

COVER SHEET

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S.E.C. Registration Number

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(Company's Full Name)

B	D	O	L	E	A	S	I	N	G	C	E	N	T	R	E	,	C	O	R	I	N	T	H	I	A	N
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G	A	R	D	E	N	S		O	R	T	I	G	A	S		A	V	E	N	U	E								
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(Business Address: No. Street/ City/ Town/ Province)

Atty. Elmer B. Serrano

Atty. Elmer B. Serrano

Contact Person

687.1195

687.1195

Company Telephone Number

1	2
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3	1
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Month Day

Fiscal Year

Definitive Information Statement

Definitive Information Statement

FORM TYPE

Month Day

Annual Meeting

Secondary License Type, If Applicable

C	F	D
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Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accompanied by SEC Personnel concerned

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File Number

[illegible]

Document I.D.

STAMPS

STAMPS

**NOTICE OF ANNUAL
MEETING WITH
PROXY**

NOTICE OF ANNUAL STOCKHOLDERS' MEETING

Dear Stockholder:

Please be informed that the Annual Meeting of the Stockholders of **BDO LEASING AND FINANCE, INC. (the "Corporation")** will be held on **April 22, 2015, Wednesday, at 10:00 a.m.** at the Francisco Santiago Hall, Mezzanine Floor, South Tower, BDO Corporate Center, 7899 Makati Avenue, Makati City, Metro Manila.

The Agenda of the meeting is as follows:

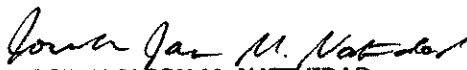
- I. Call to order
- II. Certification of notice and determination of existence of quorum
- III. Approval of the minutes of the annual stockholders' meeting held on April 23, 2014
- IV. President's Report and approval of the Audited Financial Statements of the Corporation as of December 31, 2014
- V. Open Forum
- VI. Approval and ratification of all acts and proceedings of the Board of Directors, the Board Committees and Management during their respective term of offices
- VII. Election of the Board of Directors
- VIII. Appointment of External Auditor
- IX. Amendment of Third Article of the Articles of Incorporation of BDOLF
- X. Other Business that may properly be brought before the meeting
- XI. Adjournment

Each agenda item is explained in the Definitive Information Statement ("DIS"), with brief details and rationale in attached Annex "A".

The stockholders of record as of **March 5, 2015** are entitled to notice of, and to vote at, this year's Annual Meeting. Stockholders unable to attend the Annual Meeting in person may execute and deliver a proxy. Proxies shall be submitted **on or before April 12, 2015** addressed to the attention of the Corporate Secretary. Validation of proxies is set on **April 16, 2015, 12:00 noon** at BDO Corporate Center, 7899 Makati Avenue, Makati City. For reference only, stockholders may opt to use the proxy form which may be downloaded in the Corporation's website.

Registration will begin at 8:00 a.m. and close at 9:50 a.m. or immediately before the start of the meeting. Please bring this notice and any form of identification, such as passport, driver's license, or any other government-issued ID to facilitate registration.

BDO Leasing & Finance, Inc.
BDO Leasing Centre
Corinthian Gardens, Ortigas Avenue
Quezon City, Philippines
Tel +63(2) 635 6416
Fax +63(2) 635 5811, 635 5805, 635 3898


JOSEPH JASON M. NATIVIDAD
Corporate Secretary

ANNEX "A"

AGENDA DETAILS AND RATIONALE

- I. **Call to order.** The Chairperson, Ms. Teresita T. Sy, will formally open the 2015 Annual Stockholders' Meeting of BDO Leasing and Finance, Inc. (the "Corporation").
- II. **Certification of notice and determination of existence of quorum.** The Corporate Secretary, Atty. Joseph Jason M. Natividad, will certify that copies of the Notice of this Meeting have been duly sent to all stockholders of record as of March 5, 2015, and will attest whether a quorum is present for the valid transaction of the Annual Stockholders' Meeting and all the matters included in the Agenda.
- III. **Approval of the minutes of the annual stockholders' meeting held on April 23, 2014.** Copies of the Minutes are available for examination during office hours at the Office of the Corporate Secretary and at the Corporation's website <https://www.bdo.com.ph/business/leasing-finance/about-us/company-disclosures>. Stockholders will be asked to approve the Minutes. Below is the text of the proposed resolution:

"RESOLVED, That the Stockholders of BDO Leasing and Finance, Inc. approve, as they hereby approve, the Minutes of the Annual Stockholder's Meeting held on April 23, 2014."

- IV. **President's Report and approval of the Audited Financial Statements as of December 31, 2014 (AFS).** The Report presents a summary of the performance of the Corporation for the year 2014. It includes the highlights of the AFS of the Corporation which is incorporated in the Definitive Information Statement. Copies of AFS are submitted to the Securities and Exchange Commission and Bureau of Internal Revenue.
- V. **Open Forum.** Every Stockholder, after identifying himself/itself, may raise any relevant question or express any appropriate comment.
- VI. **Approval and ratification of all acts and proceedings of the Board of Directors, the Board Committees and Management during their respective term of offices.** All actions and proceedings, including approvals of significant related parties' transactions, of the Board of Directors, the Board Committees, and the Management of the Corporation from the last Annual Meeting of the Corporation held on April 23, 2014 will be presented to the stockholders for their approval and ratification. These collective acts are the main keys to the successful performance of the Corporation in 2014.
- VII. **Election of Directors.** The Chairman of the Nomination Committee will present to the stockholders the nominees for election as members of the Board of Directors of the Corporation, including the independent directors. The nomination period is February 20 to

March 6, 2015. The profiles of the nominees to the Board of Directors are to be provided in the Definitive Information Statement for reference of the stockholders.

The stockholders will cast their votes for the nominees they want to elect to the Board of Directors of the Corporation. The tabulation and validation of votes will be conducted by the Office of the Corporate Secretary or an independent party to be engaged by the Corporation.

