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2016 ANNUAL REPORT





**BDO** Leasing



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# CORPORATE PROFILE

BDO Leasing and Finance Inc. (BDOLF) is a subsidiary of BDO Unibank, with an established track record of service and innovation in the leasing and finance industry. BDOLF is a recognized leader in the market it serves, confirmed by its consistently excellent financial results and continuously growing clientele base.

Capitalizing on BDO Unibank's extensive market reach and its wide product range, BDOLF continues to be among the industry's dominant players in terms of total assets, loans and lease portfolio, capitalization, and profitability. In 2016, net profit reached P570 million, total assets amounted to P38.9 billion, while net loans and leasing portfolio breached the P31-billion mark, attributable to its intensified marketing efforts. With its expedient but prudent loan underwriting, the Company has also maintained an excellent asset quality as shown by its lower-than-industry level of non-performing loans and leases. BDOLF branches are strategically located to service the increasing needs of the country's growth areas.

BDOLF also continued to have the highest approved ceiling for commercial papers in the industry at P25 billion, as approved by the Securities and Exchange Commission. Further, the Philippine Rating Services Corporation (PhilRatings) has given the Company a high credit rating of PRSAa (Corporate), with a Stable outlook — this rating validates that BDOLF's issuances are of high quality and are subject to very low credit risk, and that the Company is highly capable of meeting its financial commitments on the obligation. The assigned issuer rating considers BDOLF's strong brand recognition due to the Company's close strategic relationship with its Parent Bank; its continued asset expansion supported by increasing leverage; the expectation of compressed margins and returns amid sustained revenue growth; and the favorable economic and industry outlook. The BDO brand strengthens the Company's position in the industry and revolutionizes its capability to meet new sets of challenges and expectations.



TOTAL QUALITY  
SHALL BE THE  
MOST IMPORTANT  
INGREDIENT IN ALL  
OUR ACTIVITIES



## VISION STATEMENT

We shall be at the forefront of the leasing and financing industry in the Philippines and in the Asia Pacific Region. We shall have the most extensive market reach and shall be composed of highly trained, technically competent and upright professionals working as a team and contributing to the growth of the nation and the communities we serve. Recognizing that the customer is the focus of our activities, we shall lead the industry by providing modern and relevant financial services that exceed their expectations.

## MISSION STATEMENT

We are in business for our customers, shareholders and employees.

We shall deliver creatively innovative products and cross-sell the BDO Unibank Group's services supported by procedures, systems and processes which will ensure utmost customer satisfaction.

We shall recognize and reward excellence in our employees and shall provide an environment conducive to maximizing their potentials as we work cohesively as a team.

We shall generate consistently high returns for our shareholders.

We shall maintain a prestigious and professional corporate image and shall actively fulfill our social responsibility.

Total quality shall be the most important ingredient in all our activities.

# FINANCIAL HIGHLIGHTS

IN MILLION PESOS

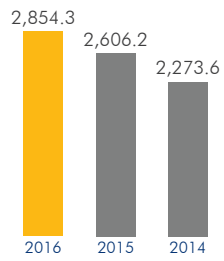
## FOR THE YEAR

	2016	2015	2014
Gross Income	2,854.3	2,606.2	2,273.6
Total Expenses	2,103.6	1,880.8	1,559.5
Total Tax	180.7	169.8	210.1
Net Profit	570.0	555.6	504.0
Basic Earnings Per Share	0.26	0.26	0.23

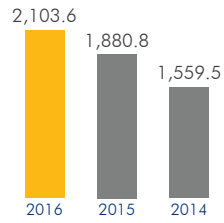
## AT YEAR END

	2016	2015	2014
Total Assets	38,900.4	34,517.6	29,249.9
Loans & Other Receivables-Net	31,381.3	27,463.3	23,646.6
Equity	5,349.5	5,222.7	4,985.8

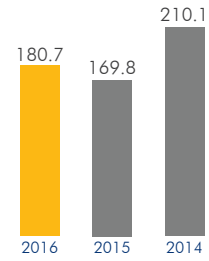
### GROSS INCOME



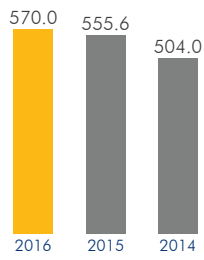
### TOTAL EXPENSES



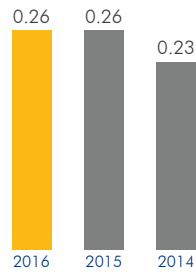
### TOTAL TAX



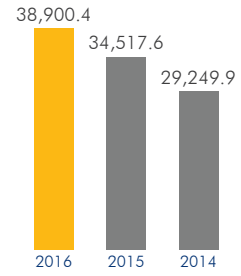
### NET PROFIT



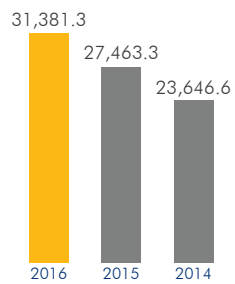
### BASIC EARNINGS PER SHARE



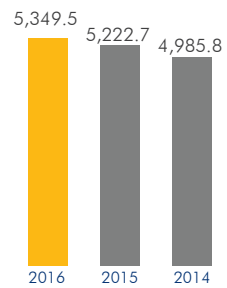
### TOTAL ASSETS



### LOANS & OTHER RECEIVABLES NET



### EQUITY



(In Million Php)

# MESSAGE FROM THE CHAIRPERSON AND THE VICE CHAIRMAN & PRESIDENT

Dear Shareholders,

BDO Leasing and Finance, Inc. (BDOLF) recorded another year of solid performance.

The Company posted a net income of P570 million, driven by the 14% expansion in net lease and loan portfolio. Total assets also grew to P38.9 billion, a 13% jump from 2015.

BDOLF earned a high issuer credit rating of “PRS Aa” from the Philippine Rating Services Corporation, confirming the Company’s financial strength and stability to be able to meet existing and prospective financial obligations.

We also formally launched MMPC Auto Financial Services Corporation (MAFS) together with corporate partners Mitsubishi Motors Philippines Corporation, Sojitz Corporation, and JACCS Co., Ltd. MAFS will exclusively cater to the financing needs of dealers and clients of Mitsubishi.

Moving forward in 2017, BDOLF will continue to leverage on its Parent Bank’s network of clients. With expectations of 6.5% to 7% GDP growth in 2017, the Company anticipates improved business climate and stronger demand for financing activities from the transport, construction, manufacturing, and domestic tourism sectors.

Our sincere thanks to the members of the Board, the management, and the employees whose hard work and dedication gained for us a commendable score of 93.14 points in corporate governance among publicly-listed companies. We also thank our shareholders and clients for their sustained trust and confidence in what we do. You continue to inspire us to deliver our best.

Sincerely,



TERESITA T. SY  
Chairperson



ROBERTO E. LAPID  
Vice Chairman & President





THE BOARD  
ENSURES THAT THE  
COMPANY IS BEING  
RUN IN A SOUND  
AND PRUDENT  
MANNER

# CORPORATE GOVERNANCE

The corporate governance system of BDO Leasing and Finance (BDOLF) focuses on the objective of maximizing value creation on a sustainable basis for the benefit of all stakeholders in a manner that is supported by the right values, culture, and business conduct throughout the Group. In pursuing this objective, BDOLF has continuously evolved its corporate governance standards to include essential elements of regulations, international best practices, and voluntary commitments.

We have taken further steps in 2016 to align our corporate governance system with the international practice, taking into account the continuous developments in national regulations. This report summarizes the key focus of the Company that affirms our deep commitment to a high standard of corporate governance.

# GOVERNANCE FRAMEWORK

## BOARD OF DIRECTORS

The Board of Directors leads in establishing the tone and practice of good corporate governance at the top. It sets the Company's corporate values and ethical standards of business conduct for itself and all members of the Company. Through its oversight, approval, and review functions, the Board ensures that the Company is being run in a sound and prudent manner in order to fulfill its obligations to all shareholders while upholding and protecting the interests of other stakeholders.

Currently, the Board is composed of 11 members and aided by an adviser. It has an appropriate mix of executive, non-executive, and independent directors with a good balance of diverse skills and expertise in the fields of banking, accounting, finance, law, merchandise marketing, strategy formulation, bank and non-bank regulations, government service, and risk management.

Independent Directors now constitute 27% of the Board's strength — more than the requirement of the Bangko Sentral ng Pilipinas (BSP) and the Securities and Exchange Commission (SEC) —to ensure its independence and exercise unfettered judgment on all corporate matters. Together with the non-executive directors, they constitute 45% of the Board's membership.

The Board is vested with the collective responsibility to review and guide corporate strategy, set financial objectives, and deliver sustainable value for all stakeholders. It is the decision-making body with the sole power to approve the issuance of capital stocks, distribution of dividends, strategic plans, major capital expenditures, acquisitions, equity investments, fixed assets, mergers, joint ventures, divestments, and significant related party transactions.

It reviews and approves financial plans, monitors implementation, and assesses management performance against annual budgets and business plans, enterprise risk strategy and policies, succession plan, and annual and interim financial statements. It is also responsible for ensuring that management maintains both an effective system of internal control and sound enterprise risk management framework to effectively identify, monitor, assess, and manage key business risks.

In 2016, the significant matters taken up by the Board include, among others, the approval of the annual operating plan and budget including plans for compliance to BSP regulations, declaration of final cash dividends, release of the 2015 Audited Financial Statements within 60 days from financial year end, strategic planning, review of operational and financial performance, issues related to regulatory capital, risk



management and consumer protection, amendments to the Money Laundering and Terrorist Financing Prevention Program Manual (MLPP) complying with AML regulations, directors' continuing education, 2016 corporate governance scorecard, and the renewal of P25B Commercial Papers by the SEC. Essentially, the Board approved the terms of reference and policy of the Related Party Transaction Committee (RPTC) in compliance to BSP Circular No. 895 and its subsequent amendments, and the Company's replies to 2015 BSP's Report of Examination. In accordance with its oversight function, it reviews the work of the various committees to ensure that they have complied with their respective mandates.

BDOLF has entered into a joint venture (JV) with Mitsubishi Motors Philippines Corporation (MMPC), Sojitz Corporation (SJC) and JACCS CO., LTD. (JACCS) to provide financing services to individual and corporate buyers of Mitsubishi Motors vehicles. BDOLF owns 40% of the JV company while Sojitz/MMPC/JACCS hold 60% combined ownership.

The joint venture MMPC Auto Financial Services Corporation, is seen to harness the complementary strengths of the JV partners to take advantage of the sustained growth in vehicle sales on the back of increasing consumer affluence and growing population.

BDOLF will be leveraging on its Parent Company's wide distribution network and industry leadership, which are seen to complement MMPC's established presence in the automotive industry, while both SJC and JACCS will contribute their international perspective and knowledge on consumer credit to the business.

The Board also recognizes the importance and benefits of conducting regular performance evaluation to determine its effectiveness. In 2016, the self-assessment of the performance of the Board, directors, committees, and senior management was led by the Corporate Governance Committee. Key findings showed that the Board continues to function very well, committees operate effectively, senior management has the competence and ability to manage the Company while the relationship between directors and adviser in the diverse BDOLF Board remains strong. It also welcomes the directors' feedback particularly on areas where it could deepen its involvement to become more effective and relevant.

During the year, the Board held 13 meetings that were attended by the directors and adviser. This demonstrates their strong commitment to devote their time and attention necessary to properly and effectively perform their duties and responsibilities.

## Attendance

### Board of Directors Meeting 2016

Directors	No. of Meetings Attended	Total No. of Meetings	Percentage Rating
1. Teresita T. Sy	12	13	92.31
2. Roberto E. Lapid	11	13	84.62
3. Jesse H.T. Andres	10	13	76.92
4. Antonio N. Cotoco	11	13	84.62
5. Ma. Leonora V. De Jesus	13	13	100.00
6. Jeci A. Lapus	11	13	84.62
7. Luis S. Reyes Jr.	12	13	92.31
8. Nestor V. Tan	12	13	92.31
9. Jesus G. Tirona*	6	13	46.15
10. Exequiel P. Villacorta, Jr.	13	13	100.00
11. Walter C. Wassmer	11	13	84.62

\*On medical leave starting June 2016

## BOARD COMMITTEES

The Board has constituted 6 committees to support the effective performance of its functions, roles, and responsibilities. The composition, duties, and responsibilities of these committees are contained in their respective Terms of Reference that are published on our website. The composition and roles of these committees, including meetings, attendance, and significant matters taken up during 2016 by each committee, are shown as follows:

### Executive Committee

Chairperson: Nestor V. Tan  
Members: Antonio N. Cotoco, Roberto E. Lapid, Teresita T. Sy and Walter C. Wassmer

The Executive Committee acts as the main approving body for Company exposures, particularly the approval and confirmation of credit proposals, investment, and acquisitions and disposal of acquired assets and other projects or initiatives to enhance the Company's operating and service delivery capabilities.

In 2016, the Committee met 55 times. Mr. Nestor V. Tan attended 43 meetings, Ms. Teresita T. Sy 54 meetings, Mr. Antonio N. Cotoco 47 meetings, Mr. Walter C. Wassmer 51 meetings, and Mr. Roberto E. Lapid 45 meetings.

### **Audit Committee**

Chairperson: Ma. Leonora V. De Jesus  
(Independent Director)

Members: Atty. Jesse H.T. Andres  
(Independent Director) and Jesus G. Tirona  
(Independent Director)

The Audit Committee is responsible for assisting the Board in performing its oversight responsibilities in relation to financial reporting requirements, compliance with laws, regulations and internal policies, safeguarding of assets, the maintenance of an adequate, effective and efficient internal control system, and internal and external audit processes. The main areas of oversight of the Committee include the following:

#### *Financial Reporting*

- Monitors the Company's financial reporting process to ensure accurate and timely disclosures, with the highest levels of transparency, integrity, and quality of financial reporting in compliance with regulations and financial reporting standards.
- Reviews and approves the Interim and Annual Financial Statements before submission to the Board, focusing on clarity of disclosures on changes in accounting policies and practices, material areas with significant adjustments resulting from the audit, and compliance with accounting standards, tax, legal and regulatory requirements.

#### *Internal Audit and Controls*

- Reviews and evaluates the adequacy and effectiveness of internal control system, risk management systems, security of physical and information assets, approves the scope of the internal audit work, analysis of the main areas of risk and adequacy of resources and efficiency of the internal audit function.
- Reviews and approves the management's response on matters related to the report of examination by regulatory bodies and reports on actions taken or status of follow-up items.
- Reviews and monitors management's actions to the Internal Auditor's findings and recommendations.
- Ensures the independence of the Internal Auditors and their unrestricted access to all records, properties and personnel to enable them to perform their audit functions.
- Also, per BSP Manual of Regulations for Non-Banks Financial Institution, evaluates the performance of Internal Audit Group.

#### *External Audit Engagement and Reports*

- Recommends the appointment, re-appointment and removal of external auditors, remuneration, approval of terms of audit engagement and payment of fees for any other services rendered by the auditors.
- Approves the annual audit plan and reviews their reports of examination including that of wholly-owned subsidiaries focusing on significant findings with financial impact and their resolutions.

- Reviews and monitors management’s response to the audit findings and actions taken.
- Assesses the performance of the External Auditor.

#### *Others*

- Reviews operational cases and compliance with ethical rules.
- Investigates any matter or activity within its Terms of Reference.

In 2016, the Audit Committee in performing its oversight responsibilities set forth in its Terms of Reference accomplished the following:

#### *On financial reporting process*

- Extensively reviewed and discussed with Management, Internal Audit and External Audit the annual audited financial statements for the year ended December 31, 2015 including the internal controls on the financial reporting process ensuring compliance with accounting standards and tax regulations before endorsing the same to the Board of Directors.
- Reviewed and discussed with Management the quarterly unaudited financial statements and results of operations prior to endorsement to the Board of Directors for approval.

#### *On its oversight function over Internal Audit*

- Approved the Internal Audit’s annual plan after a thorough review of its scope, audit methodology, risk assessment and rating processes, financial budget, manpower resources, as well as changes to the plan during the year.

- Reviewed the Internal Audit Charter.
- Regularly received audit reports, reviewed and discussed high and moderate risk findings relating to operational, financial and compliance controls including risk management systems with impact to financials, reputation and information security.
- Invited key management officers to discuss high-risk issues and their action plans to resolve or mitigate the same. The Committee continued to keep track of the timely resolution of findings including updates on Information Technology’s security controls and action plans in further strengthening IT risk management.
- Assessed the performance of the Chief Internal Auditor and key Audit Officers.

#### *On its oversight function over External Audit*

- Approved and endorsed to the Board the re-appointment of the Company’s External Auditor.
- Discussed and reviewed with the External Auditor the content of the engagement letter including the audit plan consisting of, among others the scope of work, focus areas and audit approach, engagement team, fraud risk, deliverables and timetable as well as updates on new accounting standards and tax regulations prior to commencement of audit work.
- Discussed comprehensively the external audit reports, with focus on internal controls, risk management, governance and matters with financial impact.



- Reviewed the Management letter as well as Management's response and action taken on the external auditor's findings.
- Assessed the performance of Punongbayan & Araullo as the Company's External Auditor.

*On its oversight over the Compliance function*

- Reviewed and approved the annual plans and compliance roadmaps, enhanced manuals and independent testing frameworks of the Compliance and Anti-Money Laundering (AML) Units.
- Reviewed the results and monitored the progress of the Independent Compliance and AML Testing.
- Consistently monitored the timely submission of regulatory requirements, compliance to mandatory ratios as well as continuous improvement of the Company's Compliance and AML system.
- Discussed in detail the BSP Report of Examination (ROE) as of September 2015 and reviewed Management's reply to the findings, observations and recommendations making sure that committed actions are implemented.

Reports on cases in operations as well as non-loan related cases with impact to financials, information systems, and reputation were discussed and reviewed. Highlighted in these discussions were the risk assessment, legal handling, and root cause analyses, aimed at determining the control weaknesses as well as providing solutions thereto.

As part of the Board's continuing education program, the BAC members attended the Corporate Governance Briefing on Cybersecurity on September 14, 2016.

The Audit Committee conducted its yearly self-assessment, enabling the Committee to gauge its own performance in the year 2016 in relation to its Terms of Reference, which was also reviewed. The BAC, likewise evaluated the performance of the Internal Audit, the Compliance and Anti-Money Laundering Units, and External Audit.

Through its tracking mechanism, the Committee constantly reviewed and monitored Management's corrective action on internal control weaknesses, compliance issues, and major risk areas cited by BSP, Internal Audit, External Audit, Compliance and AML Units, and other regulatory bodies.

The Board Audit Committee reports its evaluation of the effectiveness of the internal controls, financial reporting process, risk management systems and governance processes of the Bank based on information obtained from the External Auditor, the reasonable assurance provided by the Internal Auditor, and additional reports and information requested from Senior Management, and found that these are generally adequate across BDOLF.

The Committee held 12 meetings in 2016 with Ms. Ma. Leonora V. De Jesus and Atty. Jesse H.T. Andres attending all meetings while Mr. Jesus G. Tirona attended all 4 meetings prior to his medical leave which began in June 2016.

### **Corporate Governance Committee**

Chairperson: Jesus G. Tirona  
(Independent Director)

Members: Atty. Jesse H.T. Andres  
(Independent Director) and  
Ma. Leonora V. De Jesus  
(Independent Director)

The function of the Corporate Governance Committee is to assist the Board in fulfilling its responsibilities for corporate governance. Its role includes ensuring the compliance of corporate governance principles and practices of the Company; monitoring corporate governance new regulations and recommending appropriate changes; reviewing and reporting to the Board on corporate governance regulatory or compliance issues; reviewing and recommending to the Board on best practices to be adopted as applicable particularly those enunciated in the ASEAN Corporate Governance Scorecard; and, reviewing periodically the succession plan and disclosure of corporate governance policies and information in the Company's website.

The Committee plans, proposes, and oversees the relevant trainings for the continuing education program of directors and conducts the annual performance evaluation of the

Board, committees, directors and senior management. It provides an assessment of the outcome and reports to the Board the final results of the evaluation including recommendations for improvement and areas to focus to enhance effectiveness.

During the year, it recommended the revision of the Corporate Governance Manual on the term limit of the Independent Directors; Policy on Related Party Transactions and Terms of Reference of the Related Party Transactions Committee to conform with the requirements of BSP Circular No. 895; and Whistle Blower Policy to include the reporting process for issues or concerns involving the President, other Executive Directors and Related Party Transactions. It continued to engage the regulators on the proposed new regulations on corporate governance by giving feedback on its possible impact to the Company.

It conducted the corporate governance seminar on Cybersecurity for the continuing education of directors and key officers; the annual performance evaluation of the Board, committees, directors, and executive management, then submitted the report to the Board with comparative results for the last 3 years; monitored the submission of regulatory corporate governance reports and the publication and updating of corporate governance policies and continuous disclosures on the Company's website to promote transparency and effective communication to shareholders, investors, media, analysts, industry participants, regulators and the general public.

The Committee met 4 times in 2016 with Atty. Jesse H.T. Andres and Ms. Ma. Leonora V. De Jesus attending all meetings. Mr. Jesus G. Tirona attended all 2 meetings prior to his medical leave which began in June 2016.

### ***Risk Management Committee***

Chairperson: Nestor V. Tan  
Members: Atty. Jesse H.T. Andres  
(Independent Director) and  
Antonio N. Cotoco

The Risk Management Committee is responsible for the oversight of the Company's Enterprise Risk Management system to ensure its effectiveness. It develops the Company's risk plan and policies, designs and implements the appropriate risk management 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 over-all risk appetite levels and tolerance limits, 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 and Management's activities in managing credit, liquidity, market, operational, legal and

other risk exposures. It is also responsible for the continuing assessment of the relevance, comprehensiveness and effectiveness of the risk management plan, and revises it when needed including how the business and operating units are addressing and managing these risks. The Committee also reviews risk reports that control and monitor risk exposures and limits.

