on exchange of assets	**-**	(1.6)	**-**	(1.6)
Others	**(0.4)**	(0.7)	**(0.3)**	(0.6)
	(159.5)	(161.0)	**(159.4)**	(160.9)
Net deferred tax liabilities	**(P 15.2)**	(P 13.0)	**(P 15.2)**	(P 12.9)

The components of deferred tax expense (income) in profit and loss and in other comprehensive income for the years ended December 31, 2013, 2012 and 2011 follow:

	Group		
	2013	2012 (As Restated - see Note 2)	2011 (As Restated - see Note 2)
In profit or loss:			
Deferred tax assets:			
Allowance for impairment on:			
Loans and discounts	**P 2.4**	(P 4.9)	(P 14.6)
Investment properties and non-current assets held-for-sale	**(0.4)**	(14.1)	(6.6)
Accounts receivable	**0.1**	1.0	0.1
Retirement benefit obligation	**(1.7)**	3.3	3.0
Net operating loss carryover	**-**	7.2	-
Other	**(3.2)**	-	-
Total deferred tax assets *(balance carried forward)*	**(P 2.8)**	(P 7.5)	(P 18.1)

	Group		
	2013	2012 (As Restated - see Note 2)	2011 (As Restated - see Note 2)
Total deferred tax assets *(balance brought forward)*	**(P 2.8)**	(P 7.5)	(P 18.1)
Deferred tax liabilities:			
Lease income differential	-	(43.1)	11.8
Others	**(1.9)**	0.6	0.1
	(1.9)	(42.5)	11.9
Net deferred tax expense (income)	**(P 4.7)**	(P 50.0)	(P 6.2)

	Parent Company		
	2013	2012 (As Restated - see Note 2)	2011 (As Restated - see Note 2)
In profit or loss:			
Deferred tax assets:			
Allowance for impairment on:			
Loans and discounts	**P 2.4**	(P 4.9)	(P 14.6)
Investment properties and non-current assets held-for-sale	**(0.4)**	(14.1)	(6.6)
Accounts receivable	**0.1**	1.0	0.1
Retirement benefit obligation	**(1.7)**	3.3	3.0
Other	**(3.1)**	-	-
	(2.7)	(14.7)	18.1
Deferred tax liabilities:			
Lease income differential	-	(43.1)	11.3
Others	**1.9**	0.5	-
	(1.9)	(42.6)	11.3
Net deferred tax expense (income)	**(P 4.6)**	(P 57.3)	(P 6.8)

	Group and Parent Company	
	2013	2012
In other comprehensive income:		
Deferred tax expense (income) on:		
Net actuarial losses	**P 6.5**	(P 3.0)
Unrealized fair value gains on AFS financial assets	**0.4**	(0.1)
	P 6.9	(P 3.1)

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

21.03 Supplementary Information Required Under Revenue Regulations (RR) 15-2010 and 19-2011

The Bureau of Internal Revenue issued Revenue Regulations 15-2010 and 19-2011 which required certain supplementary information to be disclosed as part of the notes to financial statements. The supplementary information is, however, not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards; it is neither a required disclosure under the Philippine Securities and Exchange Commission rules and regulations covering the form and content of financial statements under Securities Regulation Code Rule 68, as amended.

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

22. EARNINGS PER SHARE

Basic earnings per share were computed as follows:

	Group		
	2013	2012 (As Restated - see Note 2)	2011 (As Restated - see Note 2)
Net profit	**P 420.3**	P 410.7	P 308.3
Divided by the weighted average number of outstanding common shares – net*	**2,162**	2,162	2,162
Basic earnings per share	**P 0.19**	P 0.19	P 0.14

	Parent Company		
	2013	2012 (As Restated - see Note 2)	2011 (As Restated - see Note 2)
Net profit	**P 357.5**	P 371.8	P 313.2
Divided by the weighted average number of outstanding common shares – net*	**2,162**	2,162	2,162
Basic earnings per share	**P 0.17**	P 0.17	P 0.14

* net of treasury shares

There were no outstanding dilutive potential common shares as of December 31, 2013 and 2012.