- VIII. **Appointment of External Auditor.** The Board Audit Committee of the Corporation would accept and screen the nominees for external auditor of the Corporation. It will make the appropriate recommendation on the appointment of one auditing firm as external auditor of the Corporation. The recommended external auditor will be presented to the stockholders for their approval.
- IX. **Amendment of the Third Article of the Articles of Incorporation.** The amendment of the Third Article of the Articles of Incorporation of BDOLF changing its principal place of business from "BDO Leasing Centre, Corinthian Gardens, Ortigas Avenue, Quezon City, Philippines" to "The Podium, 12 ADB Avenue, Ortigas Center, Mandaluyong City, Philippines".
- X. **Other Business that may properly be brought before the meeting.** All other matters that arise after the Notice of Meeting and Agenda have been sent out, or raised throughout the course of the meeting, and which need to be presented to the stockholders for consideration will be taken up under this item. Stockholders may raise such matters as may be relevant or appropriate to the occasion.
- XI. **Adjournment.** After consideration of all business, the Chairperson shall declare the meeting adjourned. This formally ends the 2015 Annual Stockholders' Meeting of the Corporation.

PROXY

KNOWN ALL MEN BY THESE PRESENTS:

That I/We, the undersigned stockholder(s) of **BDO LEASING AND FINANCE, INC.**, a Philippine Corporation, do hereby nominate, constitute and appoint _____, as my/our true and lawful attorney or proxy, with full power of substitution and revocation, to represent me/us and vote all shares registered in my/our name(s) on the books of said Corporation, at any and all regular or special meetings of the shareholders of said Corporation or at any adjournment or adjournments thereof, or any and all matters and things that may come at said meetings or any adjournments thereof, as fully to all intents and purposes as I/We might or could do if personally present, hereby revoking any proxy or proxies heretofore given to vote such stock, and ratifying and confirming all that my/our above mentioned attorney or proxy or his/her/their substitute(s), may do or cause to be done by virtue of these presents.

In case of the non-attendance of my/our said attorney or proxy above named or his/her/their duly designated substitute(s) at any particular meeting, I/We hereby authorized and empower the Chairman of the meeting to fully exercise all rights as my/our attorney or proxy at such meeting. The power and authority hereby granted shall remain valid and effective until such time as the same is withdrawn by me/us through notice in writing delivered to the Secretary before the date of any such meeting or adjournment(s) thereof, or until the last day of the fifth year from the date hereof, whichever comes first, but shall be deemed suspended and inapplicable in instances where I personally attend the meeting.

IN WITNESS WHEREOF, I/we have hereunto set my/our hand(s) this ____ day of _____, at _____, Philippines.

Printed Name and Signature of Stockholder

Address

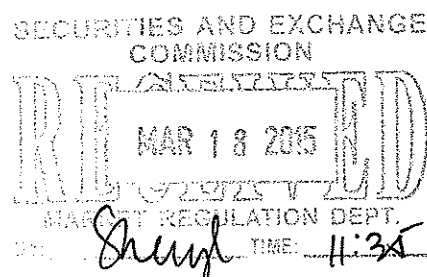
THIS PROXY IS NOT REQUIRED TO BE NOTARIZED

**DEFINITIVE
INFORMATION
STATEMENT**

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

**INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE**



1. Check the appropriate box:

☐ Preliminary Information Statement

☒ Definitive Information Statement

2. Name of Registrant as specified in its charter:

BDO LEASING AND FINANCE, INC.

3. Country of Incorporation or organization: **Metro Manila, Philippines**

4. SEC Identification Number: **97869**

5. BIR Tax Identification Code: **000-486-050-000**

6. Address of Principal Office: **BDO Leasing Centre
Corinthian Gardens
Ortigas Avenue
Quezon City 1100**

7. Registrant's Telephone Number, Including Area Code: **(632) 635-6416/635-5811
(632) 635-5805/635-3898**

8. Date, time and place of the annual meeting of the security holders:

Date	-	April 22, 2015 (Wednesday)
Time	-	10:00 AM
Place	-	Francisco Santiago Hall Mezzanine Floor, BDO Corporate Center 7899 Makati Avenue, Makati City

9. Approximate date on which the Information Statement is first to be sent or given to security holders:

on or before March 27, 2015

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (Information on Number of Shares and Amount of Debt is Applicable Only to Corporate Registrants):

<u>Title of each Class</u>	<u>Subscribed and Outstanding</u>	
	<u>No. of Shares</u>	<u>Amount in Pesos</u>
Common	<u>2,162,475,312</u>	<u>Php 2,162,475,312.00</u>
Total	<u>2,162,475,312</u>	<u>Php 2,162,475,312.00</u>
	<u>Authorized</u>	<u>Outstanding</u>
Short Term Commercial Paper	Php 25,000,000,000.00	13,389,800,000.00
Long Term Commercial Paper	0.00	0.00
Total	<u>Php 25,000,000,000.00</u>	<u>13,389,800,000.00</u>

11. Are any or all of registrant's securities listed on a Stock Exchange?

Yes (✓) No () Philippine Stock Exchange, Common Shares only
(not commercial papers)

BDO LEASING AND FINANCE, INC.
INFORMATION STATEMENT

THIS INFORMATION STATEMENT IS BEING FURNISHED TO STOCKHOLDERS OF RECORD OF BDO LEASING AND FINANCE, INC. AS OF **MARCH 5, 2015** IN CONNECTION WITH THE ANNUAL STOCKHOLDERS' MEETING. COPIES OF THE INFORMATION STATEMENT WILL BE FIRST SENT OR GIVEN TO SECURITY HOLDERS ON OR BEFORE **MARCH 27, 2015**.

INFORMATION REQUIRED IN INFORMATION STATEMENT

A. GENERAL INFORMATION

ITEM 1. DATE, TIME AND PLACE OF ANNUAL MEETING OF SECURITY HOLDERS

The Annual Stockholders' Meeting of BDO Leasing and Finance, Inc. (the **"Company"**) or the **"Registrant"**) for 2015 will be held on April 22, 2015, Wednesday, at 10:00 in the morning at the Francisco Santiago Hall, Mezzanine Floor, BDO Corporate Center, 7899 Makati Avenue, Makati City, Philippines.

COMPLETE MAILING ADDRESS OF PRINCIPAL OFFICE OF REGISTRANT

The Company's complete mailing address, principal address and principal office is at the BDO Leasing Centre, Corinthian Gardens, Ortigas Avenue, Quezon City.

ITEM 2. DISSENTER'S RIGHT OF APPRAISAL

The Company respects the inherent rights of shareholders in accordance with law. The Company recognizes that all shareholders should be treated fairly and equally whether they are controlling or minority, local or foreign. To ensure this, the By-Laws of the Company provides that all shares of each class should carry the same rights, and any changes in the voting rights shall be approved by them.