During the year, the Committee conducted regular discussions of the Company's exposures to credit risks, market and liquidity risks, and operational risks, including risk mitigation strategies, where necessary and applicable; large exposures and concentration, asset quality, results of credit stress tests and its impact on capital adequacy; liquidity gaps and results of liquidity stress tests; Earnings-at-Risk (EAR), operational risk profile of the Company, significant operational losses and impact on capital adequacy, results of Business Continuity Plan (BCP) testing and any information security incidents; approved the results of the annual review of the Company's risk management policies and limits.

The Committee met 4 times in 2016. Mr. Nestor V. Tan and Atty. Jesse H.T. Andres attended all meetings and Mr. Antonio N. Cotoco attended 3 meetings.

### ***Nominations Committee***

Chairperson: Atty. Jesse H.T. Andres  
(Independent Director)  
Members: Antonio N. Cotoco and  
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, taking into account the experience, expertise, knowledge, and skills of candidates and 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. In 2016, it also reviews all nominations for the appointment, re-appointment, election or re-election of Directors of the Company, members of the various committees and corporate officers, considering their performance, commitment, and ability to contribute to the Board, and makes recommendations to the Board on appointment of new Directors, when necessary.

The Committee held one meeting in 2016 with all the members in attendance.

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

Chairperson: Atty. Jesse H.T. Andres  
(Independent Director)  
Members: Ma. Leonora V. De Jesus  
(Independent Director), Jeci A. Lapus  
(Non-Executive Director) and Jesus G. Tirona  
(Alternate member/Independent Director)

The Related Party Transactions Committee assists the Board in its oversight of the conduct of all Related Party Transactions (RPTs) to protect the interest of the Company and its stakeholders. It ensures proper disclosure of all approved RPTs in accordance with applicable legal and regulatory requirements and confirmation by majority vote on the Annual Stockholders' Meeting the Company's significant transactions with related parties.

In 2016, the Committee reviewed and endorsed for approval of the Board of Directors the Revised Related Party Transactions Policy to comply with BSP Circular Nos. 895 and 914. After reviewing and finding that significant Related Party Transactions of DOSRI, subsidiaries/affiliates and other related parties were conducted at arm's length basis, and in the ordinary course of business, the terms and conditions of the transactions were not more favorable than similar transactions with non-related parties, the Committee endorsed the same to the Board for approval. The Committee also reviewed and revised its Terms of Reference for approval of the Board to align with recent regulatory requirements.

The Committee met 5 times in 2016. Atty. Jesse H.T. Andres and Ms. Ma. Leonora V. De Jesus attended all meetings, Mr. Jeci A. Lapus was present in 4 meetings, and Mr. Jesus G. Tirona, who availed of medical leave starting June 2016, attended twice.

## COMPLIANCE WITH SEC CODE OF CORPORATE GOVERNANCE

Throughout the year, the Company has fully complied with all the provisions of the Revised Code of Corporate Governance of 2009. The Company has applied the principles of the Code to its corporate governance structure and practices across the Company and its subsidiary. The Corporate Governance Manual approved by the Board of Directors is continually being updated to comply with the latest issuance of regulatory authorities and improved to incorporate international best practices, where appropriate. It is our essential reference point to principled actions in discharging our responsibilities and in fulfilling our obligations to stockholders and other stakeholders which include, among others, customers, employees, suppliers, service providers, creditors, government and community in which the Company operates. The Manual, in conjunction with the Company's Articles of Incorporation, By-Laws and the charters of the Board Committees, constitutes the governance framework of the Company.

## A NEW REGIME ON CORPORATE GOVERNANCE

The Securities and Exchange Commission has implemented the principles-based Code of Corporate Governance for Publicly-Listed Companies effective January 1, 2017, which is intended to raise the corporate governance standards of Philippine corporations to a level at par with its regional and global counterparts. The Code will adopt the "comply or explain" approach that will allow flexibility and address specific concerns of the companies. It combines voluntary compliance with mandatory disclosure.

As a leading practitioner of good corporate governance in the Philippines, our goal is to apply the main principles and comply with the provisions of the SEC Code of Corporate Governance for Publicly-Listed Companies to the extent possible and appropriate to our business. As the new regime in corporate governance ushers change for the better, we believe that it will be positive for our business and will open new opportunities for the Company to achieve greater heights in pursuing its objectives and maintaining its top position in the financial services industry.

# BOARD OF DIRECTORS



**TERESITA T. SY**  
Chairperson  
Filipino, 66 years old

Teresita T. Sy was elected to the Board of Directors of BDO Leasing and Finance, Inc. (PLC) on September 20, 2005, and she currently serves as Chairperson of the Board. Ms. Sy is also the Chairperson of the Board of Directors of BDO Unibank, Inc. (PLC), where she was first elected a member in 1997. Concurrently, she serves as Chairperson and/or Director of the following subsidiaries and affiliates of BDO: BDO Private Bank, Inc., BDO Capital & Investment Corporation, BDO Foundation, Inc., BDO Life Assurance Holdings Corporation (formerly Generali Pilipinas Holding Company, Inc.), and BDO Life Assurance Company, Inc. (formerly Generali Pilipinas Life Assurance Company, Inc.). Ms. Sy also serves as Adviser to the Board of Directors of One Network Bank, Inc. (A Rural Bank).

Ms. Sy is the Vice Chairperson of SM Investments Corporation (PLC) and Adviser to the Board of SM Prime Holdings, Inc. (PLC). She also sits as Chairperson and/or Director of the following companies: Multi Realty Development Corporation, Belleshare Holdings, Inc. (formerly SM Commercial Properties, Inc.), SM Mart, Inc., SM Retail, Inc., and First Asia Realty Development Corp. A graduate of Assumption College, Ms. Sy brings to the board her diverse expertise in banking and finance, retail merchandising, and mall and real estate development.





**ROBERTO E. LAPID**  
Vice Chairman and President  
Filipino, 60 years old

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



## NESTOR V. TAN

Director

Filipino, 58 years old

Nestor V. Tan was elected to the Board of Directors of BDO Leasing and Finance, Inc. (PLC) on January 23, 2007, and is the Chairman of the Company's Risk Management Committee. Mr. Tan, the President and Chief Executive Officer of BDO Unibank, Inc. (PLC), also concurrently holds vice chairmanships and/or directorships in the following subsidiaries of BDO Unibank, Inc.: BDO Capital & Investment Corporation, BDO Insurance Brokers, Inc., BDO Life Assurance Holdings Corp. (formerly Generali Pilipinas Holding Company), BDO Life Assurance Company, Inc. (formerly Generali Pilipinas Life Assurance Company, Inc.), BDO Private Bank, Inc., BDO Remit (USA), Inc., and SM Keppel Land, Inc. He also concurrently holds the Chairmanship of BDO Strategic Holdings Inc., One Network Bank, Inc. (A Rural Bank), BancNet, Philippine Dealings System Holding Corp. and RBB Micro Finance Foundation. He is a Trustee of BDO Foundation, Inc., the De La Salle University Board of Advisors, and the Asian Institute of Management. At present, he is the Director of the Asian School of Business & Technology, and serves as President and Director of the Bankers Association of the Philippines.

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



## ANTONIO N. COTOCO

Director

Filipino, 68 years old

Antonio N. Cotoco was elected to the Board of Directors of BDO Leasing and Finance, Inc. (PLC) on January 25, 2001. He is a Senior Executive Vice President of BDO Unibank, Inc. and a member of its Board Credit Committee. Mr. Cotoco is Chairman of BDO Rental, Inc., and he also sits on the boards of directors of BDO Insurance Brokers, Inc., BDO Remit Limited, Express Padala (Hong Kong) Limited, BDO Remit (Macau) Ltd., and BDO Remit (USA), Inc. Currently, he also serves as a Director of OAC Realty & Development Corporation. For the past 37 years, Mr. Cotoco has been involved in investment banking, corporate finance, treasury, consumer banking, credit, business development, and account management. Mr. Cotoco holds a master's degree in Business Administration from the University of the Philippines.



### EXEQUIEL P. VILLACORTA, JR.

Non-Executive Director  
Filipino, 71 Years Old

Exequiel P. Villacorta, Jr. was elected to the Board of Directors of BDO Leasing and Finance, Inc. (PLC) on May 24, 2006. He is concurrently a Director of Premium Leisure Corp. (PLC) and Philab Holdings, Inc. (formerly Alterra Capital Partners) (PLC), and previously a Director of Equitable PCI Bank, Inc. (2005-2006), EBC Insurance Brokerage, Inc., and Maxicare Healthcare Corporation. Mr. Villacorta was also the Chairman of EBC Strategic Holdings Corporation, EBC Investments, Inc., Jardine Equitable Finance Corporation, Strategic Property Holdings, Inc., PCIB Properties, Inc., Equitable Data Center, Inc. and PCI Automation Center, Inc. He was previously President and CEO of Banco De Oro Universal Bank and TA Bank of the Philippines, and was Vice President of Private Development Corporation of the Philippines. He was Senior Adviser and BSP Controller of Equitable PCI Bank, Inc. and PBCom, and Adviser to the Board of PCI Capital Corporation.



### JECI A. LAPUS

Non-Executive Director  
Filipino, 63 years old

Jeci A. Lapus was elected to the Board of Directors of BDO Leasing and Finance, Inc. (PLC) on April 23, 2014 and is presently a member of the Company's Related Party Transactions Committee. From 2005 to 2006, he was an Independent Director of PCI Leasing and Finance, Inc. (now BDO Leasing and Finance, Inc.). He was formerly a Director of PNOC-Exploration Corp.; President of TODO Foundation, Inc.; and Vice President & OIC – Finance Administration of the National Agri-Business Corporation. Mr. Lapus was a member of the House of Representatives, representing the third district of Tarlac, from 2007 to 2013, and he also served as a Reserved Officer with a rank of Lieutenant Colonel in the Philippine Air Force. Mr. Lapus holds a Bachelor of Science degree in Civil Engineering from the Mapua Institute of Technology and passed the CE Board in 1975.



### LUIS S. REYES JR.

Director and Treasurer  
Filipino, 59 years old

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



### WALTER C. WASSMER

Director  
Filipino, 59 years old

Walter C. Wassmer was elected to the Board of Directors of BDO Leasing and Finance, Inc. (PLC) on November 17, 1999. He is a Senior Executive Vice President of BDO Unibank, Inc. (PLC) and heads its Institutional Banking Group. Previously, Mr. Wassmer was the Chairman and Officer-In-Charge of BDO Elite Savings Bank, Inc., formerly GE Money Bank, Inc. (A Savings Bank), Inc., and held directorships in MDB Land, Inc., Mabuhay Vinyl Corporation, and Banco De Oro Savings Bank, Inc. (formerly Citibank Savings, Inc.).





## MA. LEONORA V. DE JESUS

Independent Director  
Filipino, 66 years old

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





### JESUS G. TIRONA

Independent Director  
Filipino, 75 years old

Jesus G. Tirona was elected to the Board of Directors of BDO Leasing and Finance, Inc. (PLC) on July 30, 2007. He is presently the Chairman of the Company's Corporate Governance Committee, a member of its Board Audit Committee, and an alternate member of its Related Party Transactions Committee. He is an Independent Director of BDO Capital & Investment Corporation and Armstrong Securities, Inc. Mr. Tirona was formerly Director of American Express Bank Philippines (A Savings Bank, Inc.), EBC Investments, Inc., and Banco De Oro Savings Bank, Inc. (formerly Citibank Savings, Inc.). He was also a former Trustee of the BDO Foundation, Inc., and President and CEO of LGU Guarantee Corporation (a private sector-led credit guarantee institution jointly owned by the BAP, the DBP, and the ADB mandated to provide credit-worthy LGUs and the utilities sector access to the capital markets through LGUGC-enhanced local debt instruments). He was also Managing Director and CEO of the Guarantee Fund for SMEs and the BAP Credit Guaranty Corporation — entities both promoting SME development. Mr. Tirona has extensive experience in banking and finance, having built a career with Citibank as well as with other large domestic financial institutions. He is a scholar of the Asian Productivity Organization in Corporate Social Responsibility and is a Fellow of the Institute of Corporate Directors.



**ATTY. JESSE H.T. ANDRES**

Independent Director  
Filipino, 52 years old

Jesse H.T. Andres was elected to the Board of Directors of BDO Leasing and Finance, Inc. (PLC) on September 20, 2005. He is presently the Chairman of the Nomination Committee and the Related Party Transactions Committee, and a member of the Company's Board Audit Committee, Corporate Governance Committee, and Risk Management Committee. Moreover, he also serves as Independent Director of MMPC Auto Financial Services, Inc. In September 2004, he was appointed member of the Board of Trustees of the Government Service Insurance System (GSIS), where he also served as the Chairman of the Corporate Governance Committee. He was also Chairman of the Board of GSIS Family Bank from June 2007 to October 2010. Since July 1, 2011, he has been the Managing Partner at Andres Padernal & Paras Law Offices. From 1996 to 2003, he was a Partner at PECABAR Law Offices, where he became Co-Head of its Litigation Department in 2001. Previously, he was Senior Manager of the Philippine Exporters' Foundation and Board Secretary of the Department of Trade and Industry's Garments and Textiles Export Board (GTEB). Atty. Andres holds a Bachelor of Arts degree in Economics from the School of Economics, University of the Philippines and a Bachelor of Laws degree from the College of Law, University of the Philippines.



**ATTY. JOSEPH JASON  
M. NATIVIDAD**

Corporate Secretary  
Filipino, 44 years old

Joseph Jason M. Natividad was appointed Corporate Secretary of BDO Leasing and Finance, Inc. (PLC) on May 31, 2010. He is also the Assistant Corporate Secretary of BDO Capital & Investment Corporation, BDO Securities Corporation, and BDO Insurance Brokers, Inc. He served as Assistant Corporate Secretary of Equitable PCI Bank from September 2006 to June 2007, prior to its merger with Banco de Oro. He serves as the Corporate Secretary of BDO Rental, Inc. and Agility Group of Companies in the Philippines. Atty. Natividad is currently a member of the Factoran & Associates Law Offices. He has been in law practice for 17 years, largely in the fields of corporation law and environmental law. He holds a bachelor's degree in Management, major in Legal Management, from the Ateneo de Manila University, and obtained his Juris Doctor degree from the Ateneo de Manila University School of Law.



**ATTY. EDMUNDO L. TAN**

Adviser to the Board

INDUSTRY  
LEADING,  
NATION  
BUILDING



# FINANCIAL STATEMENTS

# STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **BDO Leasing and Finance, Inc. and Subsidiary** (the Group) is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2016, 2015 and 2014, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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



**TERESITA T. SY**  
Chairperson



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



**ROSALISA B. KAPUNO**  
Comptroller

Signed this 22nd day of February 2017.  
SUBSCRIBED and SWORN to me before this 23rd day of February,  
2017 affiant exhibiting to me his/her Social Security Number, as follows:

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

KIM BRIGUERA-DACARA  
Appointment No. 0204  
Notary Public for the City of Mandaluyong  
Until 31 December 2017  
29th Flr., BDO Center Ortigas  
18 ADB Ave., Mandaluyong City  
PTR No. 3019082 1.3.2017; Mandaluyong  
IBP Lifetime Roll No. 1010007



# REPORT OF INDEPENDENT AUDITORS

**THE BOARD OF DIRECTORS AND THE STOCKHOLDERS  
BDO LEASING AND FINANCE, INC.  
(A SUBSIDIARY OF BDO UNIBANK, INC.)**

39TH FLOOR BDO CORPORATE CENTER ORTIGAS  
12 ADB AVENUE, ORTIGAS CENTER, MANDALUYONG CITY

## **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

### *Opinion*

We have audited the accompanying financial statements of BDO Leasing and Finance, Inc. and subsidiary (the Group) and of BDO Leasing and Finance, Inc. (the Parent Company) which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2016, and a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of BDO Leasing and Finance, Inc. and subsidiary (Consolidated) and of BDO Leasing and Finance, Inc. (Separate) as at December 31, 2016 and 2015, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2016 in accordance with Philippine Financial Reporting Standards (PFRS).

### *Basis for Opinion*

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

## **Key Audit Matters**

In relation to the unqualified opinion that we rendered, under new auditing standards, particularly PSA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, a discussion on the key audit matters is required to be presented specifically for all publicly-listed entities. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### **I. Key Audit Matters Applicable to the Group and the Parent Company's Financial Statements**

#### **(a) Net Valuation of Loans and Other Receivables**

##### *Description of the Matter*

The net valuation of loans and other receivables is considered to be a matter of significance as it requires the application of judgment and use of subjective assumptions by management. Under the guidelines of Philippine Accounting Standard (PAS) 39, *Financial Instruments: Recognition and Measurement*, the Group evaluates the amount of allowance for impairment based on 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 or current effective interest rate determined under the contract if the loan has a variable interest rate. In addition, the Group considers the general and specific loan loss provisioning on loans and other receivables in accordance with the regulatory guidelines set out by the Bangko Sentral ng Pilipinas (BSP).

The Group's gross loan portfolio is comprised of different loan products that required different approaches by the management in the assessment of specific allowance. In conducting the loan loss assessment, the management monitors the borrowers' repayment abilities individually based on their knowledge to determine the required amount of allowance for impairment.

As of December 31, 2016, the Group and the Parent Company had loans and other receivables amounting to P31,381.3 million and P31,541.6 million, respectively, which contributed to 81% and 86% of the Group and the Parent Company's total resources, respectively. The disclosures of the Group and the Parent Company on the allowance for impairment of loans and the related credit risk are included in Notes 9 and 5 to the financial statements, respectively.

*How the Matter was Addressed in the Audit*

Our audit procedures to address the risk of material misstatement relating to the adequacy of allowance for impairment of loans and other receivables, which was considered to be a significant risk, included:

- testing of controls over procedures which include credit approval and credit limit, loan classification based on credit ratings, recording and calculating the allowance for impairment;
- obtaining an understanding of the Group and the Parent Company's credit policy and loan loss methodology;
- checking and evaluating the methodologies, inputs and assumptions used by the Group and the Parent Company in performing individual impairment assessment in accordance with PAS 39;
- assessing the borrowers' repayment abilities by examining payment history for selected performing loan accounts; and,
- evaluating the management's forecast of recoverable cash flows, valuation of collaterals, estimates of recovery from other sources of collection on selected non-performing loans.

***(b) Distinguishing Operating and Finance Lease Contracts****Description of the Matter*

The appropriate accounting treatment for lease contracts is considered as a key audit matter as it requires the application of judgment by the management. 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 as well as the related income or expenses.

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

- there is transfer of ownership by the end of the lease term;
- lessee has the option to purchase the asset;
- the lease term is for the major part of the economic life of the underlying asset even if title is not transferred;

- at the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset; and,
- the underlying asset is of such a specialized nature that only the lessee can use it without major modifications.

In 2016, the total income related to lease contracts entered into by the Group and the Parent Company amounted to P1,760.7 million and P1,760.4 million, respectively, from interest income for finance lease contracts and P890.2 million rent income by the Group for operating lease contracts. Revenue recognition policy is disclosed in Note 2.16 to the financial statements and the adequacy of the analysis of segment revenues is disclosed in Note 4 to the financial statements.

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

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

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

#### *Description of the Matter*

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

As of December 31, 2016, the Group's investment properties, and property and equipment amounted to P426.5 million and P2,381.2 million, respectively, while the Parent Company's investment properties, and property and equipment amounted to P200.4 million and P6.3 million, respectively. The Group's financial statement disclosures of the appropriate valuation of investment properties, and property and equipment are included in Notes 11 and 10, respectively, to the financial statements.

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

We checked the impairment testing done by the Group on the investment properties, and property and equipment to determine that the investment properties, and property and equipment are carried at its recoverable amount. We assessed the appropriateness of the assumptions used in the estimation of fair values reflected in the appraisal reports. We also examined relevant documents to support the cash flow assumptions made by the Group. In addition, we performed recomputation of net realizable values of the investment properties, and property and equipment based on the discounted cash flow model.

## **II. Key Audit Matter Applicable to the Parent Company's Financial Statements**

### ***Accounting for Investments in a Subsidiary and an Associate***

#### *Description of the Matter*

Effective January 1, 2016, PAS 27 (Amendments), *Separate Financial Statements – Equity Method in Separate Financial Statements*, provide a third option which permits an entity to account for its investment in subsidiaries, associates and joint ventures under equity method in its separate financial statements in addition to the current option of accounting those investments at cost or at fair value in accordance with PAS 39. Accordingly, the Parent Company changed its accounting policy in accounting for its investments in a subsidiary and an associate from cost method to equity method in its separate financial statements in accordance with PAS 27. This is also in compliance with the mandatory requirement of BSP, through its Circular No. 915, *Amendments on the Accounting Guidelines for Prudential Reporting*, for banks and non-bank financial institutions to measure its equity investments using equity method in its separate financial statements.

The change in its accounting policy required the Parent Company to restate its comparative financial statements for December 31, 2015 and the corresponding figures as of January 1, 2015 to reflect the retrospective effects of the use of equity method in measuring its investments in a subsidiary and an associate. The adjustments made were significant to the Parent Company's financial statements; therefore, we identified the effects of these amendments to PAS 27 and compliance with BSP Circular No. 915 as a significant matter to our audit.

The disclosures of the Parent Company on the retrospective effects of the use of equity method in measuring its investments in a subsidiary and an associate, and the carrying amounts of the investments in a subsidiary and an associate are included in Notes 2 and 12 to the financial statements, respectively.

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

Our audit procedures to address the risk of material misstatement arising from the change in the Parent Company's policy in accounting for its investments in a subsidiary and an associate included, among others, the following:

- obtaining latest financial information of the subsidiary and associate that were used by the Parent Company in measuring its equity investments; and,
- testing the calculations made in arriving at the retrospective adjustments of the Parent Company.