23. EVENTS AFTER THE END OF THE REPORTING PERIOD

On February 26, 2014, the BOD approved the declaration of cash dividends on the 2,162,475,312 shares outstanding at P0.15 per share or for P324.4. The dividends were declared in favor of stockholders of record as of March 13, 2014 and payable on March 31, 2014.

24. CONTINGENT LIABILITIES AND COMMITMENTS

24.01 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 under Operating Costs and Expenses in the statements of income amounted to P11.2 in 2013, P11.0 in 2012, and P11.5 in 2011.

Future minimum lease payments under these operating leases follow:

	2013	2012	2011
Within one year	**P 15.71**	P 11.2	P 11.0
After one year but not more than five years	**68.88**	55.2	55.0
	P 84.59	P 66.4	P 66.0

24.02 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, 2013, management does not anticipate significant losses from these contingencies and commitments that would adversely affect the Group's financial position and results of operations.

MANAGEMENT DIRECTORY

SENIOR OFFICERS

President
Georgiana A. Gamboa *

First Vice President
Gerard M. Aguirre

First Vice President and Treasurer
Renato G. Oñate **

Vice President
Rodolfo M. Carlos Jr. ***
Robic S. Chavez
Rosario C. Crisostomo
Rosalisa B. Kapuno
Maria Lourdes S. Maraingan
Jennifer F. So
Ma. Theresa M. Soriano

Senior Assistant Vice President
Lucila R. Celestino
Frieda Concepcion T. Jimenez
Dean Arvin D. Tabanao
Cosme S. Trinidad Jr.

Assistant Vice President
Angelo L. Calingo
Elmer J. Cruz
Francisca D. Katigbak
Portia B. Montoya ****

MARKETING TEAM
Sheryl G. Calamiong
Joeven Y. Handig
Rethel Anne L. Uy
Maria Arvida F. Pinga
Amado M. Torres Jr. *****
Rommel I. Paguio
Vernie C. Dela Cruz
Edmund V. Barbonio
Zarah Katrina A. Lacaya
Silverio S Peregrino II
Wilfredo R. Capuz
Dave Rodney C. Saguin
Jan Jerico D. Obra
Jovenal N. Jose
Jennifer T. Gulane
Randy P. Borbe
Lalaine G. Maiztegui
Julienel E. Teodoro
Jayson R. Coquia
Edmund T. Abapo
Virgilio M. Serafi ca
Richard C. Grande
Mylene T. Almario
Merlyn C. Mangoba
Christine R. Chua
Arturo H. Najorra
Carolyn Q. Arceo
Catherine D. Tiamsim
Christian Wayne D. Dayo
Pepito C. Dumaluan
Vanessa Joyce C. Benavidez
Evelyn I. Pangan
Giovanni P. Capawa
Ma. Cheryl D. Magdamo
Joyce R. Lacsinto
Allan S. Agustin
Lito T. Ocampo
Randi T. Melchor
Kristell R. Del Valle
Daphne Y. Gomez
Celso A. Garcia
Ruby Rosalyn N. Balucan
Jimelee P. Buatis
Joan Marie P. Co
Louie Andrew F. Limjoco
Beniver P. Garcia
Ruby Lyn C. Paderon
Dohlmeir S. Bayona*

GENERAL ACCOUNTING
Cecilia L. Naranjo
Ann Marie S. Castillo
Janice Marie S. Decena
Vivian D. Miranda

MIS, BUDGET & OPERATIONS CONTROL TEAM
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Romell A. Gamboa
Noliza L. Santos

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Christopher A. Rivera
Jose Ramon Benjamin T. Roxas

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Juanito C. Lucas
Dawn Lourdes C. Valles
Albert A. Estrella, Jr.
Eleonor H. Dumlao