When a proposed corporate action would involve a substantial and fundamental change in the Company in the cases provided by law, a stockholder may exercise his appraisal rights. Pursuant to Section 81 of the Corporation Code of the Philippines (the **"Corporation Code"**), a stockholder may exercise his appraisal right by dissenting on any of the following corporate actions and demanding payment of the fair value of his shares:

- (1) amendment to the articles of incorporation that has the effect of changing or restricting the rights of any stockholder or class of shares;
- (2) amendment to the articles of incorporation that has the effect of authorizing preferences in any respect superior to those of outstanding shares of any class;
- (3) amendment to the articles of incorporation that either extends or shortens the term of corporate existence;
- (4) in case of lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code; or
- (5) in case of merger or consolidation.

The procedure for the exercise of a stockholder's appraisal right is as follows:

- (1) A stockholder shall have dissented to such corporate action;
- (2) Within thirty (30) days after the date on which the vote was taken, the dissenting stockholder shall make a written demand on the Company for payment of the fair value of his shares.

Failure to make the demand within such period shall be deemed a waiver of the appraisal right.
- (3) Within ten (10) days after demanding payment for his shares, the dissenting stockholder shall submit to the Company the certificate(s) of stock representing his shares for notation thereon that such shares are dissenting shares. His failure to do so shall, at the option of the Company, terminate his appraisal rights.
- (4) No demand for payment as aforesaid may be withdrawn by the dissenting stockholder unless the Company consents thereto.
- (5) If the corporate action is implemented or effected, the Company shall pay to such dissenting stockholder, upon surrender of the certificate(s) of stock representing his shares, the fair value thereof as of the day prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of a merger if such be the corporate action involved.
- (6) If within a period of sixty (60) days from the date the corporate action was approved by the stockholders, the dissenting stockholder and the Company cannot agree on the fair value of the shares, it shall be appraised and determined by three (3) disinterested persons, one of whom shall be named by the stockholder, another by the Company, and the third by the two (2) thus chosen.
- (7) The findings of a majority of the appraisers shall be final, and their award shall be paid by the Company within thirty (30) days after such award is made. No payment shall be made to any dissenting stockholder unless the Company has unrestricted retained earnings in its books to cover such payment.
- (8) Upon payment of the agreed or awarded price, the stockholder shall forthwith transfer his shares to the Company.

There are no matters to be taken up in the stockholders' meeting which would warrant the exercise of an appraisal right. *The proposed amendment to the Third Article of the Company's Articles of Incorporation changing the principal place of business of the Company from "BDO Leasing Centre, Corinthian Gardens, Ortigas Avenue, Quezon City, Philippines" to "The Podium, 12 ADB Avenue, Ortigas Center, Mandaluyong City", will not entitle a dissenting shareholder to exercise its appraisal right as the same does not fall within any of the cases enumerated under Section 81 of the Corporation Code.*

ITEM 3. INTEREST OF CERTAIN PERSONS IN OR OPPOSITION TO MATTERS TO BE ACTED UPON

The Registrant is not aware of any substantial interest, direct or indirect, by security holdings or otherwise, of any director of the Registrant, nominee for election or associate of any of the foregoing in any matter to be acted upon, other than the election to office. No information has been given to the Registrant by any of its directors of his intention to oppose any action to be taken by the Registrant at the meeting.

B. CONTROL AND COMPENSATION INFORMATION

ITEM 4. VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

The number of shares outstanding and entitled to vote in the stockholders' meeting is **2,162,475,312** shares. The record date for purposes of determining stockholders entitled to vote in the meeting is **March 5, 2015**. The Company has no class of shares other than common shares.

In the election of directors, each stockholder entitled to vote may cumulate and distribute his votes in accordance with the provisions of the Corporation Code. There are no conditions precedent for the exercise of the cumulative voting rights in the election of directors.

SECURITY OWNERSHIP OF CERTAIN RECORD AND BENEFICIAL OWNERS AND MANAGEMENT ARE AS FOLLOWS:

(1) Owners of more than 5% of voting securities as of February 28, 2015:

Title of class	Name and Address of Record Owner & Relationship with Issuer	Name of Beneficial Owner & Relationship with Record Owner	Citizenship	Number of Shares Held	Percentage
Common	BDO Unibank, Inc.* <i>(formerly Banco De Oro Unibank, Inc.)</i> BDO Corporate Center 7899 Makati Avenue, Makati City <i>BDO Unibank, Inc. is the parent company of the Registrant</i>		Filipino	1,840,116,632	85.09%
Common	PCD Nominee Corp. G/F Makati Stock Exchange Building, 6767 Ayala Avenue, Makati City <i>PCD Nominee has no relationship with the Registrant except as stockholder.</i>	No stockholder owns more than 5% of the company's voting securities	Filipino Foreigner	232,711,118 538,953	10.76% 0.02%

Ms. Teresita T. Sy or Mr. Nestor V. Tan, Chairperson and President & Chief Executive Officer, respectively, of BDO Unibank, Inc. ("**BDO Unibank**" or the "**Parent Company**") will vote on behalf of the Parent Company.

*BDO Unibank, Inc. is owned by the following stockholders owning more than 5% as of February 28, 2015:

Title of Class	Name & Address of Record Owner	Citizenship	Number of BDO Shares Held	Percentage
Common	SM Investments Corporation 10th Floor, One E-corn Center, Harbour Drive, Mall of Asia Complex, CBP-I-A, Pasay City	Filipino	1,463,657,368	40.87%
Common	PCD Nominee Corp. 37th Floor, The Enterprise Center Ayala Avenue, Makati City	Foreign	1,218,397,772	34.03%
Common	PCD Nominee Corp. 37th Floor, The Enterprise Center Ayala Avenue, Makati City	Filipino	341,171,940	9.53%
Common	Multi-Realty Development Corporation 10th Floor L.V. Locsin Building 6752 Ayala Avenue, Makati City	Filipino	236,476,739	6.60%
Common	Sybase Equity Investments Corporation 10th Floor L.V. Locsin Building 6752 Ayala Avenue, Makati City	Filipino	183,958,132	5.14%
TOTAL (COMMON)			3,443,661,951	96.17%
Preferred	Sybase Equity Investments Corporation 10th Floor L.V. Locsin Building 6752 Ayala Avenue, Makati City	Filipino	391,400,000	76.00%
Preferred	SM Investments Corporation 10th Flr, L.V. Locsin Bldg., 6752 Ayala Avenue, Makati City	Filipino	123,600,000	24.00%
TOTAL (PREFERRED)			515,000,000	100.00%