#### **Other Information**

Management is responsible for the other information. The other information comprises the information included in the Group's Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement) and SEC Form 17-A, both of which, do not include the financial statements and our auditors' report thereon and Annual Report for the year ended December 31, 2016. The SEC Form 20-IS, SEC Form 17-A and Annual Report for the year ended December 31, 2016 are expected to be made available to us after the date of this auditors' report.

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

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



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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As discussed in Note 21 to the financial statements, the Parent Company presented the supplementary information required by the Bureau of Internal Revenue in a supplemental schedule filed separately from the basic financial statements. Such supplementary information is the responsibility of the management. The supplementary information, however, is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards and this is also not a required disclosure under the Securities Regulation Code Rule 68 of the SEC.

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

## PUNONGBAYAN & ARAULLO



**BY: ROMUALDO V. MURCIA III**

Partner

CPA Reg. No. 0095626  
 TIN 906-174-059  
 PTR No. 5908631, January 3, 2017, Makati City  
 SEC Group A Accreditation  
 Partner - No. 0628-AR-3 (until Nov. 29, 2019)  
 Firm - No. 0002-FR-4 (until Apr. 30, 2018)  
 BIR AN 08-002511-22-2016 (until Oct. 3, 2019)  
 Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)  
 February 22, 2017

# STATEMENTS OF FINANCIAL POSITION

## BDO LEASING AND FINANCE, INC. AND SUBSIDIARY (A SUBSIDIARY OF BDO UNIBANK, INC.)

DECEMBER 31, 2016 AND 2015

(WITH CORRESPONDING FIGURES AS OF JANUARY 1, 2015)

(AMOUNTS IN MILLIONS OF PHILIPPINE PESOS)

		Group		Parent Company		
	Notes	2016	2015	2016	December 31, 2015 (As Restated - see Note 2)	January 1, 2015 (As Restated - see Note 2)
<b><u>ASSETS</u></b>						
CASH AND CASH EQUIVALENTS	7	P 370.5	P 332.3	P 293.2	P 301.6	P 360.3
AVAILABLE-FOR-SALE FINANCIAL ASSETS	8	3,521.6	3,540.2	3,521.6	3,540.2	2,373.3
LOANS AND OTHER RECEIVABLES - Net	9	31,381.3	27,463.3	31,541.6	27,459.7	23,672.5
PROPERTY AND EQUIPMENT - Net	10	2,381.2	2,221.7	6.3	9.2	4.3
INVESTMENT PROPERTIES - Net	11	426.5	438.1	200.4	212.0	320.6
OTHER ASSETS - Net	12, 21	819.3	522.0	1,082.5	875.5	739.9
<b>TOTAL ASSETS</b>		<b>P 38,900.4</b>	<b>P 34,517.6</b>	<b>P 36,645.6</b>	<b>P 32,398.2</b>	<b>P 27,470.9</b>
<b><u>LIABILITIES AND EQUITY</u></b>						
BILLS PAYABLE	13	P 27,268.1	P 23,889.6	P 25,312.1	P 21,919.0	P 17,993.0
ACCOUNTS PAYABLE AND OTHER LIABILITIES	14	651.9	368.9	412.7	276.7	266.8
INCOME TAX PAYABLE		50.1	46.6	50.1	46.6	36.4
LEASE DEPOSITS	15	5,580.8	4,982.6	5,521.2	4,926.0	4,148.9
DEFERRED TAX LIABILITIES - Net	21	-	7.2	-	7.2	40.0
<b>Total Liabilities</b>		<b>33,550.9</b>	<b>29,294.9</b>	<b>31,296.1</b>	<b>27,175.5</b>	<b>22,485.1</b>
CAPITAL STOCK	16	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
TREASURY SHARES		( 81.8)	( 81.8)	( 81.8)	( 81.8)	( 81.8)
RETAINED EARNINGS	2	2,480.5	2,343.0	2,480.5	2,343.0	2,165.8
NET ACCUMULATED ACTUARIAL LOSSES	2	( 42.8)	( 36.2)	( 42.8)	( 36.2)	( 35.1)
UNREALIZED FAIR VALUE GAINS ON AVAILABLE-FOR-SALE FINANCIAL ASSETS		197.3	201.4	197.3	201.4	140.6
<b>Total Equity</b>		<b>5,349.5</b>	<b>5,222.7</b>	<b>5,349.5</b>	<b>5,222.7</b>	<b>4,985.8</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>P 38,900.4</b>	<b>P 34,517.6</b>	<b>P 36,645.6</b>	<b>P 32,398.2</b>	<b>P 27,470.9</b>

See Notes to Financial Statements.

# STATEMENTS OF INCOME

## BDO LEASING AND FINANCE, INC. AND SUBSIDIARY (A SUBSIDIARY OF BDO UNIBANK, INC.)

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014  
(AMOUNTS IN MILLIONS OF PHILIPPINE PESOS, EXCEPT PER SHARE DATA)

	Notes	Group			Parent Company		
		2016	2015	2014	2016	2015 (As Restated - see Note 2)	2014 (As Restated - see Note 2)
<b>REVENUES</b>							
Interest and discounts	9, 19	P 1,760.7	P 1,571.6	P 1,450.9	P 1,760.4	P 1,571.4	P 1,450.7
Rent	18	890.2	807.1	613.1	-	-	-
Other income - net	17	203.4	227.5	209.6	268.5	284.4	268.2
		<b>2,854.3</b>	2,606.2	2,273.6	<b>2,028.9</b>	1,855.8	1,718.9
<b>OPERATING COSTS AND EXPENSES</b>							
Occupancy and equipment-related expenses	10, 11, 12	775.2	702.5	534.3	58.9	53.6	56.0
Interest and financing charges	13	673.5	570.8	467.9	617.7	519.1	431.1
Taxes and licenses	21	245.5	198.6	179.3	227.5	185.1	170.4
Employee benefits	19	220.7	187.9	161.4	220.7	187.9	161.4
Impairment and credit losses	9, 11, 12	50.0	83.4	100.0	50.0	83.3	100.0
Litigation/assets acquired expenses		30.0	30.2	24.9	29.9	30.2	24.6
Other expenses	20	108.7	107.4	91.7	108.4	106.4	91.9
		<b>2,103.6</b>	1,880.8	1,559.5	<b>1,313.1</b>	1,165.6	1,035.4
<b>PROFIT BEFORE TAX</b>		<b>750.7</b>	725.4	714.1	<b>715.8</b>	690.2	683.5
<b>TAX EXPENSE</b>	21	<b>180.7</b>	169.8	210.1	<b>145.8</b>	134.6	179.5
<b>NET PROFIT</b>		<b>P 570.0</b>	P 555.6	P 504.0	<b>P 570.0</b>	P 555.6	P 504.0
<b>Basic/Diluted Earnings Per Share</b>	22	<b>P 0.26</b>	P 0.26	P 0.23	<b>P 0.26</b>	P 0.26	P 0.23

See Notes to Financial Statements.

# STATEMENTS OF COMPREHENSIVE INCOME

## BDO LEASING AND FINANCE, INC. AND SUBSIDIARY (A SUBSIDIARY OF BDO UNIBANK, INC.)

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014  
(AMOUNTS IN MILLIONS OF PHILIPPINE PESOS)

	Notes	Group			Parent Company		
		2016	2015	2014	2016	2015 (As Restated - see Note 2)	2014 (As Restated - see Note 2)
<b>NET PROFIT</b>		<b>P 570.0</b>	P 555.6	P 504.0	<b>P 570.0</b>	P 555.6	P 504.0
<b>OTHER COMPREHENSIVE INCOME</b>							
<b>Item that will not be reclassified subsequently to profit or loss</b>							
Remeasurements of post-employment defined benefit plan	19	( 9.5)	( 1.6)	9.7	( 9.5)	( 1.6)	9.7
Tax income (expense)	21	2.9	0.5	( 2.9)	2.9	0.5	( 2.9)
		( 6.6)	( 1.1)	6.8	( 6.6)	( 1.1)	6.8
<b>Item that will be reclassified subsequently to profit or loss</b>							
Fair valuation of available-for-sale (AFS) financial assets							
Fair value gains (losses) during the year	8	( 4.0)	61.3	28.5	( 4.0)	61.3	28.5
Fair value loss on disposed AFS financial assets reclassified to profit or loss		( 0.7)	-	-	( 0.7)	-	-
		( 4.7)	61.3	28.5	( 4.7)	61.3	28.5
Tax income (expense)	21	0.6	( 0.5)	( 0.1)	0.6	( 0.5)	( 0.1)
		( 4.1)	60.8	28.4	( 4.1)	60.8	28.4
<b>Other Comprehensive Income - net of tax</b>		<b>( 10.7)</b>	59.7	35.2	<b>( 10.7)</b>	59.7	35.2
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>P 559.3</b>	P 615.3	P 539.2	<b>P 559.3</b>	P 615.3	P 539.2

See Notes to Financial Statements.

# STATEMENTS OF CHANGES IN EQUITY

## BDO LEASING AND FINANCE, INC. AND SUBSIDIARY (A SUBSIDIARY OF BDO UNIBANK, INC.)

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014  
(AMOUNTS IN MILLIONS OF PHILIPPINE PESOS)

	Group							Net Equity
	Note	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	
Balance at January 1, 2016		P 2,225.2	P 571.1	(P 81.8)	P 2,343.0	(P 36.2)	P 201.4	P 5,222.7
Total comprehensive income (loss)		-	-	-	570.0	( 6.6)	( 4.1)	559.3
Cash dividends	16	-	-	-	( 432.5)	-	-	( 432.5)
Balance at December 31, 2016		<b><u>P 2,225.2</u></b>	<b><u>P 571.1</u></b>	<b><u>(P 81.8)</u></b>	<b><u>P 2,480.5</u></b>	<b><u>(P 42.8)</u></b>	<b><u>P 197.3</u></b>	<b><u>P 5,349.5</u></b>
Balance at January 1, 2015		P 2,225.2	P 571.1	(P 81.8)	P 2,165.8	(P 35.1)	P 140.6	P 4,985.8
Total comprehensive income (loss)		-	-	-	555.6	( 1.1)	60.8	615.3
Cash dividends	16	-	-	-	( 378.4)	-	-	( 378.4)
Balance at December 31, 2015		<u>P 2,225.2</u>	<u>P 571.1</u>	<u>(P 81.8)</u>	<u>P 2,343.0</u>	<u>(P 36.2)</u>	<u>P 201.4</u>	<u>P 5,222.7</u>
Balance at January 1, 2014		P 2,225.2	P 571.1	(P 81.8)	P 1,986.2	(P 41.9)	P 112.2	P 4,771.0
Total comprehensive income		-	-	-	504.0	6.8	28.4	539.2
Cash dividends	16	-	-	-	( 324.4)	-	-	( 324.4)
Balance at December 31, 2014		<u>P 2,225.2</u>	<u>P 571.1</u>	<u>(P 81.8)</u>	<u>P 2,165.8</u>	<u>(P 35.1)</u>	<u>P 140.6</u>	<u>P 4,985.8</u>

See Notes to Financial Statements.



# STATEMENTS OF CHANGES IN EQUITY

## BDO LEASING AND FINANCE, INC. AND SUBSIDIARY (A SUBSIDIARY OF BDO UNIBANK, INC.)

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014  
(AMOUNTS IN MILLIONS OF PHILIPPINE PESOS)

		Parent Company						
Note	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, 2016								
	P 2,225.2	P 571.1	(P 81.8)	P 1,983.3	(P 36.2)	P 201.4	P 4,863.0	
	-	-	-	359.7	-	-	359.7	
2	2,225.2	571.1	( 81.8)	2,343.0	( 36.2)	201.4	5,222.7	
Total comprehensive income (loss)								
	-	-	-	570.0	( 6.6)	( 4.1)	559.3	
16	-	-	-	( 432.5)	-	-	( 432.5)	
Balance at December 31, 2016								
	<b><u>P 2,225.2</u></b>	<b><u>P 571.1</u></b>	<b><u>(P 81.8)</u></b>	<b><u>P 2,480.5</u></b>	<b><u>(P 42.8)</u></b>	<b><u>P 197.3</u></b>	<b><u>P 5,349.5</u></b>	
Balance at January 1, 2015								
	P 2,225.2	P 571.1	(P 81.8)	P 1,903.7	(P 35.1)	P 140.6	P 4,723.7	
	-	-	-	262.1	-	-	262.1	
2	2,225.2	571.1	( 81.8)	2,165.8	( 35.1)	140.6	4,985.8	
Total comprehensive income (loss)								
	-	-	-	555.6	( 1.1)	60.8	615.3	
16	-	-	-	( 378.4)	-	-	( 378.4)	
Balance at December 31, 2015								
	<b><u>P 2,225.2</u></b>	<b><u>P 571.1</u></b>	<b><u>(P 81.8)</u></b>	<b><u>P 2,343.0</u></b>	<b><u>(P 36.2)</u></b>	<b><u>P 201.4</u></b>	<b><u>P 5,222.7</u></b>	
Balance at January 1, 2014								
	P 2,225.2	P 571.1	(P 81.8)	P 1,751.8	(P 41.9)	P 112.2	P 4,536.6	
	-	-	-	234.4	-	-	234.4	
2	2,225.2	571.1	( 81.8)	1,986.2	( 41.9)	112.2	4,771.0	
Total comprehensive income								
	-	-	-	504.0	6.8	28.4	539.2	
16	-	-	-	( 324.4)	-	-	( 324.4)	
Balance at December 31, 2014								
	<b><u>P 2,225.2</u></b>	<b><u>P 571.1</u></b>	<b><u>(P 81.8)</u></b>	<b><u>P 2,165.8</u></b>	<b><u>(P 35.1)</u></b>	<b><u>P 140.6</u></b>	<b><u>P 4,985.8</u></b>	

See Notes to Financial Statements.

# STATEMENTS OF CASH FLOWS

## BDO LEASING AND FINANCE, INC. AND SUBSIDIARY (A SUBSIDIARY OF BDO UNIBANK, INC.)

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014  
(AMOUNTS IN MILLIONS OF PHILIPPINE PESOS)

	Notes	Group			Parent Company		
		2016	2015	2014	2016	2015 (As Restated - see Note 2)	2014 (As Restated - see Note 2)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Profit before tax		<b>P 750.7</b>	P 725.4	P 714.1	<b>P 715.8</b>	P 690.2	P 683.5
Adjustments for:							
Interest received		<b>1,763.0</b>	1,591.5	1,424.4	<b>1,762.7</b>	1,591.4	1,425.4
Interest and discounts	9	<b>(1,760.7)</b>	( 1,571.6)	(1,450.9)	<b>( 1,760.4)</b>	( 1,571.4)	( 1,450.7)
Depreciation and amortization	10, 11, 12	<b>738.0</b>	669.8	500.8	<b>22.9</b>	22.4	23.1
Interest and financing charges paid		<b>( 674.8)</b>	( 555.0)	( 472.7)	<b>( 619.0)</b>	( 503.3)	( 435.1)
Interest and financing charges	13	<b>673.5</b>	570.8	467.9	<b>617.7</b>	519.1	431.1
Dividend income	8, 17	<b>( 150.3)</b>	( 154.3)	( 155.2)	<b>( 150.3)</b>	( 154.3)	( 155.2)
Impairment and credit losses	9, 11, 12	<b>50.0</b>	83.4	100.0	<b>50.0</b>	83.3	100.0
Gain on sale of property and equipment and investment properties	17	<b>( 20.2)</b>	( 16.9)	( 25.7)	<b>( 9.5)</b>	( 6.4)	( 19.4)
Equity share in net earnings of a subsidiary and an associate	12	<b>19.9</b>	-	-	<b>( 81.3)</b>	( 97.6)	( 70.9)
Day-one gain - net		<b>( 2.5)</b>	( 18.4)	( 1.1)	<b>( 0.1)</b>	( 0.6)	( 0.1)
Gain on sale of available-for-sale (AFS) financial assets	8	<b>( 1.5)</b>	( 4.6)	-	<b>( 1.5)</b>	( 4.6)	-
Reversal of impairment losses	11	<b>-</b>	( 3.0)	-	<b>-</b>	( 3.0)	-
Operating profit before changes in operating assets and liabilities		<b>1,385.1</b>	1,317.1	1,106.1	<b>547.0</b>	565.2	531.7
Increase in loans and other receivables		<b>(3,951.2)</b>	(3,925.7)	(2,775.6)	<b>( 3,879.2)</b>	( 3,924.4)	( 2,776.9)
Increase in other assets		<b>( 354.8)</b>	( 113.0)	( 179.2)	<b>( 74.6)</b>	( 39.1)	( 70.3)
Increase in accounts payable and other liabilities		<b>280.5</b>	28.2	82.8	<b>136.0</b>	14.8	69.7
Increase in lease deposits		<b>599.9</b>	802.2	374.7	<b>594.6</b>	772.9	372.3
Cash used in operations		<b>( 2,040.5)</b>	( 1,891.2)	( 1,391.2)	<b>( 2,676.2)</b>	( 2,610.6)	( 1,873.5)
Cash paid for income taxes		<b>( 159.2)</b>	( 127.3)	( 117.4)	<b>( 159.2)</b>	( 127.3)	( 117.4)
Net Cash Used in Operating Activities		<b>(2,199.7)</b>	( 2,018.5)	(1,508.6)	<b>( 2,835.4)</b>	( 2,737.9)	( 1,990.9)

See Notes to Financial Statements.

# STATEMENTS OF CASH FLOWS

## BDO LEASING AND FINANCE, INC. AND SUBSIDIARY (A SUBSIDIARY OF BDO UNIBANK, INC.)

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014  
(AMOUNTS IN MILLIONS OF PHILIPPINE PESOS)

	Notes	Group			Parent Company		
		2016	2015	2014	2016	2015 (As Restated - see Note 2)	2014 (As Restated - see Note 2)
<b>BALANCE FORWARDED - NET CASH USED IN OPERATING ACTIVITIES</b>		<b>(2,199.7)</b>	(2,018.5)	(1,508.6)	<b>(2,835.4)</b>	(2,737.9)	(1,990.9)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Acquisition of property and equipment	10	( 937.0)	( 922.6)	( 1,178.3)	( 2.0)	( 14.7)	( 1.8)
Receipt of cash dividends	8	126.6	154.6	180.0	126.6	183.0	195.4
Proceeds from disposal of property and equipment and investment properties	10, 11	82.4	187.1	150.5	20.6	128.3	37.0
Proceeds from disposal of AFS financial assets	8	15.4	48.5	-	15.4	48.5	-
Acquisition of AFS financial assets	8	-	( 1,137.2)	( 250.0)	-	( 1,137.2)	( 250.0)
Addition in investment properties	11	-	( 227.3)	( 5.0)	3.7	( 1.2)	( 5.0)
Acquisition of equity investments	12	-	-	-	( 300.0)	( 46.9)	-
Net Cash Used in Investing Activities		<b>( 712.6)</b>	(1,896.9)	( 1,102.8)	<b>( 135.7)</b>	( 840.2)	( 24.4)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>							
Net availments of bills payable	13	3,383.0	4,208.4	3,215.5	3,395.2	3,897.8	2,483.4
Payments of cash dividends	16	( 432.5)	( 378.4)	( 324.4)	( 432.5)	( 378.4)	( 324.4)
Redemption of preferred shares		-	-	-	-	-	87.5
Net Cash From Financing Activities		<b>2,950.5</b>	3,830.0	2,891.1	<b>2,962.7</b>	3,519.4	2,246.5
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>38.2</b>	( 85.4)	279.7	<b>( 8.4)</b>	( 58.7)	231.2
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>332.3</b>	417.7	138.0	<b>301.6</b>	P 360.3	129.1
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	7	<b>P 370.5</b>	P 332.3	P 417.7	<b>P 293.2</b>	P 301.6	P 360.3

See Notes to Financial Statements.

# NOTES TO FINANCIAL STATEMENTS

## **BDO LEASING AND FINANCE, INC. AND SUBSIDIARY (A SUBSIDIARY OF BDO UNIBANK, INC.)**

### NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016, 2015 AND 2014

(AMOUNTS IN MILLIONS OF PHILIPPINE PESOS, EXCEPT PER SHARE DATA,  
EXCHANGE RATES AND 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 (PSE) on January 6, 1997. The Parent Company operates as a leasing and financing entity which provides direct leases, sale and leaseback arrangements and real estate leases. Financing products include amortized commercial and consumer loans, installment paper purchases, floor stock financing, receivables discounting, and factoring.

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

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

The Parent Company's principal office is located at 39<sup>th</sup> Floor, BDO Corporate Center Ortigas, 12 ADB Avenue, Ortigas Center, Mandaluyong City. As of December 31, 2016, BDO Leasing has five branches located in the cities of Cebu, Davao, Cagayan de Oro and Iloilo and in the province of Pampanga. The registered address of BDO Unibank is located at BDO Corporate Center, 7899 Makati Avenue, Makati City.

### ***1.02 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, 2016 (including the comparative financial statements as of December 31, 2015 and for the years ended December 31, 2015 and 2014 and the corresponding figures for the Parent Company's financial statements as of January 1, 2015) were authorized for issue by the Parent Company's Board of Directors (BOD) on February 22, 2017.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. 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, and approved by the Philippine Board of Accountancy.

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

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

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Group presents the statement of comprehensive income separate from the statement 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 Parent Company made adjustments to its separate financial statements as of December 31, 2015 and for the years ended December 31, 2015 and 2014, and the corresponding figures as of January 1, 2015 as a result of the change in accounting for its investment in a subsidiary and an associate from cost method to equity method. This is in line with the adoption of PAS 27 (Amendments), *Separate Financial Statements – Equity Method in Separate Financial Statements*, effective January 1, 2016, wherein it provides a third option permitting an entity to account for its investment in subsidiaries, associates and joint ventures under equity method in its separate financial statements in addition to the current option of accounting those investments at cost or at fair value in accordance with PAS 39, *Financial Instruments – Recognition and Measurement*.