LOANS ADMINISTRATION TEAM
Cristina S. Herrera
Merpha K. Monzales
Susana B. Alvarez
Ronald C. Bernal
Noreen Gay H. Billones
Irish Lou M. Santiago
Ivy D. Binas-o
Fritzie T. Ocampo
Maureen C. Giangan

POLICY, ANALYTICS AND MONITORING TEAM
Myla R. Ariola

COMPLIANCE TEAM
Ernesto V. Aguilar Jr.
Analyn V. Mirandilla

CREDIT RISK CONTROL
Manolo O. Diaz

TREASURY TEAM
Lawrence S. Sanchez

HR, FACILITIES & ADMIN, PROCUREMENT TEAM
Carlos M. Andaya
Razel V. Clemente

* Resigned effective end of January 31, 2014

** Resigned effective February 16, 2014

*** Transferred to BDO Unibank Risk Management Group effective February 1, 2014

****Transferred to BDO Unibank Human Resources Group effective January 2, 2014

*****Resigned effective February 28, 2014

PRODUCTS & SERVICES

For your asset acquisition and working capital requirements, BDO Leasing provides you these customized fi nancing solutions, enabling you to run your business your way.

LEASING

You don't need to pay cash for your much-needed equipment nor take on a loan to finance it as BDO Leasing gives the alternative that guarantees minimal capital outlay.

Leasing is an agreement where BDO Leasing, as the lessor/ owner, grants the use of an asset to you, as the client, for a fee for a specifi ed period of time.

Choose from two types of leases:

Finance Lease
A source of medium term fi nancing for the acquisition of capital equipment and is ideal if you plan to keep the asset up to the end of the term. With just a low upfront cost, you can use the asset immediately.

Operating Lease
If you wish to simply pay for the use of the equipment and not its ownership, you can use this type of lease. This is commonly used to acquire equipment on a short-term basis. At the end of the term, simply return the equipment to us, extend the lease for another term or you may also purchase it at its Fair Market Value (FMV).

Our lease offerings provide you these benefits:

- Preserves your cash or credit line for your working capital
- Low initial cash-out
- Higher amount fi nanced
- No chattel mortgage fees
- Tax-timing benefi ts
- No collateral is required other than the leased equipment
- Better cash fl ow management by turning upfront costs into affordable monthly payments

AMORTIZED COMMERCIAL LOAN (ACL)

BDO Leasing's Amortized Commercial Loan facility allows your business to acquire your much-needed equipment through mortgage of collateral, either in the form of real estate or equipment.

With ACL, you can meet your business' capital acquisition requirements at affordable costs, plus it gives you these other benefits:

- Higher loan values
- Minimal cash outlay
- Medium-term fi nancing with flexible payment terms
- Ownership of the equipment stays with the borrower/ client

INSTALLMENT PAPER PURCHASE (IPP)

When you are in need of immediate cash as additional working capital or simply to meet your various business requirements, BDO Leasing helps you generate the ready cash you need via its Installment Paper Purchase.

With IPP, BDO Leasing helps your business generate cash through the sale of your existing installment sales receivables on a discounted basis.

Benefits for your business:

- Convert tied-up capital into instant cash which you can use for your business needs
- Preserve cash and credit lines for your operating needs
- Enjoy tax savings as the interest expense is an allowable deduction from your taxable income

FACTORING OF RECEIVABLES

A financial product that enables companies to obtain immediate cash by selling local trade receivables to BDO Leasing.

Factoring is a good alternative for short-term financing and enables your business to work at its full capacity with the immediate funds generated from it.

Enjoy these benefits when you Factor your Receivables:

- Instant cash
  *BDO Leasing advances up to 80% of the value of invoices
- Immediate working capital
  *to purchase new stocks and meet new orders
  *be able to negotiate better discounts for cash purchases
  *take advantage of new business opportunities
- No collateral required
- BDO Leasing's experienced sales team will do the collection for you

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