(2) Security Ownership of Management as of February 28, 2015:

Following are the securities beneficially owned by directors and executive officers of the Company:

DIRECTORS:

Title of Class	Name of Beneficial Owner	Amount & Nature of Beneficial ownership	Citizenship	Percentage
Common	Teresita T. Sy Chairperson	100 (R)	Filipino	0.0000046%
Common	Roberto E. Lapid Vice Chairman & President	100 (R)	Filipino	0.0000046%
Common	Jesse H.T. Andres	100 (R)	Filipino	0.0000046%
Common	Antonio N. Cotoco	115 (R)	Filipino	0.0000053%
Common	Ma. Leonora V. De Jesus	100 (R)	Filipino	0.0000046%
Common	Jeci A. Lapus	100 (R)	Filipino	0.0000046%
Common	Luis S. Reyes Jr.	100 (R)	Filipino	0.0000046%
Common	Nestor V. Tan	100 (R)	Filipino	0.0000046%
Common	Jesus G. Tirona	100 (R)	Filipino	0.0000046%
Common	Exequiel P. Villacorta, Jr.	100 (R)	Filipino	0.0000046%
Common	Walter C. Wassmer	100 (R)	Filipino	0.0000046%
	Total	1,115		0.0000513%

OFFICERS:

Title of class	Name of Beneficial Owner	Amount & Nature of Beneficial ownership	Citizenship	Percentage
Common	Teresita T. Sy Chairperson	100 (R)	Filipino	0.0000046%
Common	Roberto E. Lapid Vice Chairman & President	100 (R)	Filipino	0.0000046%
Common	Rosario C. Crisostomo Vice President	106,260 (R)	Filipino	0.0049138%
	Total	106,460		0.0049230%

The total number of shares owned by officers of the Registrant is 106,460 shares, which is equivalent to 0.0049230% of the total outstanding capital stock of the Registrant.

(3) Voting Trust holders of 5% or more:

There are no voting trust holders of 5% or more as of February 28, 2015.

(4) Changes in Control

There has been no change in control since the beginning of the Registrant's last fiscal year.

ITEM 5. DIRECTORS AND EXECUTIVE OFFICERS**(1) The incumbent directors and executive officers of the Registrant and their respective business experience inclusive of the last five (5) years are as follows:****TERESITA T. SY**

CHAIRPERSON

64 YEARS OLD, FILIPINO

Ms. Sy was first elected director of BDO Leasing and Finance, Inc. in September 2005 and currently serves as Chairperson of the Board. She was first elected to the board of BDO Unibank in 1997 where she now sits as Chairperson. Concurrently, she serves as the Chairperson, Vice-Chairperson, and/or Director of various subsidiaries and affiliates of BDO Unibank such as BDO Private Bank, Inc., BDO Capital & Investment Corporation, BDO Foundation, Inc., Generali Pilipinas Holding Company, Inc., Generali Pilipinas Life Assurance Company, Inc., and Generali Pilipinas Insurance Co., Inc. Ms. Sy is the Vice-Chairperson of SM Investments Corporation and adviser to the board of SM Prime Holdings, Inc. She also sits as Vice Chairperson and/or Director of Multi Realty Development Corporation, Belleshare Holdings, Inc. (formerly SM Commercial Properties, Inc.), SM Mart, Inc., SM Retail, Inc., Prime Metroestate Inc. (formerly Pilipinas Makro, Inc.), and First Asia Realty Development Corp. A graduate of Assumption College, she brings to the Board her varied expertise in banking & finance, retail merchandising, mall and real estate development.

ROBERTO E. LAPID

VICE CHAIRMAN AND PRESIDENT

58 YEARS OLD, FILIPINO

Mr. Roberto E. Lapid was elected as the Vice Chairman of BDO Leasing and Finance, Inc. on

December 1, 2010, and was appointed as President on April 23, 2014. He is concurrently President and Vice Chairman of the Board in a wholly-owned subsidiary, BDO Rental, Inc. He was formerly the President of Equitable Exchange, Inc. and Vice Chairman/Director of EBC Investments, Inc. (now BDO Strategic Holdings Inc.). He holds a Bachelor's degree in Business Administration from the University of the Philippines.

JESSE H.T. ANDRES

INDEPENDENT DIRECTOR

50 YEARS OLD, FILIPINO

Atty. Jesse H.T. Andres was elected as Independent Director of BDO Leasing and Finance, Inc. on September 20, 2005, and is presently a member of the Company's Board Audit Committee, Corporate Governance Committee, and Chairman of the Nomination Committee and the Related Party Transactions Committee. Moreover, he is also serving as Independent Director of Banco De Oro Savings Bank, Inc. (formerly Citibank Savings, 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 is the Managing Partner of the Andres Padernal & Paras Law Offices. He was also a Partner in the PECABAR Law Offices from 1996 to 2003 where he became Co-Head of the Litigation Department in 2001. Previously, he was Senior Manager of the Philippine Exporters' Foundation, and Board Secretary of GTEB, Department of Trade and Industry. Atty. Andres holds a Bachelor of Arts Degree in Economics from the School of Economics, U.P. Diliman, and a Bachelor of Laws degree from the U.P. College of Law.

ANTONIO N. COTOCO

DIRECTOR

66 YEARS OLD, FILIPINO

Mr. Antonio N. Cotoco was elected to the Board of BDO Leasing and Finance, Inc. on January 25, 2001. He currently serves as Senior Executive Vice President and a member of the Board Credit Committee of BDO Unibank, and Director of BDO Insurance Brokers, Inc., BDO Remit Limited, Express Padala (Hong Kong) Limited, BDO Remit (Macau) Ltd., BDO Remit (USA), Inc., and Express Padala Frankfurt GmbH. He is the Chairman of BDO Rental, Inc. He has been involved in Investment Banking, Corporate Finance, Treasury, Consumer Banking, Credit, Business and Development & Account Management over the past 37 years. He currently also serves as a Director of OAC Realty & Development Corporation. Mr. Cotoco holds a Master's degree in Business Administration from the University of the Philippines.