While the amendment indicates that it is an option, the Bangko Sentral ng Pilipinas (BSP), through its Circular No. 915, *Amendments on the Accounting Guidelines for Prudential Reporting*, made it a mandatory requirement for banks and non-bank financial institutions to measure such investments using equity method in the Parent Company's financial statements. As a result, the 2015 comparative financial statements and the January 1, 2015 corresponding figures contained in the Parent Company's financial statements differ from those previously presented in the Parent Company's financial statements for the years ended December 31, 2015 and 2014 as shown in the reconciliations that follow:

	December 31, 2015					
	As Previously Reported		Effect of Adoption of Equity Method		As Restated	
<i>Changes in statement of financial position</i>						
Assets -						
Other Assets	P	515.8	P	<u>359.7</u>	P	875.5
Equity -						
Retained earnings	P	1,983.3	P	<u>359.7</u>	P	2,343.0
<i>Changes in statement of income and other comprehensive income</i>						
Revenues -						
Other income	P	186.8	P	<u>97.6</u>	P	284.4
Net impact on net profit			P	<u>97.6</u>		

	January 1, 2015		
	As Previously Reported	Effects of Adoption of Equity Method	As Restated
<i>Changes in statement of financial position</i>			
Assets -			
Other Assets	P 477.8	P <u>262.1</u>	P 739.9
Equity -			
Retained earnings	P 1,903.7	P <u>262.1</u>	P 2,165.8
<i>Changes in statement of income and other comprehensive income</i>			
Revenues -			
Other income	P 240.5	P <u>27.7</u>	P 268.2
Net impact on net profit		P <u>27.7</u>	

The restatement for the adoption of equity method of accounting did not have a material impact on the Parent Company's statements of cash flows for the years ended December 31, 2015 and 2014.

*(c) Functional and Presentation Currency*

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

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



## 2.02 Adoption of New and Amended PFRS

(a) Effective in 2016 that are Relevant to the Group

The Group adopted for the first time the following amendment and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2016:

PAS 1 (Amendments):	Presentation of Financial Statements – Disclosure Initiative
PAS 16 and 38 (Amendments):	Property, Plant and Equipment, and Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization
PAS 16 and 41 (Amendments):	Property, Plant and Equipment, and Agriculture – Bearer Plants
PAS 27 (Amendments):	Separate Financial Statements – Equity Method in Separate Financial Statements
PFRS 10, PFRS 12 and PAS 28 (Amendments):	Consolidated Financial Statements, Disclosure of Interests in Other Entities, and Investments in Associates and Joint Ventures – Investment Entities – Applying the Consolidation Exception
Annual Improvements:	Annual Improvements to PFRS (2012-2014 Cycle)

Discussed below are the relevant information about these amendments and improvements.

(i) PAS 1 (Amendments), *Presentation of Financial Statements – Disclosure Initiative*. The amendments encourage entities to apply professional judgment in presenting and disclosing information in the financial statements. Accordingly, they clarify that materiality applies to the whole financial statements and an entity shall not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. Moreover, the amendments clarify that an entity's share in other comprehensive income of associates and joint ventures accounted for using equity method should be presented based on whether or not such other comprehensive income item will subsequently be reclassified to profit or loss. They further clarify that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the financial statements.

(ii) PAS 16 (Amendments), *Property, Plant and Equipment*, and PAS 38 (Amendments), *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization*. The amendments in PAS 16 clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. In addition, amendments to PAS 38 introduce a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is not appropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of an intangible asset are highly correlated. The amendments also provide guidance that the expected future reductions in the selling price of an item that was produced using the asset could indicate an expectation of technological or commercial obsolescence of an asset, which may reflect a reduction of the future economic benefits embodied in the asset.

(iii) PAS 16 (Amendments), *Property, Plant and Equipment*, and PAS 41 (Amendments), *Agriculture – Bearer Plants*. The amendments define a bearer plant as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales. On this basis, bearer plant is now included within the scope of PAS 16 rather than PAS 41, allowing such assets to be accounted for as property, plant and equipment and to be measured after initial recognition at cost or revaluation basis in accordance with PAS 16. The amendments further clarify that produce growing on bearer plants remains within the scope of PAS 41.

(iv) PAS 27 (Amendments), *Separate Financial Statements – Equity Method in Separate Financial Statements*. These amendments introduce a third option which permits an entity to account for its investments in subsidiaries, joint ventures and associates under the equity method in its separate financial statements in addition to the current options of accounting those investments at cost or in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*, or PFRS 9, *Financial Instruments*.

(v) PFRS 10 (Amendments), *Consolidated Financial Statements*, PFRS 12 (Amendments), *Disclosure of Interests in Other Entities*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Investment Entities – Applying the Consolidation Exception*. These amendments address the concerns that have arisen in the context of applying the consolidation exception for investment entities. They clarify which subsidiaries of an investment entity are consolidated in accordance with paragraph 32 of PFRS 10 and clarify whether the exemption to present consolidated financial statements, set out in paragraph 4 of PFRS 10, is available to a parent entity that is a subsidiary of an investment entity. These amendments also permit a non-investment entity investor, when applying the equity method of accounting for an associate or joint venture that is an investment entity, to retain the fair value measurement applied by that investment entity associate or joint venture to its interests in subsidiaries.

(vi) Annual Improvements to PFRS (2012-2014 Cycle). Among the improvements, the following amendments are relevant to the Group but had no material impact on the Group's financial statements as these amendments merely clarify the existing requirements:

- PAS 19 (Amendments), *Employee Benefits – Discount Rate: Regional Market Issue*. The amendments clarify that the currency and term of the high quality corporate bonds which were used to determine the discount rate for post-employment benefit obligations shall be made consistent with the currency and estimated term of the post-employment benefit obligations.
- PFRS 5 (Amendments), *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*. The amendments clarify that when an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution (or vice-versa), the accounting guidance in paragraphs 27-29 of PFRS 5 does not apply. They also state that when an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that the distribution is no longer highly probable, it should cease held-for-distribution accounting and apply the guidance in paragraphs 27-29 of PFRS 5.
- PFRS 7 (Amendments), *Financial Instruments: Disclosures – Servicing Contracts*. The amendments provide additional guidance to help entities identify the circumstances under which a contract to “service” financial assets is considered to be a continuing involvement in those assets for the purposes of applying the disclosure requirements of PFRS 7. Such circumstances commonly arise when, for example, the servicing is dependent on the amount or timing of cash flows collected from the transferred asset or when a fixed fee is not paid in full due to non-performance of that asset.
- PFRS 7 (Amendments), *Financial Instruments: Disclosures – Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*. These amendments clarify that the additional disclosure required by the recent amendments to PFRS 7 related to offsetting financial assets and financial liabilities is not specifically required for all interim periods. However, the additional disclosure is required to be given in condensed interim financial statements that are prepared in accordance with PAS 34, *Interim Financial Reporting*, when its inclusion would be necessary in order to meet the general principles of PAS 34.

*(b) Effective in 2016 that are not Relevant to the Group*

The following new PFRS, amendments and annual improvements to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2016 but are not relevant to the Group's financial statements:

PFRS 11 (Amendments):	Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations
PFRS 14:	Regulatory Deferral Accounts
Annual Improvements to PFRS (2012-2014 Cycle)	
PAS 34 (Amendments):	Interim Financial Reporting – Disclosure of Information “Elsewhere in the Interim Financial Report”

*(c) Effective Subsequent to 2016 but not Adopted Early*

There are new PFRS and amendments to existing standards effective for annual periods subsequent to 2016, which are adopted by the FRSC. Management will adopt the relevant pronouncements presented in the succeeding pages in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Group's financial statements.

(i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative* (effective from January 1, 2017). The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). They require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, they suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: (a) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and, (b) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

(ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses* (effective from January 1, 2017). The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference.

(iii) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will replace PAS 39 and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;
- an expected loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,
- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) 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 arrangements, 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 amendment also 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 than in profit or loss.

The Group is currently assessing the impact of PFRS 9 (2014) on the financial statements to determine whether the effect is significant or not on the financial statements and is conducting a comprehensive study of the potential impact of this standard on the financial statements and operations of the Group prior to the mandatory adoption date.

(iv) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*.

For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right of use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similarly to a purchased asset and depreciated or amortized. The lease liability is accounted for similarly to as financial liability using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

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

The Group is currently assessing the impact of this new standard in its financial statements.

(v) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate

or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale or contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

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

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

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

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

A subsidiary is an entity (including structured entities) over which the Parent Company has control. The Parent Company controls an entity when (i) it has the power over the entity; (ii) it is exposed, or has rights to, variable returns from its involvement with the entity; and, (iii) it has the ability to affect those returns through its power over the entity. A subsidiary is consolidated from the date the Parent Company obtains control.

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

The acquisition method is applied to account for acquired subsidiaries. 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 to the former owners of the acquiree and the equity interests issued by the Group, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.



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.

*(b) Investment in an Associate*

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

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

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

Impairment loss is provided when there is objective evidence that the investment in an associate will not be recovered.

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

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

In the Parent Company's financial statements, the investments in a subsidiary and an associate (presented as Equity investments under Other Assets account in the statement of financial position) are initially carried at cost and adjusted thereafter for the post-acquisition change in the Parent Company's share of net assets of the investee, which includes the share of the profit or loss and other comprehensive income, if any, reduced by any distribution received from the investment [see Notes 2.01 and 12(a)]. However, when the Parent Company's share of losses in a subsidiary or an associate equals or exceeds its interest in the subsidiary or associate, including any other unsecured receivables, the Parent Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the subsidiary or associate. If the subsidiary or associate subsequently reports profits, the Parent Company resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

#### **2.04 Segment Reporting**

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

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

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

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

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

## 2.05 Financial Assets

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

### (a) Classification and Measurement of Financial Assets

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity 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 recorded at fair value and the related transaction costs are recognized in profit or loss. A more detailed description of the categories of financial assets that are relevant to the Group is as follows:

#### (i) Loans and 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.

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 with original maturities of three months or less, readily convertible to known amounts of cash.

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

#### (ii) AFS Financial Assets

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

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

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

*(b) 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.

*(i) 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 reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed. The amount of the reversal is recognized in profit or loss.

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

- (i) Clean loans and advances past due for a period of more than six months;
- (ii) 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;
- (iii) Past due loans secured by real estate mortgage the title to which is subject to an adverse claim rendering settlement through foreclosure doubtful;
- (iv) When the borrower, and his co-maker or guarantor, is insolvent or where their whereabouts is unknown, or their earning power is permanently impaired;
- (v) Accrued interest receivable that remains uncollected after six months from the maturity date of the loan to which it accrues; and,
- (vi) Accounts receivable past due for 361 days or more.

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

- (ii) 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 income.

*(c) Items of Income and Expense Related to Financial Assets*

All income and expenses relating to financial assets that are recognized in profit or loss are presented as part of Interest and Discounts under Revenues or Interest and Financing Charges under Operating Costs and Expenses in the statement of income. Impairment losses recognized on financial assets are included as part of Impairment and Credit Losses under Operating Costs and Expenses in the statement of income.

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.

*(d) Derecognition of Financial Assets*

The financial assets (or where applicable, a part of a financial asset or part of a group of 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. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

## **2.06 Property and Equipment**

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

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

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

Transportation and other equipment	3-5 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 2.18).

The residual values and estimated useful lives and method of depreciation 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.

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

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

Assets held-for-sale (presented under Other Assets) include chattel or personal properties acquired through repossession or foreclosure that the Group intends to sell and will be disposed of within one year from the date of classification as held-for-sale. For real and other properties acquired through foreclosure or repossession, the Group included in its criteria that there should be an existence of a buyer before a foreclosed or repossessed property can be classified as Non-current Asset Held for Sale (NCAHS) [see Note 3.01(d)].

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

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

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

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

### **2.08 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 from the end of the reporting period. 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 values of investment properties, as disclosed in Note 11, are based on valuations provided by independent and/or in-house appraisers, which are market value for land and building and related improvements and reproduction cost for certain building and improvements.

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

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

### **2.09 Other Assets**

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

Presented as part of other assets are intangible assets pertaining to acquired computer software licenses, which are capitalized on the basis of the costs incurred to acquire and install the specific software. Capitalized costs are amortized on a straight-line basis over the estimated useful life of five years as the lives of these intangible assets are considered finite. In addition, intangible assets are subject to impairment testing as described in Note 2.18. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred.

## **2.10 Financial Liabilities**

Financial liabilities, which include bills payable, accounts payable and other liabilities (except tax-related payables) 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 and short-term funding of operations. They are recognized at proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Accounts payable and other liabilities are initially recognized at their fair values and subsequently measured at amortized cost less settlement payments.

Lease deposits are initially recognized at fair value. The excess of the principal amount of the deposits over its present value at initial recognition is immediately recognized and is included as part of Day-one gains under Other Income account in the statement of income. Meanwhile, interest expense on the amortization of lease deposits using the effective interest method is included as part of Interest and Financing Charges under Operating Costs and Expenses in the statement of income.

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

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 Offsetting Financial Instruments**

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

## **2.12 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.

## **2.13 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. The residual value of leased assets is presented as part of Loans and Other Receivables account in the statement of financial position.

## **2.14 Equity**

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

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

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

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

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

Unrealized fair value gains on AFS financial assets pertain to cumulative mark-to-market valuation of AFS financial assets.

### **2.15 Revenue and Expense Recognition**

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

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* – 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.

The interest income on finance lease receivables 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.

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.

*(b) 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 (see Note 2.16).

*(c) 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 account in the statement of income.

*(d) Dividends* – Revenue is recognized when the Group's right to receive payment is established.

Operating costs and expenses are recognized in profit or loss upon utilization of the assets or services or at the date they are incurred. All finance costs are reported in profit or loss on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.20).

## **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.

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

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

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

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

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

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

## **2.19 Employee Benefits**

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

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

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

The liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using a discount rate derived from the interest rates of a zero-coupon government bond as published by Philippine Dealing & Exchange Corp. (PDEX) 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 interest and discounts or interest and financing charges.

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

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

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

*(c) Termination Benefits*

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

*(d) Compensated Absences*

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

#### *(e) Employee Stock Option Plan*

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

Liability recognized on the stock option plan for the amount charged by the BDO Unibank Group attributable to the qualified officers of the Group is included in Accrued taxes and other expenses under Accounts Payable and Other Liabilities account in the statement of financial position and the related expense is presented in Employee Benefits under Other Expenses in the statement of income (see Notes 14 and 19).

#### **2.20 Borrowing Costs**

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

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

#### **2.21 Income Taxes**

Tax expense recognized in profit or loss comprises 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.

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

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

## **2.22 Earnings Per Share**

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

## **2.23 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 preparation of the Group's financial statements in accordance with PFRS requires 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 lessor. 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) Impairment of AFS Financial Assets*

The determination when an investment is other-than-temporarily impaired 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 was recognized in 2016, 2015 and 2014 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 NCAHS if expected that the properties will be recovered through sale rather than use, and as Investment Properties if intended to be held for capital appreciation or for rental to others. At initial recognition, the Group determines the fair value of the acquired properties through internally or externally generated appraisal. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the properties.

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

*(e) Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.12 and disclosures on relevant provisions 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 reporting period:

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

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

The carrying amounts of property and equipment, investment properties computer software are presented in Notes 10, 11 and 12, respectively. Based on management's assessment as of December 31, 2016 and 2015, there is no change in estimated useful lives of property and equipment, investment properties and computer software during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

*(b) Impairment of Loans and Other Receivables*

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

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

*(c) Impairment of Non-Financial Assets*

The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.18. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

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

*(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 Group's financial instruments are disclosed in Notes 6 and 8.

*(e) Fair Value Measurement for Investment Properties*

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

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

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

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management has assessed that deferred tax assets recognized as at December 31, 2016 and 2015 may be recoverable.

Accordingly, in 2014, the Group fully 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 (netted against deferred tax liabilities) as of the end of 2016 and 2015 is disclosed in Note 21.

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

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

The amounts of retirement benefit obligation and expense and an analysis of the movements in the estimated present value of retirement benefit obligation, as well as significant assumptions used in estimating such obligation are presented in Note 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 five branches (see Note 1).

#### **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 bills payable and lease deposits. Segment assets and liabilities do not include deferred taxes.

#### **4.03 Intersegment Transactions**

Intersegment transactions in 2016 and 2015 pertain to rent income, management fee as well as dividends earned by the Parent Company from BDO Rental.

#### 4.04 Analysis of Segment Information

Segment information can be analyzed as follows:

	<u>Leasing</u>	<u>Financing</u>	<u>Others</u>	<u>Eliminations</u>	<u>Group</u>
<b>For the year ended December 31, 2016</b>					
<b>Statement of Income</b>					
Segment revenues					
External	P 1,720.3	P 914.3	P 219.7	P -	P 2,854.3
Inter-segment	-	-	60.7	( 60.7)	-
	<u>1,720.3</u>	<u>914.3</u>	<u>280.4</u>	<u>( 60.7)</u>	<u>2,854.3</u>
Segment expenses					
External	1,267.8	673.9	161.9	-	2,103.6
Inter-segment	-	-	0.7	( 0.7)	-
	<u>1,267.8</u>	<u>673.8</u>	<u>162.6</u>	<u>( 0.7)</u>	<u>2,103.6</u>
Segment results	<u>P 452.5</u>	<u>P 240.5</u>	<u>P 117.8</u>	<u>P 60.0</u>	750.7
Tax expense					( 180.7)
Net profit					<u><b>P 570.0</b></u>
<b>December 31, 2016</b>					
<b>Statement of Financial Position</b>					
Segment assets	<u>P 19,430.1</u>	<u>P 14,130.8</u>	<u>P -</u>	<u>P -</u>	P 33,560.9
Unallocated assets					5,339.5
Total assets					<u><b>P 38,900.4</b></u>
Segment liabilities	<u>P 17,798.5</u>	<u>P 15,050.3</u>	<u>P -</u>	<u>P -</u>	P 32,848.8
Unallocated liabilities					702.1
Total liabilities					<u><b>P 33,550.9</b></u>
Other segment information:					
Capital expenditures	<u>P 935.0</u>	<u>P -</u>	<u>P 2.0</u>	<u>P -</u>	P 937.0
Depreciation and amortization	<u>P 715.1</u>	<u>P -</u>	<u>P 22.9</u>	<u>P -</u>	P 738.0
Impairment losses	<u>P -</u>	<u>P -</u>	<u>P 50.0</u>	<u>P -</u>	P 50.0

	<u>Leasing</u>	<u>Financing</u>	<u>Others</u>	<u>Eliminations</u>	<u>Group</u>
<u>For the year ended December 31, 2015</u>					
Statement of Income					
Segment revenues					
External	P 1,605.6	P 765.3	P 235.3	P -	P 2,606.2
Inter-segment	<u>-</u>	<u>-</u>	<u>7.7</u>	<u>( 7.7)</u>	<u>-</u>
	<u>1,605.6</u>	<u>765.3</u>	<u>243.0</u>	<u>( 7.7)</u>	<u>2,606.2</u>
Segment expenses					
External	1,158.7	552.3	169.8	-	1,880.8
Inter-segment	<u>-</u>	<u>-</u>	<u>7.7</u>	<u>( 7.7)</u>	<u>-</u>
	<u>1,158.7</u>	<u>552.3</u>	<u>177.5</u>	<u>( 7.7)</u>	<u>1,880.8</u>
Segment results	<u>P 446.9</u>	<u>P 213.0</u>	<u>P 65.5</u>	<u>P -</u>	<u>725.4</u>
Tax expense					<u>( 169.8)</u>
Net profit					<u>P 555.6</u>
<u>December 31, 2015</u>					
Statement of Financial Position					
Segment assets	<u>P 17,860.1</u>	<u>P 11,635.2</u>	<u>P -</u>	<u>P -</u>	<u>P 29,495.3</u>
Unallocated assets					<u>5,022.3</u>
Total assets					<u>P 34,517.6</u>
Segment liabilities	<u>P 16,403.2</u>	<u>P 12,468.9</u>	<u>P -</u>	<u>P -</u>	<u>P 28,872.1</u>
Unallocated liabilities					<u>422.8</u>
Total liabilities					<u>P 29,294.9</u>
Other segment information:					
Capital expenditures	<u>P 907.9</u>	<u>P -</u>	<u>P 14.7</u>	<u>P -</u>	<u>P 922.6</u>
Depreciation and amortization	<u>P 647.4</u>	<u>P -</u>	<u>P 22.4</u>	<u>P -</u>	<u>P 669.8</u>
Impairment losses	<u>P -</u>	<u>P -</u>	<u>P 83.4</u>	<u>P -</u>	<u>P 83.4</u>

Segment expenses are allocated on the basis of gross income.

Net segment assets are comprised of the following:

	<b>2016</b>			
	<b>Leasing</b>		<b>Financing</b>	
Receivables	P	12,997.8	P	14,535.4
Residual value of leased assets		5,575.0		-
Unearned income	(	1,224.7)	(	39.8)
Client's equity		-	(	37.3)
		<u>17,348.1</u>		<u>14,458.3</u>
Equipment under lease		<u>2,375.0</u>		<u>-</u>
		19,723.1		14,458.3
Allowance for impairment	(	<u>292.9)</u>	(	<u>327.5)</u>
	<b>P</b>	<b><u>19,430.2</u></b>	<b>P</b>	<b><u>14,130.8</u></b>

	2015			
	Leasing		Financing	
Receivables	P	12,144.5	P	12,027.9
Residual value of leased assets		4,974.0		-
Unearned income	(	1,181.4)	(	67.9)
Client's equity		-	(	38.1)
		<u>15,937.1</u>		<u>11,921.9</u>
Equipment under lease		<u>2,212.5</u>		<u>-</u>
		18,149.6		11,921.9
Allowance for impairment	(	<u>289.5)</u>	(	<u>286.7)</u>
	<b>P</b>	<b><u>17,860.1</u></b>	<b>P</b>	<b><u>11,635.2</u></b>

The Group's bills payable, including payable to BDO Unibank, amounting to P27,268.1 and P23,889.6 as of December 31, 2016 and 2015, respectively, is allocated between the leasing and financing segments based on the carrying amounts of receivables of these segments. Deposits on lease amounting to P5,580.8 and P4,982.6 as of December 31, 2016 and 2015, respectively, are included in the leasing segment.