MA. LEONORA V. DE JESUS

INDEPENDENT DIRECTOR

64 YEARS OLD, FILIPINO

Ms. Ma. Leonora V. De Jesus was elected as Independent Director of BDO Leasing and Finance, Inc. on May 12, 2008 and is presently the Chairperson of the Company's Board Audit Committee, and a member of the Corporate Governance, Nomination, and Related Party Transactions Committees. She is also an Independent Director of BDO Capital & Investment Corporation, BDO Elite Savings Bank, Inc. (formerly GE Money Bank, Inc.), and SM Development Corporation. She also serves as Director of Risks, Opportunities Assessment and Management, Inc. (ROAM, Inc.) and the University President of the Pamantasan ng Lungsod ng Maynila. She was formerly Independent Director of Equitable Savings Bank and PCI Capital Corporation. She

was a professorial lecturer at the University of the Philippines, Diliman, and also at the De La Salle Graduate School of Business and Governance. In addition, she conducts training programs and consultancies on corporate governance best practices for banking institutions and other corporations. Ms. De Jesus was a trustee of the Government Service Insurance System (GSIS) from 1998 until 2004, and was a member of the Cabinet of President Corazon C. Aquino, President Fidel V. Ramos and President Joseph E. Estrada. She holds Bachelor's, Master's and Doctoral degrees in Psychology from the University of the Philippines.

JECI A. LAPUS

DIRECTOR

62 YEARS OLD, FILIPINO

Mr. Jeci A. Lapus was elected as Director of BDO Leasing and Finance, Inc. on April 23, 2014 and is presently a member of the Company's Related Party Transactions Committee. He was formerly Independent Director of PCI Leasing and Finance, Inc. (now BDO Leasing and Finance, Inc.) from 2005 to 2006. He was a member of House of Representatives representing the third district of Tarlac from 2007 - 2013. 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. He also served as a Reserved Officer with rank of Lieutenant Colonel in the Philippine Air Force. Mr. Lapus holds a Bachelor of Science Degree in Civil Engineering from the Mapua Institute of Technology and passed the CE Board in 1975.

LUIS S. REYES JR.

DIRECTOR & TREASURER

57 YEARS OLD, FILIPINO

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

NESTOR V. TAN

DIRECTOR

57 YEARS OLD, FILIPINO

Mr. Nestor V. Tan was elected Director of BDO Leasing and Finance, Inc. on January 23, 2007. He is also the President and Chief Executive Officer of BDO Unibank. He also concurrently holds vice chairmanships and/or directorships in the following subsidiaries of BDO Unibank: BDO Capital & Investment Corporation, BDO Insurance Brokers, Inc., BDO Private Bank, Inc., and BDO Remit (USA), Inc. He is also a Director in Generali Pilipinas Life Assurance Company, Inc., Generali Pilipinas Insurance Co., SM Keppel Land, Inc., Asian School of Business & Technology as well as directorship in the Advisory Board of Mastercard Worldwide. He also concurrently holds chairmanship of BDO Strategic Holdings, Inc and Megalink, Inc. He is a Trustee of the following: BDO Foundation, Inc., Pinoy Me Foundation, De La Salle University Board of Advisors, Asian Institute of Management and National Industry and Academe Council. Mr. Tan's banking career includes 15 years of international experience with the Mellon Bank (now Bank of New York-Mellon) in Pittsburgh, PA, the Bankers Trust Company (now Deutsche Bank)

in New York, and the Barclays Group in New York and London. Prior to joining BDO Unibank, he was Chief Operating Officer for the Financial Institutions Services Group of BZW, the investment banking subsidiary of the Barclays Group. He holds a Bachelor's Degree in Commerce from De La Salle University and received his MBA from Wharton School, University of Pennsylvania.

JESUS G. TIRONA

INDEPENDENT DIRECTOR

74 YEARS OLD, FILIPINO

Mr. Jesus G. Tirona has been elected Independent Director to the Board of BDO Leasing and Finance, Inc. since July 30, 2007 and is presently the Chairman of the Company's Corporate Governance Committee, a member of its Board Audit Committee, and alternate member of the Related Party Transactions Committee. He is an Independent Director of BDO Capital & Investment Corp., Banco De Oro Savings Bank, Inc. (formerly Citibank Savings, Inc.) and Armstrong Securities, Inc., and also formerly of American Express Bank Philippines (A Savings Bank, Inc.) and EBC Investments, Inc. (now BDO Strategic Holdings Inc.). He is a Trustee of the BDO Foundation, Inc. He was formerly the President/CEO of LGU Guarantee Corp. - a private sector led credit guarantee institution jointly owned by the BAP, the DBP the ADB - whose mandate is to provide creditworthy LGUs and the utilities sector access to the capital markets through LGUGC-enhanced local debt instruments. He was also Managing Director/CEO of the Guarantee Fund for SMEs and the BAP Credit Guaranty Corp., - both entities promoting SME development. He has a long 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.

EXEQUIEL P. VILLACORTA, JR.

DIRECTOR

69 YEARS OLD, FILIPINO

Mr. Exequiel P. Villacorta, Jr. was elected Director of BDO Leasing and Finance, Inc. on May 24, 2006. He is currently a Director of Premium Leisure Corp. He was previously director of Equitable PCI Bank, Inc. from 2005 to 2006, and EBC Insurance Brokerage, Inc., and Maxicare Healthcare Corporation. He was formerly the Chairman of EBC Strategic Holdings Corporation, EBC Investments, Inc. (now BDO Strategic Holdings 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 (PDCP). He was Senior Adviser and BSP Controller of Equitable PCI Bank, Inc. and PBCom; and Adviser to the Board of PCI Capital Corporation.

WALTER C. WASSMER

DIRECTOR

58 YEARS OLD, FILIPINO

Mr. Walter C. Wassmer was elected Director of BDO Leasing and Finance, Inc. on November 17, 1999. He is the Senior Executive Vice President and Head of BDO Unibank's Institutional Banking Group. He is currently the Chairman and Officer-In-Charge of BDO Elite Savings

Bank, Inc. (formerly GE Money Bank, Inc. (A Savings Bank), Inc.). He also serves as Director of MDB Land, Inc. and Mabuhay Vinyl Corporation.

JOSEPH JASON M. NATIVIDAD

CORPORATE SECRETARY
42 YEARS OLD, FILIPINO

Atty. Joseph Jason M. Natividad was appointed Corporate Secretary of BDO Leasing and Finance, Inc. 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 likewise served as Assistant Corporate Secretary of Equitable PCI Bank prior to its merger with Banco de Oro from September 2006 to June 2007. He serves as the Corporate Secretary of the BDO Rental, Inc. and Agility Group of Companies in the Philippines. He has been in law practice for sixteen (16) years, most of which have been devoted to the fields of corporation law and environmental law. He is currently a member of the Factoran & Associates Law Offices. 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.

ANGELITA L. ORTEGA-CORTEZ

ASSISTANT CORPORATE SECRETARY
60 YEARS OLD, FILIPINO

Atty. Angelita L. Ortega-Cortez was appointed Assistant Corporate Secretary of BDO Leasing and Finance, Inc. on April 17, 2013. She is concurrently the Senior Vice President and Assistant Corporate Secretary of BDO Unibank. She is also the Assistant Corporate Secretary of BDO Private Bank, Inc., BDO Rental, Inc., Armstrong Securities, Inc., and Equimark-NFC Development Corp. She is the Corporate Secretary of PCIB Securities, Inc., BDO Strategic Holdings Inc., and the Sign of the Anvil, Inc. She has had exposure to litigation, arbitration and labor law practice during her stint as Head of BDO Unibank's Legal Services Group. Before joining BDO, she was Vice President/Legal Compliance Officer of BPI Capital Corporation and Director of BPI Securities Corporation. She graduated from the College of Education and finished law at the University of the Philippines.

GERARD M. AGUIRRE

FIRST VICE-PRESIDENT
60 YEARS OLD, FILIPINO

Mr. Gerard M. Aguirre is currently the First Vice President of BDO Leasing and Finance, Inc. He is responsible for the leasing and loan portfolio of BDO IBG International Desk accounts. He handles the recently established BDOLF Team 9 – International Desks comprised of three (3) personnel. He is also a Director of BDO Rental, Inc. He was the Area Head of BDO (Formerly EPCIB) Combank North/Central Luzon before joining the company. Mr. Aguirre earned his BS Degree in Business Management from the Ateneo De Manila University.

AGERICO MELECIO S. VERZOLA

FIRST VICE PRESIDENT & MARKETING HEAD
57 YEARS OLD, FILIPINO

Mr. Agerico Melecio S. Verzola was appointed as First Vice President & Marketing Head of BDO Leasing and Finance, Inc. on October 1, 2014. Mr. Verzola has been involved in Credit,

Corporate Banking, Commercial Banking, Branch Banking and Branch Lending, and Investment Banking over the past 34 years. He graduated with a degree of AB Economics from the University of the Philippines School of Economics, Diliman, and finished a 6-month Advanced Senior Management Course from AIM.

PETER BLAIR S. AGUSTIN

VICE PRESIDENT/CHIEF RISK AND COMPLIANCE OFFICER
45 YEARS OLD, FILIPINO

Mr. Peter Blair S. Agustin is Vice President at BDO Unibank Group and was appointed as Chief Risk and Compliance Officer of BDO Leasing and Finance Inc. in February 2014. He joined BDO Unibank in November 2005. Mr. Agustin has been involved in commercial banking, remedial accounts and asset management, corporate recovery and credit and risk management over the past 18 years. He also was senior technical and policy officer at the Presidential Management Staff – Office of the President of the Philippines from 1989 to 1996. Mr. Agustin earned his Master's Degree in Business Administration from Ateneo Graduate School of Business in 1995 (Dean's Lister) and his Bachelor's degree in Economics from the University of Mindanao in 1989 (*Summa Cum Laude* and was chosen as one of The Outstanding Students of the Philippines in 1989).

(2) Nominees for Election as Members of the Board of Directors (including Nominees for Independent Directors)

The following incumbent directors were re-nominated by BDO Unibank:

1. Teresita T. Sy
2. Antonio N. Cotoco
3. Roberto E. Lapid
4. Jeci A. Lapus
5. Luis S. Reyes, Jr.
6. Nestor V. Tan
7. Exequiel P. Villacorta, Jr.
8. Walter C. Wassmer

The following individuals were nominated as independent directors by Ms. Mannette D. Vicente, a shareholder of the Company:

1. Jesse H.T. Andres
2. Ma. Leonora V. De Jesus
3. Jesus G. Tirona

and to the Company's knowledge, Atty. Jesse H.T. Andres, Ms. Ma. Leonora V. De Jesus, and Mr. Jesus G. Tirona do not have any business or other relationship with Ms. Vicente. Moreover, Atty. Andres, Ms. De Jesus, and Mr. Tirona are not related to the Board of Directors of BDO Unibank as members thereof.

The nominees may be elected to the Board of Directors in the coming meeting. Pursuant to the Company's By-Laws, the nominations for election as regular and independent directors were submitted to the Corporate Secretary in accord with Section 8.b. thereof. Thereafter, in accord with Section 8.a. of the same by-laws, the evaluation of nominations for independent and regular directors was conducted by the Nomination Committee prior to the stockholder's meeting. The Nomination Committee is chaired by

Atty. Jesse H. T. Andres and its members are Mr. Antonio N. Cotoco and Ms. Ma. Leonora V. De Jesus.

Only a stockholder of record entitled to notice of and to vote at the regular or special meeting of the stockholders for the election of directors shall be qualified to be nominated and elected as a director of the Registrant.

The independent directors of the Registrant were chosen and elected as such based on the definition and criteria set forth under existing regulations of the Securities and Exchange Commission ("SEC") and the Bangko Sentral ng Pilipinas ("BSP"). The procedure for the election of independent directors conforms to the procedures set forth in relevant BSP and SEC circulars.

The Directors hold office for one (1) year until their successors shall have been elected and have qualified.

(3) Significant Employees

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

(4) Family Relationships

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

(5) Involvement of Directors and Executive Officers in Certain Legal Proceedings

The Company is not aware of any legal proceedings of the nature required to be disclosed under Part I, paragraph C of "Annex C" of SRC Rule 12 with respect to directors and executive officers.

The Company is not aware of any bankruptcy proceedings filed by or against any business which a director or executive officer is a party or of which any of their property is subject.

The Company is not aware of any conviction by final judgment in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, of any of its directors or executive officers, which occurred during the past five (5) years up to January 31, 2015.

The Company is not aware of any order, judgment, or decree not subsequently reversed, superseded, or vacated, by any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending, or otherwise limiting the involvement of a director or executive officer in any type of business, securities, commodities, or banking activities.

The Company is not aware of any findings by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self regulatory organization, that any of its directors or executive officers, have violated a securities or commodities law.