## 5. RISK MANAGEMENT

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

The Group is exposed to a variety of financial 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 below and 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 financial liabilities translated into Philippine pesos at the closing rate at December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	<b>P 4.8</b>	P 10.7
Loans and other receivables	<b>399.1</b>	39.6
Bills payable	<b>( 380.2)</b>	( 22.6)
Lease deposits	<b>( 18.4)</b>	( 17.5)
	<b><u>P 5.3</u></b>	<u>P 10.2</u>

At December 31, 2016 and 2015, the currency exchange rates used to translate U.S. dollar denominated financial assets and financial liabilities to the Philippine pesos is approximately P49.8 and P47.1, 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 +/-15.1% change and +/-11.0% change of the Philippine peso/U.S. dollar exchange rate at December 31, 2016 and 2015, respectively. These percentages have been determined based on the average market volatility in exchange rates in the previous 12 months at a 99% confidence level. The sensitivity analysis is based on the Group's foreign currency financial instruments held at the end of each reporting period.

	2016				2015			
	Depreciation of Peso		Appreciation of Peso		Depreciation of Peso		Appreciation of Peso	
Profit before tax	P	0.8	(P	0.8)	P	1.1	(P	1.1)
Equity		0.6	(	0.6)		0.8	(	0.8)

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

## 5.02 Interest Rate Risk

At December 31, 2016 and 2015, the Group is exposed to changes in market interest rates through its bills payable and a portion of BDO Leasing's loans and other receivables, which are subject to periodic interest rate repricing. All other financial assets and financial liabilities have fixed rates.

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

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

The table below and 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 +/-0.3% at December 31, 2016 and +/-0.3% at December 31, 2015 and variable rate loans and other

receivables of +/-0.8% at December 31, 2016 and +/-0.8% at December 31, 2015. These changes are considered to be reasonably possible based on observation of current market conditions for the past 12 months at a 99% confidence level. The calculations are based on the Group's and Parent Company's financial instruments held at the end of each reporting period. All other variables are held constant.

	2016	
	<u>Increase in Interest Rate</u>	<u>Decrease in Interest Rate</u>
Loans and other receivables	+0.8%	-0.8%
Bills payable	+0.3%	-0.3%
<b><u>Group/Parent Company</u></b>		
Increase (decrease) in:		
Profit before tax	P 0.9	(P 0.9)
Equity	0.6	( 0.6)

	2015	
	<u>Increase in Interest Rate</u>	<u>Decrease in Interest Rate</u>
Loans and other receivables	+0.8%	-0.8%
Bills payable	+0.3%	-0.3%
<b><u>Group</u></b>		
Increase (decrease) in:		
Profit before tax	P 0.8	(P 0.8)
Equity	0.6	( 0.6)

	2015	
	<u>Increase in Interest Rate</u>	<u>Decrease in Interest Rate</u>
<b><u>Parent Company</u></b>		
Increase (decrease) in:		
Profit before tax	P 0.1	(P 0.1)
Equity	-	-

### 5.03 Credit Risk

Credit risk is the risk that one party to a financial instrument may 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.

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

	2016			2015		
	Cash and Cash Equivalents	Loans and Other Receivables	AFS Financial Assets	Cash and Cash Equivalents	Loans and Other Receivables	AFS Financial Assets
<b>Group</b>						
Concentration by sector:						
Financial intermediaries	P 370.5	P 2,696.5	P -	P 332.3	P 1,391.6	P -
Manufacturing	-	4,753.4	-	-	3,929.4	-
Transportation, communication and energy	-	4,205.6	-	-	4,804.0	-
Wholesale and retail trade and personal activities	-	3,762.0	-	-	3,233.1	-
Real estate, renting and business activities	-	5,636.4	1,428.7	-	6,420.8	1,392.3
Agriculture, fishing and forestry	-	160.0	-	-	109.0	-
Other community, social and personal activities	-	10,167.4	-	-	7,575.4	-
	<b>P 370.5</b>	<b>P 31,381.3</b>	<b>P 1,428.7</b>	<b>P 332.3</b>	<b>P 27,463.3</b>	<b>P 1,392.3</b>



	2016			2015		
	Cash and Cash Equivalents	Loans and Other Receivables	AFS Financial Assets	Cash and Cash Equivalents	Loans and Other Receivables	AFS Financial Assets
<b>Parent Company</b>						
Concentration by sector:						
Financial intermediaries	P 293.2	P 2,696.5	P -	P 301.6	P 1,391.6	P -
Manufacturing	-	4,753.4	-	-	3,929.4	-
Transportation, communication and energy	-	4,205.6	-	-	4,804.0	-
Wholesale and retail trade and personal activities	-	3,762.0	-	-	3,233.1	-
Real estate, renting and business activities	-	5,636.4	1,428.7	-	6,420.8	1,392.3
Agriculture, fishing and forestry	-	160.0	-	-	109.0	-
Other community, social and personal activities	-	10,327.7	-	-	7,571.8	-
	<b>P 293.2</b>	<b>P 31,541.6</b>	<b>P 1,428.7</b>	<b>P 301.6</b>	<b>P 27,459.7</b>	<b>P 1,392.3</b>

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 upon 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, 2016 and 2015 for each internal risk grade and the related allowance for impairment for loans and other receivables:

	Group		Parent	
	2016	2015	2016	2015
<b>Carrying Amount</b>	<b>P 31,381.3</b>	P 27,463.3	<b>P 31,541.6</b>	P 27,459.7
<b>Individually impaired:</b>				
Grade C: LEM	<b>P 448.8</b>	P 85.1	<b>P 448.8</b>	P 85.1
Grade D: Substandard	<b>260.6</b>	205.2	<b>260.6</b>	205.2
Grade E: Doubtful	<b>148.4</b>	210.1	<b>148.4</b>	210.1
Grade F: Loss	<b>202.5</b>	144.3	<b>202.5</b>	144.3
Gross amount	<b>1,060.3</b>	644.7	<b>1,060.3</b>	644.7
<b>Collectively Impaired -</b>				
Unclassified	<b>4,601.8</b>	-	<b>4,762.1</b>	-
<b>Past due but not impaired:</b>				
Aging of past due				
Below 30 days	<b>3.7</b>	-	<b>3.7</b>	-
30-60 days	<b>3.0</b>	5.3	<b>3.0</b>	5.3
61-90 days	<b>2.5</b>	0.7	<b>2.5</b>	0.7
91-180 days	<b>10.8</b>	12.3	<b>10.8</b>	12.3
More than 180 days	-	70.2	-	70.2
Gross amount	<b>20.0</b>	88.5	<b>20.0</b>	88.5
<b>Neither past due nor impaired</b>				
Grade B: Watchlisted	<b>501.3</b>	-	<b>501.3</b>	-
Unclassified	<b>25,826.9</b>	27,310.2	<b>25,826.9</b>	27,306.6
Gross amount	<b>26,328.2</b>	27,310.2	<b>26,328.2</b>	27,306.6
Total gross amount	<b>32,010.3</b>	28,043.4	<b>32,170.6</b>	28,039.8
Allowance for impairment	<b>( 629.0)</b>	( 580.1)	<b>( 629.0)</b>	( 580.1)
Carrying amount	<b>P 31,381.3</b>	P 27,463.3	<b>P 31,541.6</b>	P 27,459.7

The credit risk for cash and cash equivalents and debt securities presented under AFS financial assets is considered negligible, since the counterparties are reputable institutions with high quality external credit ratings.

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.

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, 2016 and 2015 is shown below.

	<u>2016</u>		<u>2015</u>
Real property	<b>P 6,630.1</b>	P	6,276.1
Personal property	<b>42,676.6</b>		32,666.0
	<b>P 49,306.7</b>	P	38,942.1

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, 2016 and 2015 is shown below.

	<u>2016</u>		<u>2015</u>
Real property	<b>P 209.3</b>	P	29.7
Personal property	<b>4,622.7</b>		825.7
	<b>P 4,832.0</b>	P	855.4

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, 2016 and 2015.

#### **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). On December 8, 2012, the Group obtained its first license from the SEC to issue P15.0 billion STCPs. Also, in

2014, the Group was granted a license from SEC to issue additional P10.0 billion STCPs, thereby increasing the total STCP fund sourcing to P25.0 billion. The P25.0 billion STCP licenses have been renewed in 2015 and 2016.

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

Presented below and in the succeeding pages are the financial assets and financial liabilities as of December 31, 2016 and 2015 analyzed according to when these are expected to be recovered or settled.

	<b>One to Three Months</b>	<b>Three Months to One Year</b>	<b>One to Three Years</b>	<b>More than Three Years</b>	<b>Total</b>
<b>2016</b>					
<b>Group</b>					
Financial assets					
Cash and cash equivalents	P 370.5	P -	P -	P -	P 370.5
Available-for-sale financial assets	2,106.5	250.0	-	1,165.1	3,521.6
Loans and other receivables	3,960.0	7,544.8	12,883.6	6,992.9	31,381.3
	<b>P 6,437.0</b>	<b>P 7,794.8</b>	<b>P 12,883.6</b>	<b>P 8,158.0</b>	<b>P 35,273.4</b>
Financial liabilities					
Bills payable	P 25,147.1	P 1,618.2	P 502.8	P -	P 27,268.1
Accounts payable and other liabilities	572.4	-	-	-	572.4
Lease deposits	484.7	936.4	2,912.3	1,247.4	5,580.8
	<b>P 26,204.4</b>	<b>P 2,554.6</b>	<b>P 3,415.1</b>	<b>P 1,247.4</b>	<b>P 33,421.3</b>
<b>Parent Company</b>					
Financial assets					
Cash and cash equivalents	P 293.2	P -	P -	P -	P 293.2
Available-for-sale financial assets	2,106.5	250.0	-	1,165.1	3,521.6
Loans and other receivables	4,120.3	7,544.8	12,883.6	6,992.9	31,541.6
	<b>P 6,520.0</b>	<b>P 7,794.8</b>	<b>P 12,883.6</b>	<b>P 8,158.0</b>	<b>P 35,356.4</b>
Financial liabilities					
Bills payable	P 23,204.2	P 1,605.1	P 502.8	P -	P 25,312.1
Accounts payable and other liabilities	335.9	-	-	-	335.9
Lease deposits	476.0	926.9	2,889.0	1,229.3	5,521.2
	<b>P 24,016.1</b>	<b>P 2,532.0</b>	<b>P 3,391.8</b>	<b>P 1,229.3</b>	<b>P 31,169.2</b>

	One to Three Months	Three Months to One Year	One to Three Years	More than Three Years	Total
<u>2015</u>					
<u>Group</u>					
Financial assets					
Cash and cash equivalents	P 332.3	P -	P -	P -	P 332.3
Available-for-sale financial assets	2,161.6	-	248.8	1,129.8	3,540.2
Loans and other receivables	4,310.6	6,727.8	11,848.2	4,576.7	27,463.3
	<u>P 6,804.5</u>	<u>P 6,727.8</u>	<u>P 12,097.0</u>	<u>P 5,706.5</u>	<u>P 31,335.8</u>
Financial liabilities					
Bills payable	P 22,508.4	P 474.3	P 906.9	P -	P 23,889.6
Accounts payable and other liabilities	280.6	-	-	-	280.6
Lease deposits	419.4	983.6	2,562.5	1,017.1	4,982.6
	<u>P 23,208.4</u>	<u>P 1,457.9</u>	<u>P 3,469.4</u>	<u>P 1,017.1</u>	<u>P 29,152.8</u>
<u>Parent Company</u>					
Financial assets					
Cash and cash equivalents	P 301.6	P -	P -	P -	P 301.6
Available-for-sale financial assets	2,161.6	-	248.8	1,129.8	3,540.2
Loans and other receivables	4,306.9	6,727.8	11,848.2	4,576.8	27,459.7
	<u>P 6,770.1</u>	<u>P 6,727.8</u>	<u>P 12,097.0</u>	<u>P 5,706.6</u>	<u>P 31,301.5</u>
Financial liabilities					
Bills payable	P 20,550.9	P 461.2	P 906.9	P -	P 21,919.0
Accounts payable and other liabilities	189.3	-	-	-	189.3
Lease deposits	410.1	969.8	2,541.3	1,004.8	4,926.0
	<u>P 21,150.3</u>	<u>P 1,431.0</u>	<u>P 3,448.2</u>	<u>P 1,004.8</u>	<u>P 27,034.3</u>

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

### 5.05 Price Risk

The Group is exposed to the changes in the market values of AFS financial assets held as of December 31, 2016 and 2015. 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 +/-4.0% both in 2016 and 2015, then other comprehensive income would have increased/decreased by P132.9 in 2016 and by P141.7 in 2015. 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 FINANCIAL LIABILITIES

### 6.01 Carrying Amounts and Fair Values by Category

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

	2016			
	Group		Parent	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	P 370.5	P 370.5	P 293.2	P 293.2
Loans and other receivables	31,381.3	31,349.0	31,541.6	31,509.3
	<u>31,751.8</u>	<u>31,719.5</u>	<u>31,834.8</u>	<u>31,802.5</u>
AFS financial assets	<u>3,521.6</u>	<u>3,521.6</u>	<u>3,521.6</u>	<u>3,521.6</u>
	<u>P 35,273.4</u>	<u>P 35,241.1</u>	<u>P 35,356.4</u>	<u>P 35,324.1</u>
Financial Liabilities				
At amortized cost:				
Bills payable	P 27,268.1	P 27,149.9	P 25,312.1	P 25,203.9
Accounts payable and other liabilities	572.4	572.4	335.9	335.9
Lease deposits	<u>5,580.8</u>	<u>5,580.8</u>	<u>5,521.2</u>	<u>5,521.2</u>
	<u>P 33,421.3</u>	<u>P 33,303.1</u>	<u>P 31,169.2</u>	<u>P 31,061.0</u>



	2015			
	Group		Parent	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Loans and receivables:				
Cash and cash equivalents	P 332.3	P 332.3	P 301.6	P 301.6
Loans and other receivables	<u>27,463.3</u>	<u>27,421.1</u>	<u>27,459.7</u>	<u>27,417.5</u>
	27,795.6	27,753.4	27,761.3	27,719.1
AFS financial assets	<u>3,540.2</u>	<u>3,540.2</u>	<u>3,540.2</u>	<u>3,540.2</u>
	<u>P 31,335.8</u>	<u>P 31,293.6</u>	<u>P 31,301.5</u>	<u>P 31,259.3</u>
<b>Financial Liabilities</b>				
At amortized cost:				
Bills payable	P 23,889.6	P 23,779.7	P 21,919.0	P 21,818.4
Accounts payable and other liabilities	280.6	280.6	189.3	189.3
Lease deposits	<u>4,982.6</u>	<u>4,982.6</u>	<u>4,926.0</u>	<u>4,926.0</u>
	<u>P 29,152.8</u>	<u>P 29,042.9</u>	<u>P 27,034.3</u>	<u>P 26,933.7</u>

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

*(i) Cash and cash equivalents*

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

*(ii) AFS financial assets*

The fair value of available-for-sale financial assets 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 Measurement and Disclosures**

### **6.02.01 Fair Value Hierarchy**

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

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

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

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

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

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

**6.02.02 Financial Instrument Measured at Fair Value**

The table below shows the fair value hierarchy of the Group and Parent Company’s class of financial assets measured at fair value in the statements of financial position on a recurring basis as of December 31, 2016 and 2015.

	<u>Note</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>December 31, 2016</b>					
AFS financial assets:					
Equity securities - quoted	8	P 2,092.9	P -	P -	P 2,092.9
Debt securities		<u>1,428.7</u>	<u>-</u>	<u>-</u>	<u>1,428.7</u>
		<u>P 3,521.6</u>	<u>P -</u>	<u>P -</u>	<u>P 3,521.6</u>

	<u>Note</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2015</u>					
AFS financial assets:					
Equity securities - quoted	8	P 2,147.9	P -	P -	P 2,147.9
Debt securities		<u>1,392.3</u>	<u>-</u>	<u>-</u>	<u>1,392.3</u>
		<u>P 3,540.2</u>	<u>P -</u>	<u>P -</u>	<u>P 3,540.2</u>

The Group and the Parent Company has no financial liabilities measured at fair value as of December 31, 2016 and 2015.

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

### 6.02.03 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

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

<b>Group</b>	<u>Notes</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>December 31, 2016</b>					
<i>Financial assets:</i>					
Cash and cash equivalents	7	P 370.5	P -	P -	P 370.5
Loans and other receivables	9	-	-	31,349.0	31,349.0
		<u>P 370.5</u>	<u>P -</u>	<u>P 31,349.0</u>	<u>P 31,719.5</u>
<i>Financial liabilities:</i>					
Bills payable	13	P -	P -	P 27,149.9	P 27,149.9
Accounts payable and other liabilities	14	-	-	572.4	572.4
Lease deposits	15	-	-	5,580.8	5,580.8
		<u>P -</u>	<u>P -</u>	<u>P 33,303.1</u>	<u>P 33,303.1</u>
 <u>December 31, 2015</u>					
<i>Financial assets:</i>					
Cash and cash equivalents	7	P 332.3	P -	P -	P 332.3
Loans and other receivables	9	-	-	27,421.1	27,421.1
		<u>P 332.3</u>	<u>P -</u>	<u>P 27,421.1</u>	<u>P 27,753.4</u>
<i>Financial liabilities:</i>					
Bills payable	13	P -	P -	P 23,779.7	P 23,779.7
Accounts payable and other liabilities	14	-	-	280.6	280.6
Lease deposits	15	-	-	4,982.6	4,982.6
		<u>P -</u>	<u>P -</u>	<u>P 29,042.9</u>	<u>P 29,042.9</u>

	<u>Notes</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Parent Company</b>					
<b>December 31, 2016</b>					
<i>Financial assets:</i>					
Cash and cash equivalents	7	P 293.2	P -	P -	P 293.2
Loans and other receivables	9	-	-	31,509.3	31,509.3
		<u>P 293.2</u>	<u>P -</u>	<u>P 31,509.3</u>	<u>P 31,802.5</u>
<i>Financial liabilities:</i>					
Bills payable	13	P -	P -	P 25,203.9	P 25,203.9
Accounts payable and other liabilities	14	-	-	335.9	335.9
Lease deposits	15	-	-	5,521.2	5,521.2
		<u>P -</u>	<u>P -</u>	<u>P 31,061.0</u>	<u>P 31,061.0</u>
 <u>December 31, 2015</u>					
<i>Financial assets:</i>					
Cash and cash equivalents	7	P 301.6	P -	P -	P 301.6
Loans and other receivables	9	-	-	27,417.5	27,417.5
		<u>P 301.6</u>	<u>P -</u>	<u>P 27,417.5</u>	<u>P 27,719.1</u>
<i>Financial liabilities:</i>					
Bills payable	13	P -	P -	P 21,818.4	P 21,818.4
Accounts payable and other liabilities	14	-	-	189.3	189.3
Lease deposits	15	-	-	4,926.0	4,926.0
		<u>P -</u>	<u>P -</u>	<u>P 26,933.7</u>	<u>P 26,933.7</u>

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

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

(a) *Financial instruments in Level 1*

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. In 2015, the Group acquired fixed rate corporate bonds classified as AFS financial assets and are carried at Level 1. The fair value of the bonds is determined by direct reference to published prices in PDEX. As of December 31, 2016 and 2015, the Group also holds preferred shares which are listed in the PSE and are classified as AFS financial assets and are also carried at Level 1. The quoted market prices used by the Group are the closing share prices of the said preferred shares in the PSE as of the reporting period.

(b) *Financial instruments in Level 2*

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

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 discounted amount of estimated future cash flows expected to be received or paid, or based on their cost which management estimates to approximate their fair values.

#### 6.02.04 Fair Value Measurement for Non-Financial Assets

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Group</b>				
<b>2016</b>				
Land	P - P	- P	688.3 P	P 688.3
Building and improvements	-	-	46.6	46.6
	<u>P - P</u>	<u>- P</u>	<u>734.9 P</u>	<u>P 734.9</u>
<u>2015</u>				
Land	P - P	- P	652.7 P	P 652.7
Building and improvements	-	-	69.4	69.4
	<u>P - P</u>	<u>- P</u>	<u>722.1 P</u>	<u>P 722.1</u>

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Parent Company</b>				
<b>2016</b>				
Land	P	- P	- P	462.2 P
Building and improvements		-	-	46.6
	<u>P</u>	<u>- P</u>	<u>- P</u>	<u>508.8 P</u>
<b>2015</b>				
Land	P	- P	- P	450.2 P
Building and improvements		-	-	69.4
	<u>P</u>	<u>- P</u>	<u>- P</u>	<u>519.6 P</u>

The fair value of the investment properties of the Group and Parent Company as of December 31, 2016 and 2015, under Level 3 measurement, was determined on the basis of a valuation carried out on the respective dates by either an independent or internal appraiser having appropriate qualifications and recent experience in the valuation of properties in the relevant locations. To some extent, the valuation process was conducted by the appraisers in discussion with the management of the Group and the Parent Company with respect to determination of the inputs such as size, age, and condition of the land and buildings and the comparable prices in the corresponding property location. In estimating the fair value of the properties, management takes into account the market participant's ability to generate economic benefits by using the assets in its highest and best use. Based on management's assessment, the best use of the investment properties of the Group and the Parent Company indicated above is their current use. The fair value discussed above as determined by the appraisers were used by the Group and Parent Company in determining the fair value of discounted cash flows of the Investment Properties.

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

*(a) Fair Value Measurement for Land*

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

(b) Fair Value Measurement for Buildings and Improvements

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

There has been no change to the valuation techniques during the year for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2016 and 2015.