ITEM 6. COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

Summary Compensation Table

NAMED GROUP

<i>Name and Principal Position (CEO & Executive Officers)</i>	<i>Year</i>	<i>Salary</i>	<i>Bonuses</i>
The President and four most highly compensated executive officers			
2014: Roberto E. Lapid (President) Gerard M. Aguirre (First Vice President) Agerico Melecio S. Verzola (First Vice President) Rosalisa B. Kapuno (Vice President) Jennifer F. So (Vice President)			
2013: Georgiana A. Gamboa (President) Gerard M. Aguirre (First Vice President) Renato G. Oñate (First Vice President) Rosalisa B. Kapuno (Vice President) Jennifer F. So (Vice President)			
TOTAL SALARY	2015*	Php 17,341,940	Php 8,646,311
	2014	Php 15,765,400	Php 7,860,283
	2013	Php 17,317,125	Php 9,141,000

* Estimated amount for 2015

UNNAMED GROUP

	<i>Year</i>	<i>Salary</i>	<i>Bonuses</i>
Directors and all other Officers as a group Unnamed	2015*	Php 83,576,966	Php 21,237,895
	2014	Php 75,979,060	Php 19,307,178
	2013	Php 77,329,191	Php 19,355,430

* Estimated amount for 2015

There are currently no separate employment contracts between the Company and its named executive officers other than the regular employment agreements that all officers are subject to. There are no outstanding warrants or stock options held by the Registrant's directors or executive officers. There are no price or stock warrants or options that are adjusted or amended.

Certain Relationships and Related Transactions

Related party transactions are transfers of resources, services or obligations between the group (the Company and its subsidiaries, collectively referred to as 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.

ITEM 7. INDEPENDENT PUBLIC ACCOUNTANTS

The present external auditor of the Company, the accountancy and auditing firm of **Punongbayan & Araullo, CPAs (P&A)**, will be recommended to be re-appointed as the external auditor of the Registrant for the ensuing year. P&A has been the Company's Independent Public Accountants for the past five (5) years. Representatives of P&A will be present during the annual meeting and will be given the opportunity to make a statement if they desire to do so. They are also expected to respond to appropriate questions if needed. There was no event in the past where P&A and the Company had any disagreement with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope or procedure.

Pursuant to existing BSP and SEC regulations more particularly SRC Rule 68, paragraph 3 (b)(iv), the Registrant shall change its external auditor or rotate the engagement partners every five (5) years. The change shall be reflected in a current report (SEC Form 17-C). A description of any disagreement with respect to the transfer of the account or other accounting/auditing issues shall be included in the report.

The Registrant's Board Audit Committee is chaired by Ms. Ma. Leonora V. De Jesus, with Atty. Jesse H.T. Andres and Mr. Jesus G. Tirona as members.

C. OTHER MATTERS

ITEM 8. ACTION WITH RESPECT TO REPORTS

The following shall be submitted to the stockholders for approval:

- a. Minutes of the annual stockholders' meeting held on April 23, 2014 at 10:05 in the morning at the Francisco Santiago Hall, Mezzanine Floor, BDO Corporate Center, 7899 Makati Avenue, Makati City (attached as Annex "A");
- b. President's Report and approval of the Audited Financial Statements of the Company as of December 31, 2014; and
- c. Approval and ratification of all acts and proceedings of the Board of Directors, the Board Committees and Management during their respective term of offices.

Except with respect to Item 9 below, there are no specific acts or proceedings which, by law, are required to be approved or ratified by the stockholders. Nevertheless, acts and proceedings covered by resolutions duly adopted by the Board of Directors, Executive Committee, Board Audit Committee and other Committees of the Board in the normal course of business pertaining to credit transactions, approving authorities, designation of corporate signatories, regulatory compliances, and similar matters shall be submitted to the stockholders for their notation. These acts and proceedings are described in the minutes of the Board and Board committee meetings which are available for inspection at reasonable hours on any business day.

ITEM 9. AMENDMENT OF CHARTER, BY-LAWS OR OTHER DOCUMENTS

The proposed amendment to the Third Article of the Company's Articles of Incorporation changing the principal place of business of the Corporation from "BDO Leasing Center, Corinthian Gardens, Ortigas Avenue, Quezon City, Philippines" to "The Podium, 12 ADB Avenue, Ortigas Center, Mandaluyong City, Philippines" will be submitted to the stockholders for approval.

ITEM 10. VOTING PROCEDURES

Except as otherwise provided by law, each stockholder of record shall be entitled at every meeting of stockholders to one vote for each share of stock standing in his name on the stock books of this Company, which vote may be given personally or by attorney or authorized in writing. In accordance with the process on proxy validation, the instrument authorizing an attorney or proxy to act shall be exhibited to the Secretary if he shall so request. In the election of Directors, each stockholder entitled to vote may cumulate and distribute his votes in accordance with the provisions of the Corporation Code. The eleven (11) directors receiving the highest number of votes shall be declared elected. As regards the other items of the agenda, a majority vote of the shares present and constituting a quorum will be required to approve the matter under consideration.

The Canvassing Committee, chaired by the Corporate Secretary, will be responsible for counting votes based on the number of shares entitled to vote owned by the stockholders who are present or represented by proxies at the Annual Meeting of the Stockholders. Stock Transfer Service, Inc., the Company's stock transfer agent, in conjunction with Punongbayan & Araullo, the Company's external auditor, both independent parties, are tasked to count votes on any matter properly brought to the vote of the shareholders, including the election of directors.

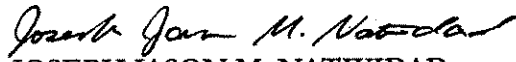
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D. SIGNATURE PAGE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on MAR 17 2015.

BDO LEASING AND FINANCE, INC.

By:


JOSEPH JASON M. NATIVIDAD
Corporate Secretary

**MINUTES OF THE
ANNUAL MEETING OF STOCKHOLDERS**

ANNEX "A"

BDO LEASING AND FINANCE, INC.