## 7. CASH AND CASH EQUIVALENTS

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

	<b>Group</b>		<b>Parent Company</b>	
	<b>2016</b>	2015	<b>2016</b>	2015
Cash on hand and in banks	<b>P 365.7</b>	P 323.8	<b>P 288.4</b>	P 293.1
Cash equivalents	<b>4.8</b>	8.5	<b>4.8</b>	8.5
	<b>P 370.5</b>	P 332.3	<b>P 293.2</b>	P 301.6

Cash in banks earn interest at rates based on daily bank deposit rates. Cash equivalents represent a special savings account and time deposit with average maturity of 35 to 90 days and annual interest rates ranging from 0.3% to 1.2% in 2016 and 0.3% to 1.5% in 2015.



## 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	<u>2016</u>		<u>2015</u>
San Miguel Corporation preferred shares (SMC Shares)	<b>P 1,232.1</b>	P	1,246.0
First Gen Corp. Series "F" preferred shares (First Gen Shares)	<b>680.0</b>		680.0
8990 Holdings Inc. fixed rate bonds (8990 Holdings Bonds)	<b>937.2</b>		937.2
Century Properties Group, Inc. fixed rate bonds (Century Bonds)	<b>250.0</b>		250.0
Sta. Lucia Land Inc. fixed rate bonds (Sta. Lucia Bonds)	<b>200.0</b>		200.0
Club shares and other equity investments	<b>0.8</b>		0.8
	<b>3,300.1</b>		3,314.0
Accumulated unrealized fair value gains	<b>207.8</b>		212.5
Accrued interest receivable	<b>13.7</b>		13.7
	<b>P 3,521.6</b>	P	<u>3,540.2</u>

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

	<u>2016</u>		<u>2015</u>
Balance at the beginning of year	<b>P 3,540.2</b>	P	2,373.3
Disposals	<b>( 13.9)</b>	(	43.9)
Fair value gains (losses) - net	<b>( 4.7)</b>	(	61.3
Additions	-		1,137.2
Accrued interest receivable	-		12.3
Balance at end of year	<b>P 3,521.6</b>	P	<u>3,540.2</u>

In July 2015, the Group acquired 8990 Holdings Bonds amounting to P937.2 carrying a fixed rate of 6.2% and a term of five years and three months. In December of the same year, the Group acquired Sta. Lucia Bonds amounting to P200.0 carrying a fixed rate of 6.7% and a term of five years and three months. There were no acquisitions in 2016.

The First Gen Shares carry a dividend rate of 8.0% per annum and are cumulative, non-voting, non-participating and non-convertible. SMC Shares also bear an annual dividend rate of 8.0%. Century Bonds carry a fixed rate of 6.0% per annum and a term of three years.

Club shares and other equity investments consist of golf and country club shares of stock.

Dividend income earned from AFS financial assets are recorded under Other Income account in the statements of income (see Note 17).

The Group and the Parent Company recognized fair value loss of P4.7 in 2016 and fair value gains of P61.3 and P28.5 in 2015 and 2014, respectively. Fair value gains/losses are recorded as part of items that will be reclassified subsequently to profit or loss in the statements of comprehensive income.

The fair values of AFS financial assets have been determined based on quoted prices in active markets (see Note 6).

The Group and the Parent Company recognized a gain on disposal of AFS financial assets amounting to P1.5 in 2016 and P4.6 in 2015 (nil in 2014), which is recorded as part of Miscellaneous under Other Income (see Note 17).

Certain AFS financial assets with face amount of P1,970.0 as of December 31, 2016 and 2015 were used as collateral to secure the payment of certain bills payable (see Note 13).

## 9. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	Group		Parent Company	
	2016	2015	2016	2015
Receivables from customers:				
Finance lease receivables	<b>P 12,997.8</b>	P 12,144.5	<b>P 12,997.8</b>	P 12,144.5
Residual value of leased assets	<b>5,575.0</b>	4,974.0	<b>5,575.0</b>	4,974.0
Unearned leased income	<b>( 1,224.7)</b>	( 1,181.4)	<b>( 1,224.7)</b>	( 1,181.4)
	<b>17,348.1</b>	15,937.1	<b>17,348.1</b>	15,937.1
Loans and receivables financed	<b>14,535.3</b>	12,027.9	<b>14,535.3</b>	12,027.9
Unearned finance income	<b>( 39.8)</b>	( 67.9)	<b>( 39.8)</b>	( 67.9)
Client's equity	<b>( 37.2)</b>	( 38.1)	<b>( 37.2)</b>	( 38.1)
	<b>14,458.3</b>	11,921.9	<b>14,458.3</b>	11,921.9
Other receivables:				
Accrued interest receivable	<b>91.1</b>	93.5	<b>91.1</b>	93.5
Dividends receivable	<b>50.0</b>	26.3	<b>110.0</b>	26.3
Accounts receivable	<b>29.2</b>	35.6	<b>138.5</b>	35.5
Sales contract receivable	<b>24.6</b>	25.5	<b>24.6</b>	25.5
Accrued rental receivable	<b>9.0</b>	3.5	-	-
	<b>203.9</b>	184.4	<b>364.2</b>	180.8
Total	<b>32,010.3</b>	28,043.4	<b>32,170.6</b>	28,039.8
Allowance for impairment	<b>( 629.0)</b>	( 580.1)	<b>( 629.0)</b>	( 580.1)
	<b>P 31,381.3</b>	P 27,463.3	<b>P 31,541.6</b>	P 27,459.7

As of December 31, 2016 and 2015, 70.8% and 62.3%, 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 4.0% to 19.6% in 2016 and 2015.

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

	Group		Parent Company	
	2016	2015	2016	2015
Secured				
Chattel mortgage	<b>P 19,481.8</b>	P 17,716.8	<b>P 19,481.8</b>	P 17,716.8
Real estate mortgage	<b>1,000.4</b>	1,231.3	<b>1,000.4</b>	1,231.3
Others	<b>189.6</b>	201.9	<b>189.6</b>	201.9
	<b>20,671.8</b>	19,150.0	<b>20,671.8</b>	19,150.0
Unsecured	<b>10,709.5</b>	8,313.3	<b>10,869.8</b>	8,309.7
	<b>P 31,381.3</b>	P 27,463.3	<b>P 31,541.6</b>	P 27,459.7

An analysis of the Group's and Parent Company's finance lease receivables as of December 31, 2016 and 2015 is shown below.

	2016	2015
Maturity of gross investment in:		
Finance lease receivables		
Within one year	<b>P 1,228.9</b>	P 1,223.0
Beyond one year but not beyond five years	<b>11,740.3</b>	10,732.1
Beyond five years	<b>28.6</b>	189.4
	<b>12,997.8</b>	12,144.5
Residual value of leased assets		
Within one year	<b>1,401.4</b>	1,388.0
Beyond one year but not beyond five years	<b>4,161.1</b>	3,538.7
Beyond five years	<b>12.5</b>	47.3
	<b>5,575.0</b>	4,974.0
Gross finance lease receivables	<b>18,572.8</b>	17,118.5
Unearned lease income	<b>( 1,224.7)</b>	( 1,181.4)
Net investment in finance lease receivables	<b>P 17,348.1</b>	P 15,937.1

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

	2016	2015
Due within one year	<b>P 2,559.8</b>	P 2,543.0
Due beyond one year but not beyond five years	<b>14,751.0</b>	13,184.9
Beyond five years	<b>37.3</b>	209.2
	<b>P 17,348.1</b>	P 15,937.1

Past due finance lease receivables amounted to P352.2 and P321.4 as of December 31, 2016 and 2015, respectively.

Past due loans and receivables financed amounted to P190.8 and P146.2 as of December 31, 2016 and 2015, respectively.

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

	<u>2016</u>		<u>2015</u>		<u>2014</u>
<b>Group</b>					
Finance lease receivables	<b>P 835.8</b>	P	802.8	P	761.1
Loans and receivable financed	<b>834.4</b>		723.3		686.9
AFS financial assets	<b>86.6</b>		42.0		-
Interest on defined benefit plan	<b>3.1</b>		2.8		2.3
Cash and cash equivalents	<b>0.8</b>		0.7		0.6
	<b>P 1,760.7</b>	P	1,571.6	P	1,450.9
<b>Parent Company</b>					
Finance lease receivables	<b>P 835.8</b>	P	802.8	P	761.1
Loans and receivables financed	<b>834.1</b>		723.2		686.9
AFS financial assets	<b>86.6</b>		42.0		-
Interest on defined benefit plan	<b>3.1</b>		2.8		2.3
Cash and cash equivalents	<b>0.8</b>		0.6		0.4
	<b>P 1,760.4</b>	P	1,571.4	P	1,450.7

Interest income recognized on impaired loans and receivables amounted to P9.8 in 2016, P2.7 in 2015 and P5.5 in 2014.

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

	<u>2016</u>		<u>2015</u>		<u>2014</u>
Balance at beginning of year	<b>P 580.1</b>	P	496.8	P	396.8
Impairment losses during the year	<b>50.0</b>		83.3		100.0
Accounts written-off	<b>( 1.1)</b>		-		-
Balance at end of year	<b>P 629.0</b>	P	580.1	P	496.8

Certain loans and receivables with carrying amount of P1,847.0 both as of December 31, 2016 and 2015, were used as collateral to secure the payment of certain bills payable (see Note 13).

## 10. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of 2016 and 2015 are shown below.

	<u>Transportation and Other Equipment</u>		<u>Furniture, Fixtures and Others</u>		<u>Leasehold Improvements</u>		<u>Total</u>	
<b>Group</b>								
December 31, 2016								
Cost	P	4,015.8	P	35.3	P	20.0	P	4,071.1
Accumulated depreciation and amortization	(	1,640.9)	(	29.8)	(	19.2)	(	1,689.9)
Net carrying amount	<b>P</b>	<b>2,374.9</b>	<b>P</b>	<b>5.5</b>	<b>P</b>	<b>0.8</b>	<b>P</b>	<b>2,381.2</b>
December 31, 2015								
Cost	P	3,512.1	P	36.5	P	20.0	P	3,568.6
Accumulated depreciation and amortization	(	1,299.6)	(	28.8)	(	18.5)	(	1,346.9)
Net carrying amount	<b>P</b>	<b>2,212.5</b>	<b>P</b>	<b>7.7</b>	<b>P</b>	<b>1.5</b>	<b>P</b>	<b>2,221.7</b>
December 31, 2014								
Cost	P	2,860.4	P	30.4	P	18.2	P	2,909.0
Accumulated depreciation and amortization	(	852.1)	(	26.9)	(	17.4)	(	896.4)
Net carrying amount	<b>P</b>	<b>2,008.3</b>	<b>P</b>	<b>3.5</b>	<b>P</b>	<b>0.8</b>	<b>P</b>	<b>2,012.6</b>
<b>Parent Company</b>								
December 31, 2016								
Cost	P	-	P	35.3	P	20.0	P	55.3
Accumulated depreciation and amortization		-	(	29.8)	(	19.2)	(	49.0)
Net carrying amount	<b>P</b>	<b>-</b>	<b>P</b>	<b>5.5</b>	<b>P</b>	<b>0.8</b>	<b>P</b>	<b>6.3</b>
December 31, 2015								
Cost	P	-	P	36.5	P	20.0	P	56.5
Accumulated depreciation and amortization		-	(	28.8)	(	18.5)	(	47.3)
Net carrying amount	<b>P</b>	<b>-</b>	<b>P</b>	<b>7.7</b>	<b>P</b>	<b>1.5</b>	<b>P</b>	<b>9.2</b>
December 31, 2014								
Cost	P	-	P	30.4	P	18.2	P	48.6
Accumulated depreciation and amortization		-	(	26.9)	(	17.4)	(	44.3)
Net carrying amount	<b>P</b>	<b>-</b>	<b>P</b>	<b>3.5</b>	<b>P</b>	<b>0.8</b>	<b>P</b>	<b>4.3</b>

A reconciliation of the carrying amounts of property and equipment at the beginning and end of 2016 and 2015 is shown below.

<b>Group</b>	<b>Transportation and Other Equipment</b>		<b>Furniture, Fixtures and Others</b>		<b>Leasehold Improvements</b>		<b>Total</b>	
Balance at January 1, 2016, net of accumulated depreciation and amortization	P	2,212.5	P	7.7	P	1.5	P	2,221.7
Additions		935.0		2.0		-		937.0
Disposals	(	51.1)	(	-	(	-	(	51.1)
Reclassifications	(	6.4)	(	-	(	-	(	6.4)
Depreciation and amortization charges for the year	(	715.1)	(	4.2)	(	0.7)	(	720.0)
Balance at December 31, 2016, net of accumulated depreciation and amortization	<b>P</b>	<b>2,374.9</b>	<b>P</b>	<b>5.5</b>	<b>P</b>	<b>0.8</b>	<b>P</b>	<b>2,381.2</b>
Balance at January 1, 2015, net of accumulated depreciation and amortization	P	2,008.3	P	3.5	P	0.8	P	2,012.6
Additions		907.9		12.9		1.8		922.6
Disposals	(	48.3)	(	4.2)	(	-	(	52.5)
Reclassifications	(	8.0)	(	-	(	-	(	8.0)
Depreciation and amortization charges for the year	(	647.4)	(	4.5)	(	1.1)	(	653.0)
Balance at December 31, 2015, net of accumulated depreciation and amortization	<b>P</b>	<b>2,212.5</b>	<b>P</b>	<b>7.7</b>	<b>P</b>	<b>1.5</b>	<b>P</b>	<b>2,221.7</b>
<b>Parent Company</b>								
Balance at January 1, 2016, net of accumulated depreciation and amortization	P	-	P	7.7	P	1.5	P	9.2
Additions		-		2.0		-		2.0
Depreciation and amortization charges for the year		-	(	4.2)	(	0.7)	(	4.9)
Balance at December 31, 2016, net of accumulated depreciation and amortization	<b>P</b>	<b>-</b>	<b>P</b>	<b>5.5</b>	<b>P</b>	<b>0.8</b>	<b>P</b>	<b>6.3</b>
Balance at January 1, 2015, net of accumulated depreciation and amortization	P	-	P	3.5	P	0.8	P	4.3
Additions		-		12.9		1.8		14.7
Disposals		-	(	4.2)		-	(	4.2)
Depreciation and amortization charges for the year		-	(	4.5)	(	1.1)	(	5.6)
Balance at December 31, 2015, net of accumulated depreciation and amortization	<b>P</b>	<b>-</b>	<b>P</b>	<b>7.7</b>	<b>P</b>	<b>1.5</b>	<b>P</b>	<b>9.2</b>

The cost of fully depreciated assets that are still being used in operations amounted to P43.7 and P95.3 for the Group as of December 31, 2016 and 2015, respectively, and P23.4 and P71.6 for the Parent Company as of December 31, 2016 and 2015, respectively.

Depreciation and amortization charges for 2016, 2015 and 2014 are included as part of Occupancy and Equipment-related Expenses account in the statements of income.

As of December 31, 2016 and 2015, the net book value of transportation and other equipment leased out by the Group (nil for the Parent Company) under operating lease arrangements amounted to P2,374.9 and P2,212.5, respectively.

In 2016, 2015 and 2014, the Group disposed of certain transportation equipment with carrying value of P51.1, P52.5 and P107.2, respectively, resulting in a gain on sale of P10.7, P10.5 and P6.3, respectively (see Note 17).

## 11. INVESTMENT PROPERTIES

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

The carrying amounts and accumulated depreciation at the beginning and end of 2016 and 2015 are shown below.

	<u>Land</u>	<u>Building and Improvements</u>	<u>Total</u>
<b>Group</b>			
December 31, 2016			
Cost	P 462.5	P 63.5	P 526.0
Accumulated depreciation	-	( 54.4)	( 54.4)
Accumulated impairment	( 44.5)	( 0.6)	( 45.1)
Net carrying amount	<u><b>P 418.0</b></u>	<u><b>P 8.5</b></u>	<u><b>P 426.5</b></u>
December 31, 2015			
Cost	P 467.6	P 78.5	P 546.1
Accumulated depreciation	-	( 63.2)	( 63.2)
Accumulated impairment	( 44.8)	-	( 44.8)
Net carrying amount	<u><b>P 422.8</b></u>	<u><b>P 15.3</b></u>	<u><b>P 438.1</b></u>
December 31, 2014			
Cost	P 358.0	P 82.3	P 440.3
Accumulated depreciation	-	( 62.7)	( 62.7)
Accumulated impairment	( 57.0)	-	( 57.0)
Net carrying amount	<u><b>P 301.0</b></u>	<u><b>P 19.6</b></u>	<u><b>P 320.6</b></u>



	<u>Land</u>	<u>Building and Improvements</u>	<u>Total</u>
<b>Parent Company</b>			
December 31, 2016			
Cost	P 236.4	P 63.5	P 299.9
Accumulated depreciation	-	( 54.4)	( 54.4)
Accumulated impairment	( 44.5)	( 0.6)	( 45.1)
Net carrying amount	<u><b>P 191.9</b></u>	<u><b>P 8.5</b></u>	<u><b>P 200.4</b></u>
December 31, 2015			
Cost	P 241.5	P 78.5	P 320.0
Accumulated depreciation	-	( 63.2)	( 63.2)
Accumulated impairment	( 44.8)	-	( 44.8)
Net carrying amount	<u><b>P 196.7</b></u>	<u><b>P 15.3</b></u>	<u><b>P 212.0</b></u>
December 31, 2014			
Cost	P 358.0	P 82.3	P 440.3
Accumulated depreciation	-	( 62.7)	( 62.7)
Accumulated impairment	( 57.0)	-	( 57.0)
Net carrying amount	<u><b>P 301.0</b></u>	<u><b>P 19.6</b></u>	<u><b>P 320.6</b></u>

A reconciliation of the carrying amounts at the beginning and end of 2016 and 2015 of investment properties is shown below.

	<u>Land</u>	<u>Building and Improvements</u>	<u>Total</u>
<b>Group</b>			
Balance at January 1, 2016, net of accumulated depreciation and impairment			
	P 422.8	P 15.3	P 438.1
Additions	2.9	0.8	3.7
Disposals	( 8.0)	( 3.1)	( 11.1)
Reclassifications	0.3	( 0.6)	( 0.3)
Depreciation and amortization charges for the year	-	( 3.9)	( 3.9)
Balance at December 31, 2016, net of accumulated depreciation and impairment	<u><b>P 418.0</b></u>	<u><b>P 8.5</b></u>	<u><b>P 426.5</b></u>
Balance at January 1, 2015, net of accumulated depreciation and impairment			
	P 301.0	P 19.6	P 320.6
Additions	227.3	-	227.3
Disposals	( 117.5)	( 0.2)	( 117.7)
Reclassifications	9.0	-	9.0
Reversal of impairment losses	3.0	-	3.0
Depreciation and amortization charges for the year	-	( 4.1)	( 4.1)
Balance at December 31, 2015, net of accumulated depreciation and impairment	<u><b>P 422.8</b></u>	<u><b>P 15.3</b></u>	<u><b>P 438.1</b></u>

		<u>Land</u>		<u>Building and Improvements</u>		<u>Total</u>
<b>Parent Company</b>						
Balance at January 1, 2016, net of accumulated depreciation and impairment	P	196.7	P	15.3	P	212.0
Additions		2.9		0.8		3.7
Reclassifications		0.3	(	0.6)	(	0.3)
Disposals	(	8.0)	(	3.1)	(	11.1)
Depreciation and amortization charges for the year		-	(	3.9)	(	3.9)
Balance at December 31, 2016, net of accumulated depreciation and impairment	<b>P</b>	<b>191.9</b>	<b>P</b>	<b>8.5</b>	<b>P</b>	<b>200.4</b>
Balance at January 1, 2015, net of accumulated depreciation and impairment	P	301.0	P	19.6	P	320.6
Additions		1.2		-		1.2
Reclassifications		9.0		-		9.0
Disposals	(	117.5)	(	0.2)	(	117.7)
Reversal of impairment losses		3.0		-		3.0
Depreciation and amortization charges for the year		-	(	4.1)	(	4.1)
Balance at December 31, 2015, net of accumulated depreciation and impairment	<b>P</b>	<b>196.7</b>	<b>P</b>	<b>15.3</b>	<b>P</b>	<b>212.0</b>

The appraised values of the investment properties as of December 31, 2016 and 2015 follow (see Note 6.02.04):

	<u>2016</u>		<u>2015</u>
<b>Group</b>			
Land	<b>P 688.3</b>	P	652.7
Building and improvements	<b>46.6</b>		69.4
	<b>P 734.9</b>	P	722.1
<b>Parent Company</b>			
Land	<b>P 462.2</b>	P	450.2
Building and improvements	<b>46.6</b>		69.4
	<b>P 508.8</b>	P	519.6

Fair values have been determined based on valuations made by independent and/or in-house appraisers, which are the market value for land and building and related improvements and reproduction cost for certain building and improvements. Valuations were derived on the basis of recent 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 P5.0.

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

Depreciation and amortization charges for 2016 and 2015 are included as part of Occupancy and Equipment-related Expenses account in the statements of income. There were no impairment losses recognized in 2016 and 2015.

Gain on sale of investment properties of the Parent Company, recorded as Gain on sale of property and equipment and investment properties as part of Other Income, amounted to P9.5, P6.4 and P19.4 in 2016, 2015 and 2014, respectively (see Note 17).

## 12. OTHER ASSETS

Other assets consist of the following:

	Notes	Group		Parent Company	
		2016	2015	2016	2015 (As Restated - see Note 2)
Equity investments	(a)	P 280.1	P -	P 911.0	P 719.1
Deferred input VAT	(b)	278.0	260.6	-	-
Prepaid expenses	(c)	105.7	102.2	29.1	29.3
Retirement benefit asset	19	51.8	60.1	51.8	60.1
Intangible assets - net	(d)	42.8	50.9	42.8	50.9
Deferred tax assets - net	21	41.7	-	41.7	-
Repossessed chattels and other equipment - net	(e)	9.8	8.0	-	-
Non-current assets held-for-sale - net	(f)	0.4	4.2	0.4	4.2
Miscellaneous - net		9.0	36.0	5.7	11.9
		<b>P 819.3</b>	<b>P 522.0</b>	<b>P 1,082.5</b>	<b>P 875.5</b>

(a) Equity investments consist of the following:

	% Interest Held	Group		Parent Company	
		2016	2015	2016	2015 (As Restated - see Note 2)
Subsidiary - BDO Rental	100%	P -	P -	P 630.9	P 719.1
Associate - MMPC Auto Financial Services Corp. (MAFSC)	40%	280.1	-	280.1	-
		<b>P 280.1</b>	P -	<b>P 911.0</b>	P 719.1

A reconciliation of the carrying amounts of investment in a subsidiary as a result of the change in accounting policy from cost method to equity method (see Note 2) is as follows:

	2016	2015 (As Restated - see Note 2)
Balance at beginning of year:		
As previously reported	P 359.4	P 312.5
Effect of adoption of equity method	359.7	262.1
As restated	<b>719.1</b>	574.6
Transactions during the year:		
Share in net profit of BDO Rental	81.3	97.6
Dividend income	( 60.0)	-
Reclassification	( 109.5)	-
Additional investments	-	46.9
	<b>( 88.2)</b>	144.5
	<b>P 630.9</b>	P 719.1

BDO Rental applied for the increase in its authorized capital stock with the SEC. Accordingly, on December 26, 2014, BDO Rental's BOD approved the conversion of its 162,500,000 preferred shares, with par value of P1.0 per share to 100,000,000 common shares and recognized the difference as deposit for future stock subscription from the Parent Company in the books of BDO Rental. Also in 2015, the Parent Company made additional deposit for future stock subscription. However, on December 20, 2016, BDO Rental cancelled its application for the increase in authorized capital stock with the SEC; hence, the Parent Company reclassified such additional investments and recorded as part of Accounts receivable under Loans and Other Receivables account in the Parent Company's 2016 statement of financial position (see Note 9).

As of December 31, 2016 and 2015, the Parent Company holds 250 million common shares of BDO Rental representing 100.0% ownership.

On January 28, 2016, the Parent Company entered into a joint venture agreement with Sojitz Corporation, JACCS Co., Ltd. and Mitsubishi Motors Philippines Corporation, which resulted in the incorporation of MAFSC, as an associate of BDO Leasing. MAFSC is registered with the SEC on May 31, 2016, to engage in extending credit facilities to individual and corporate buyers of Mitsubshi vehicles in the Philippines and commercial and industrial enterprises. It started its commercial operations on June 1, 2016. The Parent Company owns 40% of MAFSC by making a capital contribution of P300.0 and has exercised significant influence over MAFSC in 2016. The Parent Company recognized share in MAFSC's net loss in 2016 amounting to P19.9 which is presented as part Miscellaneous under Other Income in the Parent Company's 2016 statement of income. MAFSC's principal office is located at 38<sup>th</sup> floor, Robinsons Equitable Tower, ADB Avenue cor. Poveda St., Ortigas Center, Pasig City.

The summarized financial information in respect of the Group and Parent Company's equity investments as of December 31, 2016 is set out below.

	<u>Total Assets</u>	<u>Total Liabilities</u>	<u>Revenues</u>	<u>Net Profit (Loss)</u>
BDO Rental	<u>P 3,055.2</u>	<u>P 2,424.3</u>	<u>P 907.4</u>	<u>P 81.3</u>
MAFSC	<u>P 727.2</u>	<u>P 27.0</u>	<u>P 6.9</u>	<u>(P 49.8)</u>

In 2016 and 2015, the Group and Parent Company have assessed that no impairment loss is necessary to be recognized for the equity investments.

(b) 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.

(c) Prepaid expenses of the Group include creditable withholding taxes of BDO Rental amounting to P76.5 and P72.8 as of December 31, 2016 and 2015, respectively.

(d) In 2014, the Parent Company made advances to supplier as payments for the new leasing system of the Parent Company. In 2015, these were reclassified to intangible asset upon actual use of the system. The Parent Company recognized amortization expense on intangible assets amounting to P13.5 in 2016 and P12.7 in 2015 included as part of Occupancy and Equipment-related Expenses account in the statement of income.

(e) Repossessed chattels and other equipment of the Group include certain transportation equipment returned to BDO Rental which were reclassified from property and equipment to other assets at year-end. As of December 31, 2016 and 2015, the Parent Company had no remaining repossessed chattels and other equipment.

Depreciation expense of repossessed chattels and other equipment amounted to P0.7 in 2014 (nil in 2016 and 2015) and is included as part of Occupancy and Equipment-related Expenses account in the 2014 statement of income. No impairment loss was recognized on repossessed chattels and other equipment in 2016, 2015 and 2014.

(f) In 2015 and 2014, the Group reclassified certain non-current assets held-for-sale to investment properties amounting to P9.0 and P204.3, respectively. There were no reclassifications made in 2016.

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

	<u>2016</u>		<u>2015</u>
Cost	<b>P 0.5</b>	P	8.4
Accumulated impairment losses	<b>( 0.1)</b>	(	4.2)
	<b><u>P 0.4</u></b>	P	<u>4.2</u>

A reconciliation of the carrying amounts of non-current assets held-for-sale at the beginning and end of 2016 and 2015 is shown below.

	<u>2016</u>		<u>2015</u>
Balance at January 1, net of accumulated impairment losses	<b>P 4.2</b>	P	11.8
Additions	<b>0.6</b>		1.4
Disposals	<b>( 4.4)</b>		-
Reclassifications	<b>-</b>	(	9.0)
Balance at December 31, net of accumulated impairment losses	<b><u>P 0.4</u></b>	P	<u>4.2</u>

### 13. BILLS PAYABLE

This account consists of:

	Group		Parent Company	
	2016	2015	2016	2015
Borrowings from:				
Banks	<b>P 12,867.2</b>	P 11,362.0	<b>P 10,918.7</b>	P 9,396.0
Others	<b>14,358.0</b>	12,486.4	<b>14,358.0</b>	12,486.3
Accrued interest	<b>42.9</b>	41.2	<b>35.4</b>	36.7
	<b>P 27,268.1</b>	P 23,889.6	<b>P 25,312.1</b>	P 21,919.0

Bills payable to banks represent peso borrowings from local banks (including BDO Unibank as of December 31, 2016, 2015 and 2014 – see Note 20), with annual interest rates ranging from 2.2% to 3.3% both in 2016 and 2015, and 2.2% to 3.0% in 2014. As of December 31, 2016, 2015 and 2014, bills payable – others represent short-term notes issued to corporate investors, with annual interest rates ranging from 2.3% to 2.7%, 2.4% to 2.8% and 2.4% to 2.5% in 2016, 2015 and 2014, respectively. These rates approximate prevailing market rates. As of December 31, 2016 and 2015, bills payable amounting to P1,197.9 and P1,105.5, respectively, are secured by the Group's AFS financial assets with face amount of P1,970.0 both as of December 31, 2016 and 2015, and certain loans receivables with carrying value amounting to P1,847.0 both as of December 31, 2016 and 2015 (see Notes 8 and 9).

Interest and financing charges consist of interest on:

	Note	2016	2015	2014
<b>Group</b>				
Bills payable - banks		<b>P 259.7</b>	P 253.2	P 177.7
Bills payable - others		<b>408.6</b>	311.2	284.0
Amortization on lease deposits	15	<b>3.3</b>	6.4	3.3
Others		<b>1.9</b>	-	2.9
		<b>P 673.5</b>	P 570.8	P 467.9
<b>Parent Company</b>				
Bills payable - banks		<b>P 206.4</b>	P 203.1	P 142.0
Bills payable - others		<b>408.6</b>	311.2	284.0
Amortization on lease deposits	15	<b>0.8</b>	4.8	2.1
Others		<b>1.9</b>	-	3.0
		<b>P 617.7</b>	P 519.1	P 431.1

## 14. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities consist of the following:

	Group		Parent Company	
	2016	2015	2016	2015
Accounts payable	<b>P 458.5</b>	P 168.4	<b>P 223.8</b>	P 77.5
Accrued taxes and other expenses	<b>55.9</b>	68.7	<b>55.8</b>	68.6
Withholding taxes payable	<b>23.8</b>	19.9	<b>20.9</b>	18.9
Other liabilities	<b>113.7</b>	111.9	<b>112.2</b>	111.7
	<b>P 651.9</b>	P 368.9	<b>P 412.7</b>	P 276.7

Accounts payable include amount payable to BDO Unibank amounting to P16.9, representing the Group's liability arising from the stock option plan offered to the Group's employees [see Note 2.19(e)].

Other liabilities include, among others, unapplied cash receipts, documentary stamp taxes, and insurance, mortgage and other fees.

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	
	2016	2015	2016	2015
Finance leases	<b>P 5,521.2</b>	P 4,926.0	<b>P 5,521.2</b>	P 4,926.0
Operating leases	<b>59.6</b>	56.6	-	-
	<b>P 5,580.8</b>	P 4,982.6	<b>P 5,521.2</b>	P 4,926.0

Interest expense on lease deposits accrued using the effective interest method in the Group's financial statements amounted to P3.3, P6.4 and P3.3 in 2016, 2015 and 2014 respectively, and P0.8, P4.8 and P2.1 in 2016, 2015 and 2014, respectively, in the Parent Company's 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's 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, 2016 and 2015 are shown below.

	<u>2016</u>	<u>2015</u>
Total equity	<b>P 5,349.5</b>	P 5,222.7
Cash and cash equivalents	<b>( 370.5)</b>	( 332.3)
Net capital	<b>P 4,979.0</b>	P 4,890.4
Bills payable	<b>P 27,268.1</b>	P 23,889.6
Lease deposits	<b>5,580.8</b>	4,982.6
Total equity	<b>5,349.5</b>	5,222.7
Overall financing	<b>P 38,198.4</b>	P 34,094.9
Capital-to-overall financing ratio	<b>0.13:1.00</b>	0.14:1.00

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

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

As of December 31, 2016 and 2015, 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 have been issued as of December 31, 2016 and 2015.

### **16.03 Common Shares**

As of December 31, 2016 and 2015, out of the total authorized capital stock of 3,400,000,000 common shares with par value of P1.00 per share, 2,162,475,312 common shares, net of treasury shares of 62,693,718, common shares amounting to P2,162.5 are issued and outstanding.

### **16.04 Retained Earnings**

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

On February 25, 2015, the BOD approved the declaration of cash dividends at P0.175 per share amounting to P378.4. The dividends were declared in favor of stockholders of record as of March 11, 2015 and were paid on March 24, 2015.

On February 26, 2014, 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 March 13, 2014 and were paid on March 31, 2014.

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

### 16.05 Track Record of Registration of Securities

On January 6, 1997, the Parent Company was listed with the PSE with 106,100,000 additional common shares and 15,120,000 existing common shares with par value of P1.00 per share. The listing was approved by the SEC in May 1996. As of December 31, 2016 and 2015, the Parent Company's number of shares registered totaled 3,400,000,000 with par value of P1.00 per share and closed at a price of P3.79 in 2016 and P2.45 in 2015. The total number of stockholders is 1,136 and 1,152 as of December 31, 2016 and 2015, respectively.

### 17. OTHER INCOME

This account is composed of the following:

	Notes	2016	2015 (As Restated - see Note 2)	2014 (As Restated - see Note 2)
<b>Group</b>				
Dividend income	8	<b>P 150.3</b>	P 154.3	P 155.2
Gain on sale of property and equipment and investment properties	10, 11	<b>20.2</b>	16.9	25.7
Day-one gains — net		<b>2.5</b>	18.4	1.1
Miscellaneous — net	8, 12, 20	<b>30.4</b>	37.9	27.6
		<b>P 203.4</b>	P 227.5	P 209.6
<b>Parent Company</b>				
Dividend income	8	<b>P 150.3</b>	P 154.3	P 155.2
Gain on sale of investment properties	11	<b>9.5</b>	6.4	19.4
Day-one gains — net		<b>0.1</b>	0.6	0.1
Miscellaneous — net	8, 12, 20	<b>108.6</b>	123.1	93.5
		<b>P 268.5</b>	P 284.4	P 268.2

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

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

## 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 months to 15 years. Operating lease income, presented under Rent account in the Group's statements of income for the years ended December 31, 2016, 2015 and 2014, amounted to P890.2, P807.1 and P613.1, respectively.

Future minimum rental receivables under operating leases follow:

	<u>2016</u>		<u>2015</u>		<u>2014</u>
Within one year	<b>P 804.5</b>	P	209.1	P	97.7
After one year but not more than five years	<b>883.5</b>		1,354.7		1,421.8
More than five years	<b>100.3</b>		112.8		-
	<b>P 1,788.3</b>	P	1,676.6	P	1,519.5

## 19. EMPLOYEE BENEFITS

### 19.01 Employee Benefits Expense

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

	<u>2016</u>		<u>2015</u>		<u>2014</u>
Salaries and wages	<b>P 122.1</b>	P	108.0	P	99.6
Bonuses	<b>43.9</b>		38.8		33.5
Employee stock option plan	<b>16.9</b>		-		-
Retirement — defined benefit plan	<b>14.1</b>		14.1		15.3
Social security costs	<b>3.9</b>		3.5		3.5
Other benefits	<b>19.8</b>		23.5		9.5
	<b>P 220.7</b>	P	187.9	P	161.4

The Employee benefits expense account includes the expense arising from Employee Stock Option Plan [see Note 2.19(e)] recognized by the Parent Company over the vesting period. There were 66,100 shares vested in 2016. The liability arising from this transaction is recorded as part of Accounts payable under Accounts Payable and Other Liabilities account in the 2016 statement of financial position (see Note 14).

**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 below and in the succeeding pages are based on the actuarial valuation report obtained from an independent actuary in 2016 and 2015.

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

	<u>2016</u>		<u>2015</u>
Fair value of plan assets	<b>P 264.0</b>	P	245.4
Present value of the obligation	<b>( 205.5)</b>	(	176.9)
Effect of asset ceiling	<b>( 6.7)</b>	(	8.4)
Balance at end of year	<b>P 51.8</b>	P	60.1

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

	<u>2016</u>		<u>2015</u>
Balance at beginning of year	<b>P 245.4</b>	P	230.4
Interest income	<b>12.2</b>		10.7
Return on plan assets (excluding amounts included in net interest)	<b>( 0.9)</b>	(	7.1)
Contributions to the plan	<b>12.0</b>		16.8
Benefits paid	<b>( 4.7)</b>	(	5.4)
Balance at end of year	<b>P 264.0</b>	P	245.4

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

	<u>2016</u>		<u>2015</u>
Balance at beginning of year	<b>P 176.9</b>	P	167.5
Current service cost	<b>14.1</b>		14.1
Interest expense	<b>8.7</b>		7.6
Remeasurements:			
Actuarial losses (gains) arising			
From changes in:			
- financial assumptions	<b>2.1</b>	(	4.8)
- experience adjustments	<b>8.6</b>		5.7
- demographic assumptions	<b>-</b>	(	7.8)
Benefits paid	<b>( 4.9)</b>	(	5.4)
Balance at end of year	<b>P 205.5</b>	P	176.9

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.

	<u>2016</u>		<u>2015</u>
Cash and cash equivalents	<b>P 30.8</b>	P	50.0
Unit investment trust funds	<b>49.6</b>		26.0
Equity instruments	<b>6.1</b>		4.6
Real estate	<b>2.7</b>		2.8
Loans	<b>2.2</b>		3.1
	<b>91.4</b>		86.5
Debt instruments:			
Government bonds	<b>107.6</b>		98.5
Other bonds	<b>48.2</b>		46.7
	<b>155.8</b>		145.2
Others	<b>16.8</b>		13.7
	<b>P 264.0</b>	P	245.4

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 P11.2 in 2016, P3.6 in 2015 and P12.2 in 2014.

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:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<i>Reported in profit or loss:</i>			
Current service cost	<b>P 14.1</b>	P 14.1	P 15.3
Net interest income	<b>( 3.1)</b>	( 2.8)	( 2.3)
	<b>P 11.0</b>	P 11.3	P 13.0
<i>Reported in other comprehensive income:</i>			
Actuarial losses (gains) arising from:			
- changes in financial assumptions	<b>P 2.1</b>	(P 4.8)	P 1.9
- experience adjustments	<b>8.6</b>	5.7	( 1.5)
- demographic changes	<b>-</b>	( 7.8)	( 10.4)
Return on plan assets (excluding amounts included in net interest)	<b>0.9</b>	7.1	( 2.3)
Effect of asset ceiling	<b>( 2.1)</b>	1.4	2.6
	<b>P 9.5</b>	P 1.6	(P 9.7)

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

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

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Discount rates	<b>5.5%</b>	4.9%	4.6%
Expected rate of salary increases	<b>9.0%</b>	8.0%	8.0%

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

As of December 31, 2016 and 2015, the net accumulated actuarial losses amount to P42.8 and P36.2, respectively, due mainly to the changes in the discount rates. Nevertheless, the Group has net retirement benefit asset amounting to P51.8 and P60.1 as of December 31, 2016 and 2015, respectively (see Note 12), due to higher contributions made in 2016 and 2015.

*(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 bond will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has relatively balanced investment in cash and cash equivalents, unit investment trust fund (UITF) and debt instruments. Due to the long-term nature of plan obligation, a level of continuing debt instruments is an appropriate element of the Group's long-term strategy to manage the plans efficiently.

*(ii) Longevity and Salary Risks*

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

*(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 as follow.



(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, 2016 and 2015:

	Impact on retirement benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
<b>December 31, 2016</b>			
Discount rate	<b>+/-1.0% (P</b>	<b>7.9) P</b>	<b>7.1</b>
Salary growth rate	<b>+/-1.0%</b>	<b>6.9 (</b>	<b>6.3)</b>
December 31, 2015			
Discount rate	+/-1.0% (P	6.8) P	6.1
Salary growth rate	+/-1.0%	5.9 (	5.4)

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 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 P51.8 as of December 31, 2016 based on the latest actuarial valuation.

The Parent Company expects to make contribution of P12.2 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	60.5
More than one year to five years		32.3
More than five years to ten years		<u>98.2</u>
	P	<u>191.0</u>

## 20. RELATED PARTY TRANSACTIONS

The Group's and Parent Company's related parties include BDO Unibank, related party under common ownership, key management personnel and the retirement benefit fund as described below.

The summary of the Group's and Parent Company's transactions with its related parties in 2016, 2015 and 2014 and the related outstanding balances as of December 31, 2016, 2015 and 2014 are as follows:

<b>Related Party Category</b>	Notes	<b>Amount of Transaction</b>		
		<b>2016</b>	2015	2014
<b>Ultimate Parent Company (BDO Unibank)</b>				
Interest income on savings and demand deposits	(a)	<b>P 0.7</b>	P 0.6	P 0.5
Interest expense on bills payable	(b)	<b>38.0</b>	99.7	94.6
Rent expense	(d)	<b>10.5</b>	9.8	10.5
Management fees	(e)	<b>2.4</b>	2.4	2.4
Employee stock option plan	2.19, 19	<b>16.9</b>	-	-
<b>Subsidiary (BDO Rental)</b>				
Service fees	(c)	-	6.9	6.3
Rent income	(d)	<b>0.4</b>	0.4	0.4
Management fees	(e)	<b>0.4</b>	0.4	0.4
Dividend income	(j)	<b>60.0</b>	-	43.8
<b>Related Party under Common Ownership (BDO Capital and BDO Insurance)</b>				
Service and charges fees	(f), (l)	<b>5.5</b>	4.0	3.5
<b>Key management personnel</b>				
Short-term benefits	(g)	<b>50.4</b>	65.6	57.6
Loans to officers	(g)	<b>5.0</b>	3.5	0.3

<b>Related Party Category</b>	Notes	<b>Outstanding Balance</b>	
		<b>2016</b>	2015
<b>Ultimate Parent Company (BDO Unibank)</b>			
Savings and demand deposits	(a)	<b>P 365.2</b>	P 323.7
Bills payable	(b)	<b>2,575.8</b>	3,250.2
Employee stock option plan	2.19, 19	<b>16.9</b>	-
<b>Subsidiary (BDO Rental)</b>			
Deposit for future stock subscription	(k)	-	46.9
Dividend receivable	(j)	<b>60.0</b>	-
Accounts receivable	(k)	<b>109.4</b>	-
<b>Related Party under Common Ownership (BDO Insurance)</b>			
Accounts receivable	(l)	<b>0.7</b>	-
<b>Key management personnel</b>			
Loans to officers	(g)	<b>10.0</b>	5.0
<b>Retirement benefit fund</b>			
Loans to officers and employees	(h)	-	1.1
Shares of stock	(i)	<b>1.0</b>	1.1

(a) The Group maintains savings and demand deposit accounts with BDO Unibank. As of December 31, 2016 and 2015, 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 these deposits in 2016, 2015 and 2014 is included as part of Interest and Discounts under the Revenues account in the statements of income.

(b) The Group obtains short-term bills payable from BDO Unibank. The amount outstanding from borrowings as of December 31, 2016 and 2015 is presented under Bills Payable account in the statements of financial position (see Note 13). Interest expense incurred on these bills payable in 2016, 2015 and 2014 is included as part of Interest and Financing Charges under Operating Costs and Expenses account in the statements of income.

(c) On January 4, 2010, the Parent Company and BDO Rental entered into a Service Agreement whereby BDO Rental will handle the collection of certain factored receivables of the Parent Company, for a fee as agreed by the Parent Company and the sellers of the factored receivables.

Under the Service Agreement, BDO Rental shall perform the monitoring of the payment due dates of the factored receivables, remit to the Parent Company all collections made and send monthly statement of accounts to customers. The related expense charged to the Parent Company based on the Service Agreement is included in Other expenses under Operating Costs and Expenses in the Parent Company's statements of income. The Service Agreement was discontinued in 2016. There are no outstanding intercompany payable and receivable from this transaction as of December 31, 2016 and 2015.

*(d)* The Parent Company leases its head office premises and certain branch offices from BDO Unibank for terms ranging from three to five years, renewable for such period and under such terms and conditions as may be agreed upon with the Parent Company and BDO Unibank. Related rent expense incurred in 2016, 2015 and 2014 is presented as part of Occupancy and equipment-related expenses under Operating Costs and Expenses account in the statements of income. On the other hand, the Parent Company charges BDO Rental for the spaces that the latter occupies in the head office premises. Rent charged to BDO Rental in 2016, 2015 and 2014 is presented as part of Other Income in the statements of income. There is no outstanding receivable and payable on these transactions as of the end of 2016 and 2015.

*(e)* In 2013, the Parent Company entered into a service level agreement with BDO Unibank wherein BDO Unibank will charge the Parent Company for certain management services that the former provides to the latter. Management fees paid by the Parent Company to BDO Unibank is shown as part of Other Operating Costs and Expenses in the statements of income. Also, the Parent Company charges BDO Rental for the management services it renders to BDO Rental. This is presented as part of Other Income in the Parent Company's statements of income. There are no outstanding receivable and payable on these transactions as of the end of 2016 and 2015.

*(f)* The Parent Company engaged the services of BDO Capital and Investment Corporation (BDO Capital), a wholly owned subsidiary of BDO Unibank for underwriting services related to the Parent Company's issuance of short term commercial papers. Service and charges fees paid by the Parent Company to BDO Capital amounting to P4.0 both for 2016 and 2015 and P3.5 in 2014 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 2016, 2015 and 2014.

*(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 comprehensive income of the Group and Parent Company. Short-term employee benefits include salaries, paid annual leave and paid sick leave, profit sharing and bonuses, and non-monetary benefits. The Group also granted loans to officers which are secured by mortgage on the property, bear interest at 9.0% per annum and have terms ranging from 3 to 4 years.

(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 9.0% 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 9.0% to 10.0% per annum and have terms ranging from 18 months to 3 years. There is no impairment loss recognized on these loans. There are no loans granted under the retirement fund in 2016.

(i) The retirement fund holds, as an investment, 519,915 shares and 442,750 shares of stock of the Parent Company in 2016 and 2015, respectively, which has a market value of P1.90 and P2.00 per share as of December 31, 2016 and 2015, respectively. The retirement fund does not hold any shares of stock of BDO Unibank.

(j) In 2016 and 2014 (nil in 2015), BDO Rental declared cash dividends amounting to P60.0 and P43.8, respectively.

(k) In 2015, BDO Rental received cash from the Parent Company as subscription payments for the increase in authorized capital stock, representing 25% of the total subscribed capital stock. BDO Rental cancelled its application for the increase in authorized capital stock with the SEC on December 20, 2016. This resulted in the recognition of outstanding receivable by the Parent Company from BDO Rental in 2016 [see Note 12(a)].

(l) In 2016, the Parent Company earned from BDO Insurance Brokers, Inc. (BDO Insurance) service charges and fees for accounts referred and is included as part of Miscellaneous under Other Income account in the 2016 statement of income (see Note 17). This resulted for outstanding receivable of the Parent Company from BDO Insurance in 2016 which is recorded as part of Accounts receivable under Loans and Other Receivables account in the statements of financial position (see Note 9).

## 21. TAXES

### 21.01 Taxes and Licenses

This account is composed of the following:

	<u>2016</u>		<u>2015</u>		<u>2014</u>
<b>Group</b>					
Documentary stamp tax	<b>P 131.1</b>	P	107.1	P	91.8
Gross receipts tax	<b>81.3</b>		72.0		68.4
Local taxes	<b>16.5</b>		12.6		10.8
Others	<b>16.6</b>		6.9		8.3
	<b>P 245.5</b>		198.6	P	179.3

	<u>2016</u>		<u>2015</u>		<u>2014</u>
<b>Parent Company</b>					
Documentary stamp tax	<b>P 118.5</b>	P	98.1	P	85.6
Gross receipts tax	<b>81.3</b>		72.0		68.4
Local taxes	<b>11.1</b>		8.5		8.1
Others	<b>16.6</b>		6.5		8.3
	<b>P 227.5</b>	P	185.1	P	170.4

**21.02 Current and Deferred Taxes**

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

<b>Group</b>	<u>2016</u>		<u>2015</u>		<u>2014</u>
<i>Reported in statements of income</i>					
Current tax expense:					
Regular corporate income tax (RCIT) at 30%	<b>P 207.1</b>	P	190.8	P	182.0
Final tax at 20%	<b>19.0</b>		11.8		6.3
	<b>226.1</b>		202.6		188.3
Deferred tax expense (income) relating to origination and reversal of temporary differences	<b>( 45.4)</b>	(	32.8)		21.8
	<b>P 180.7</b>	P	169.8	P	210.1
<i>Reported in statements of comprehensive income</i>					
Deferred tax expense (income) relating to origination of temporary differences:					
Actuarial gains and losses	<b>(P 2.9)</b>	(P	0.5)	P	2.9
AFS financial assets	<b>( 0.6)</b>		0.5		0.1
	<b>(P 3.5)</b>	P	-	P	3.0
<b>Parent Company</b>					
<i>Reported in statements of income</i>					
Current tax expense:					
RCIT at 30%	<b>P 172.2</b>	P	155.7	P	151.4
Final tax at 20%	<b>19.0</b>		11.7		6.3
	<b>191.2</b>		167.4		157.7
Deferred tax expense (income) relating to origination and reversal of temporary differences	<b>( 45.4)</b>	(	32.8)		21.8
	<b>P 145.8</b>	P	134.6	P	179.5
<i>Reported in statements of comprehensive income</i>					
Deferred tax expense (income) relating to origination of temporary differences:					
Actuarial gains and losses	<b>(P 2.9)</b>	(P	0.5)	P	2.9
AFS financial assets	<b>( 0.6)</b>		0.5		0.1
	<b>(P 3.5)</b>	P	-	P	3.0

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

<b>Group</b>	<u>2016</u>		<u>2015</u>		<u>2014</u>
Tax on pretax profit	<b>P 225.2</b>	P	217.6	P	214.2
Adjustment for income subjected to lower tax rates	<b>( 9.5)</b>	(	6.0)	(	3.2)
Tax effects of:					
Non-taxable income	<b>( 47.5)</b>	(	53.1)	(	48.2)
Non-deductible expense	<b>35.9</b>		39.8		39.0
Reversal of deferred tax asset (liability)	<b>( 33.5)</b>	(	36.4)		4.0
Non-deductible interest expense	<b>10.1</b>		7.9		4.3
	<b>P 180.7</b>	P	169.8	P	210.1

<b>Parent Company</b>	<u>2016</u>		<u>2015</u> (As Restated - see Note 2)		<u>2014</u> (As Restated - see Note 2)
Tax on pretax profit	<b>P 214.7</b>	P	207.6	P	205.1
Adjustment for income subjected to lower tax rates	<b>( 9.5)</b>	(	6.0)	(	3.2)
Tax effects of:					
Non-taxable income	<b>( 71.2)</b>	(	77.5)	(	69.6)
Non-deductible expense	<b>35.9</b>		39.6		39.4
Reversal of deferred tax asset (liability)	<b>( 33.5)</b>	(	36.4)		4.0
Non-deductible interest expense	<b>9.4</b>		7.3		3.8
	<b>P 145.8</b>	P	134.6	P	179.5



The components of net deferred tax liabilities as of December 31, 2016 and 2015 follow:

	<b>Statements of Financial Position</b>			
	<b>Group</b>		<b>Parent Company</b>	
	<b>2016</b>	2015	<b>2016</b>	2015
Deferred tax assets:				
Allowance for impairment on:				
Loans and discounts	<b>P 71.9</b>	P 62.1	<b>P 71.9</b>	P 62.1
Investment properties and non-current assets held-for-sale	<b>13.6</b>	14.7	<b>13.6</b>	14.7
Accounts receivable	<b>2.6</b>	1.2	<b>2.6</b>	1.2
Retirement benefit obligation	<b>15.3</b>	10.6	<b>15.3</b>	10.6
	<b>103.4</b>	88.6	<b>103.4</b>	88.6
Deferred tax liabilities:				
Lease income differential	<b>( 50.9)</b>	( 84.4)	<b>( 50.9)</b>	( 84.4)
Unrealized fair value gains on AFS financial assets	<b>( 10.5)</b>	( 11.1)	<b>( 10.5)</b>	( 11.1)
Others	<b>( 0.3)</b>	( 0.3)	<b>( 0.3)</b>	( 0.3)
	<b>( 61.7)</b>	( 95.8)	<b>( 61.7)</b>	( 95.8)
Net deferred tax assets (liabilities)	<b>P 41.7</b>	(P 7.2)	<b>P 41.7</b>	(P 7.2)

The components of deferred tax expense (income) in profit and loss and in other comprehensive income for the years ended December 31, 2016, 2015 and 2014 follow:

<b>Group</b>	<b>2016</b>	2015	2014
<i>In profit or loss:</i>			
Deferred tax assets:			
Allowance for impairment on:			
Loans and discounts	<b>(P 9.8)</b>	(P 1.8)	P 25.1
Investment properties and non-current assets held-for-sale	<b>1.1</b>	7.5	20.1
Accounts receivable	<b>( 1.4)</b>	( 0.3)	-
Retirement benefit obligation	<b>( 1.8)</b>	( 2.1)	1.1
Others	<b>-</b>	-	3.8
	<b>( 11.9)</b>	3.3	50.1
Deferred tax liabilities:			
Lease income differential	<b>( 33.5)</b>	( 36.4)	( 27.8)
Others	<b>-</b>	0.3	( 0.5)
	<b>( 33.5)</b>	( 36.1)	( 28.3)
Net deferred tax expense (income)	<b>(P 45.4)</b>	(P 32.8)	P 21.8

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b><u>Parent Company</u></b>			
<i>In profit or loss:</i>			
Deferred tax assets:			
Allowance for impairment on:			
Loans and discounts	(P 9.8)	(P 2.1)	P 25.1
Investment properties and non-current assets held-for-sale	1.1	7.5	20.1
Accounts receivable	( 1.4)	-	-
Retirement benefit obligation	( 1.8)	( 2.1)	1.1
Others	-	0.2	3.8
	<u>(P 11.9)</u>	<u>3.5</u>	<u>50.1</u>
Deferred tax liabilities:			
Lease income differential	( 33.5)	( 36.4)	( 27.8)
Others	-	0.1	( 0.5)
	<u>( 33.5)</u>	<u>( 36.3)</u>	<u>( 28.3)</u>
Net deferred tax expense (income)	<u>(P 45.4)</u>	<u>(P 32.8)</u>	<u>P 21.8</u>
<b><u>Group/Parent Company</u></b>			
<i>In other comprehensive income:</i>			
Deferred tax expense (income) on:			
Net actuarial losses	(P 2.9)	(P 0.5)	P 2.9
Unrealized fair value gains on AFS financial assets	( 0.6)	0.5	0.1
Net deferred tax expense (income)	<u>(P 3.5)</u>	<u>P -</u>	<u>P 3.0</u>

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

The Bureau of Internal Revenue (BIR) issued RR 15-2010 and RR 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 PFRS; it is neither a required disclosure under the SEC rules and regulations covering the form and content of financial statements under the Securities Regulation Code Rule 68, as amended.

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

## 22. EARNINGS PER SHARE

Basic earnings per share were computed as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Group</b>			
Net profit	<b>P 570.0</b>	P 555.6	P 504.0
Divided by the weighted average number of outstanding common shares - net*	<b>2,162.0</b>	2,162.0	2,162.0
Basic earnings per share	<b>P 0.26</b>	P 0.26	P 0.23
	<b>2016</b>	2015 (As Restated - see Note 2)	2014 (As Restated - see Note 2)
<b>Parent Company</b>			
Net profit	<b>P 570.0</b>	P 555.6	P 504.0
Divided by the weighted average number of outstanding common shares - net*	<b>2,162.0</b>	2,162.0	2,162.0
Basic earnings per share	<b>P 0.26</b>	P 0.26	P 0.23

\* net of treasury shares

There were no outstanding dilutive potential common shares as of December 31, 2016 and 2015.

## 23. EVENTS AFTER THE END OF THE REPORTING PERIOD

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

## 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 P19.6 in 2016, P18.2 in 2015 and P16.5 in 2014.

Future minimum lease payments under these operating leases follow:

	<u>2016</u>		<u>2015</u>		<u>2014</u>
Within one year	<b>P 12.5</b>	P	7.5	P	14.9
After one year but not more than five years	<b>42.4</b>		6.8		28.8
	<b>P 54.9</b>	P	14.3	P	43.7

### 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, 2016, 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

*Chairperson*

Teresita T. Sy

*Vice Chairman & President*

Roberto E. Lapid

*First Vice Presidents*

Gerard M. Aguirre (retired on  
January 18, 2017)

Rosario C. Crisostomo

Ma. Theresa M. Soriano

Agerico Melecio S. Verzola

*Vice Presidents*

Peter Blair S. Agustin (Chief  
Risk & Compliance Officer)

Rodolfo M. Carlos, Jr.

Robic S. Chavez

Lucila R. Celestino

Rosalisa B. Kapuno

Maria Lourdes S. Maraingan

Jennifer F. So

Dean Arvin D. Tabanao

Cosme S. Trinidad, Jr.

*Senior Assistant Vice Presidents*

Francisca D. Katigbak

Frieda Concepcion T. Jimenez

*Assistant Vice Presidents*

Virginia P. Fugoso

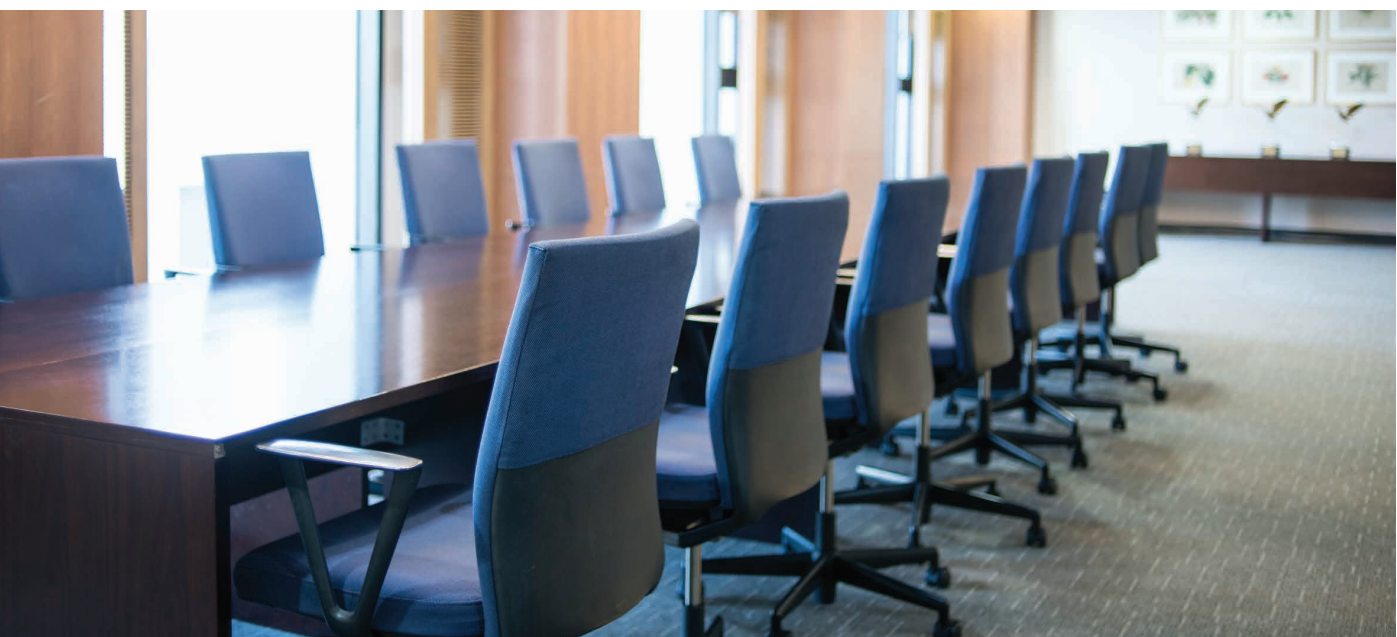
Gigi Carol R. Ignacio

Juanito C. Lucas

Cecilia L. Naranjo

Rethel Anne L. Uy

Ann Marie Therese C. Zapata



## MARKETING TEAM

### METRO MANILA

Arlo C. Atentar  
Evangeline M. Belarmino  
Vanessa Joyce C. Benavidez  
Cyrus John V. Benito  
Randy P. Borbe  
Jimelee P. Buatis  
Sheryl G. Calamiong  
Wilfredo R. Capuz  
Maria Hazel B. Cayog  
Christine R. Chua  
Joan Marie P. Co  
Melanie Ann C. Cuevas  
Vernie C. Dela Cruz  
Kristine M. Dispo  
Carl Anthony D. Domaoan  
Felicidad Y. Fernando  
Abraham Louie D. Galabo  
Romell A. Gamboa  
Angelli Mae M. Gundayao  
Zarah Katrina A. Lacaya  
Joyce R. Lacsinto  
Merlyn C. Mangoba  
Lee Bhonn G. Marimat  
Jan Jerico D. Obra  
Evelyn I. Pangan  
Maria Arvida F. Pinga  
Maria Corazon B.  
Sumangkilay  
Julienel E. Teodoro  
Russell Vernon S. Yu

### PROVINCIAL

Jose Edmund T. Abapo  
Allan S. Agustin  
Mylene T. Almario  
Ruby Rosalyn N. Balucan  
Kimberly G. Callao  
Giovanni P. Capawa  
Jayson R. Coquia  
Pepito C. Dumaluan  
Beniver P. Garcia  
Celso A. Garcia  
Daphne Y. Gomez  
Richard C. Grande  
Jennifer T. Gulane  
Jovenal N. Jose  
Mario Louie C. Julve, Sr.  
Ma. Cheryl D. Magdamo  
Marlon F. Magrata  
Arturo H. Najorra  
Ramon C. Navarro  
Pamela G. Overly  
Rommel I. Paguio  
Virgilio M. Serafica  
Mark Rommel A. Sunga  
Catherine D. Tiamsim  
Glyn C. Binayas

## HEAD OFFICE UNITS

Ernesto V. Aguilar, Jr.  
Analyn M. Alcantara  
Susana B. Alvarez  
Carlos M. Andaya  
Myla R. Ariola  
Melanie R. Bautista  
Joann D. Casin  
Ann Marie S. Castillo  
Razel V. Clemente  
Haydee S. Cubacub  
Jerome C. De Vera  
Janice Marie S. Decena  
Manolo O. Diaz  
Eleonor H. Dumlao  
Stephanie Joy A. Español  
Alberto D. Estrella, Jr.  
Concepcion E. Foronda  
Fierryleen C. Gerola  
Desiree M. Guerrero  
Maureen C. Giangan  
Cristina S. Herrera  
Frederick Allan R. Labog  
Vivian D. Miranda  
Mark Rhyan J. Montenegro  
Merpha K. Monzales  
Sheila C. Nepomuceno  
Prichie T. Ocampo  
Maria Leonora C. Palaganas  
Edwin D. Sacsi  
Irish Lou M. Santiago  
Maria Leah D. Villaran

# PRODUCTS AND SERVICES

## LEASING

Preserving capital with these leasing options can drive one's business towards growth. Whether logistics, distribution, medical, pharmaceutical, mining, or other industries that require the use of specific equipment, leasing is a viable financing option. It allows the procurement of much-needed equipment without the depletion of available cash or existing credit lines, thereby facilitating better management of cash flow and other financial resources. Leasing offers the following benefits:

- Higher amount financed
- Affordable monthly payments
- Tax-timing benefits
- No chattel mortgage fees

### FINANCE LEASE

Ideal for medium-term financing. With minimal capital outlay, essential and necessary heavy capital equipment can be acquired and used upon demand.

### OPERATING LEASE

Only the use of equipment is paid for. At the end of the lease period, the option to return or purchase the equipment at Fair Market Value (FMV) is available.

## AMORTIZED COMMERCIAL LOAN (ACL)

Through the mortgage of collateral, whether in the form of real estate or equipment, ACL can fulfill capital acquisition requirements through flexible payment options. With a low down payment, a higher amount is financed and the client retains ownership of the asset.

## INSTALLMENT PAPER PURCHASE (IPP)

Generate ready cash for additional working capital or for various business requirements through IPP. Tied-up capital is easily liquidated through the sale of existing installment receivables, thus making available cash that can be used for other business needs. And with interest expense being an allowable deduction from taxable income, there is an additional benefit of tax savings.

## FACTORING OF RECEIVABLES

A good alternative to short-term financing, factoring of receivables enables a business to work at full capacity with the immediate funds generated from it. Through the selling of local trade receivables with no required collateral, BDO Leasing advances up to 80% of the value of the invoices, thereby supplying immediate working capital. BDO Leasing's experienced collection team also handles the collection.

## FLOOR STOCK FINANCING

Ideal for transport vehicle and equipment dealers, Floor Stock Financing is a revolving short-term credit facility that finances the purchase from manufacturers of inventory assets such as motor vehicles, trucks, and heavy equipment. With Floor Stock Financing, inventory is guaranteed to be in place when sales opportunities arise, without the need for self-financing the purchase.



# BRANCH DIRECTORY

## MANDALUYONG (HEAD OFFICE)

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Telephone: +632 688-1288, 840-7000  
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633-7721, 635 6453

## PAMPANGA

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Balibago, Angeles City  
Telephone: +632 702-6000 local 52168;  
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Facsimile: +6345 405-0125

## CEBU

Mezzanine Floor  
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Facsimile: +6382 226-2851

## ILOILO

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## CAGAYAN DE ORO

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locals 39803, 52005  
Facsimile: +6388 231-4478



# FINANCE YOUR BUSINESS THROUGH LEASING

WE OFFER BETTER FUNDING  
OPTIONS FOR YOUR EQUIPMENT  
NEEDS:

- Low cash outlay
- Lease term up to 5 years
- Convert existing assets into cash through sale and leaseback
- Expand or upgrade existing equipment



**BDO** Leasing