**HELD ON WEDNESDAY, APRIL 23, 2014, AT 10:05 A.M.
AT THE FRANCISCO SANTIAGO HALL, MEZZANINE FLOOR, SOUTH TOWER
BDO CORPORATE CENTER, 7899 MAKATI AVENUE, MAKATI CITY**

NUMBER OF SHARES HELD BY SHAREHOLDERS:

Present In Person or Represented By Proxy, and Participant Brokers	-	1,841,213,587
Number of Total Outstanding Shares	-	2,162,475,312
Percentage of the Total Shares Represented By Proxies & In-Person	-	85.14%

DIRECTORS PRESENT:

Ms. Teresita T. Sy	Chairperson
Mr. Roberto E. Lapid	Vice Chairman
Atty. Jesse H. T. Andres	Independent Director
Mr. Antonio N. Cotoco	Director
Ms. Ma. Leonora V. De Jesus	Independent Director
Mr. Luis S. Reyes, Jr.	Director
Mr. Nestor V. Tan	Director
Mr. Jesus G. Tirona	Independent Director
Mr. Exequiel P. Villacorta, Jr.	Director
Mr. Walter C. Wassmer	Director

ALSO PRESENT:

Mr. Jeci A. Lapus	Adviser to the Board
Atty. Edmundo L. Tan	Adviser to the Board
Atty. Joseph Jason M. Natividad	Corporate Secretary
Atty. Angelita L. Ortega-Cortez	Assistant Corporate Secretary
Atty. Elmer B. Serrano	Corporate Information Officer
Mr. Gerard M. Aguirre	First Vice President/Provincial Marketing Head
Mr. Peter Blair S. Agustin	Vice President/Chief Risk & Compliance Officer
Ms. Rosalisa B. Kapuno	Vice President/Comptrollership

I. Call to Order

Ms. Teresita T. Sy, Chairperson, called the Annual Stockholders' meeting to order at 10:05 in the morning. On behalf of BDO Leasing and Finance, Inc. (BDOLF) and Management, she expressed her gratitude to the stockholders for their continued support to the Corporation. The Chairperson then requested Mr. Nestor V. Tan to act as Chairman of the Meeting and to preside over the same.

Atty. Joseph Jason M. Natividad, Corporate Secretary, recorded the minutes of the meeting.

II. Certification of Notice and Quorum

The Chairman of the meeting verified whether notices of the annual meeting of the stockholders had been sent to the corporation's shareholders. Atty. Joseph Jason M. Natividad,

Corporate Secretary, replied that notices of the meeting, together with the agenda and the Definitive Information Statement were sent beginning March 28, 2014 to the stockholders of record as of March 7, 2014, in accordance with Article II, Section 2 of the By-Laws in relation to Paragraphs 3 and 11 of SRC Rule 20 of the Amended Implementing Rules and Regulations of the Securities Regulation Code.

The Corporate Secretary certified that based on the record of attendance, present for the meeting were stockholders, in person or by proxy, and participant brokers holding a total of 1,841,213,587 shares, equivalent to 85.14% of the total 2,162,475,312 outstanding shares of the Corporation. The Corporate Secretary therefore certified that there was a quorum present and that the meeting was regularly and lawfully convened for the transaction of business. He recorded the minutes of the proceedings

The Corporate Secretary likewise manifested that Punongbayan & Araullo CPAs, represented by Mr. Romualdo V. Murcia III, Partner, had been appointed to count and validate the votes cast at the meeting, in accordance with the voting procedures disclosed in the Definitive Information Statement provided to the stockholders as of record date.

III. Reading and Approval of the Minutes of the Previous Stockholders' Meeting

The Chairman of the meeting stated that the next item in the agenda was the reading and approval of the minutes of the annual meeting of shareholders held on April 17, 2013. He manifested that copies of the Minutes are available for examination during office hours at the Office of the Corporate Secretary and at the Corporation's website [www.bdo.com.ph/business/leasing-financing/about us](http://www.bdo.com.ph/business/leasing-financing/about-us).

Upon motion duly made and seconded, the minutes of the annual stockholders' meeting held on April 17, 2013 had been approved and the following resolution had been passed and adopted:

Stockholders' Resolution No. 2014-01

RESOLVED, That the Stockholders of BDO Leasing and Finance, Inc. approve, as they hereby approve, the Minutes of the Annual Stockholder's Meeting held on April 17, 2013.

The Chairman of the meeting then instructed the Corporate Secretary to have the minutes of the meeting reflect the tabulation of votes to include proxies that have cast their votes in favor of the approval of the minutes of the last annual stockholders' meeting, and to note the proxies that have chosen to abstain on voting for, or have chosen to vote against, the approval of the minutes of the last annual shareholders' meeting.

Based on P&A's tabulation, shareholders owning 1,841,213,587 shares or 85.14% of the total shares present and represented in the meeting, approved the Minutes of the annual stockholders' meeting held on April 17, 2013. Based on the proxies submitted, no shareholder or 0.0% voted against or abstained in the approval of the minutes.

IV. Presentation of Annual Report, and the 2013 Financial Statements of the Corporation

Mr. Roberto E. Lapid, Vice Chairman & Officer-in-Charge, rendered his report to the Stockholders.

The Total Assets of BDOLF amounted to P25.3 Billion, an increase of 22% compared to 2012. The Net Income for the Fiscal Year was P420.3 Million or a 2% increase from the 2012 Net Income. The Total Revenues of P1.9 Billion represent an increase of 8% year on year due to higher interest and rental income resulting from the increase in the lease portfolio. Interest expense was also lower in 2013 by 10% compared to the 2012 level due to lower borrowing costs both for the Short Term Commercial Papers (STCPs) and from banks. The provisions for 2013 increased by 12% from 2012 because of the additional allowances required by the increasing portfolio. The higher provisions tempered the gains from higher revenues and lower funding costs. However, the provisions made further strengthened the balance sheet against economic and

market uncertainties putting BDOLF in a better position to grow its business. For 2014, total assets had been projected to grow by 19% driven by a 20% increase in the lease/loan portfolio. Revenues are also projected to grow by 14%. The first quarter performance of BDOLF would show that the company was above target in terms of Total Assets, Net Portfolio, Total Revenues and Net Income.

The report is hereto attached as Annex "A" and made an integral part hereof.

V. Open Forum

After the Vice-Chairman and OIC's presentation, the Chairman of the meeting opened the floor to give the stockholders the opportunity to ask questions or give comments regarding Mr. Lapid's Report and the Financial Statements of BDOLF, or related matters.

Mr. Philip Turner, stockholder, commented on the consistency of the financial results of BDOLF particularly the net income. He pointed out some typographical errors in the Annual Report and suggested that the printing be addressed to make the reports more legible and the members of the Board properly identified. He also suggested the use of recycled paper as more environment friendly. The Chairman of the meeting, Mr. Tan, replied that the issue on the legibility and format of the report and the use of recycled paper would be discussed with Management. With regard to the financial performance of BDOLF, he emphasized that the assets grew by more than twenty percent (20%). This was within the control of Management - to bring in as much business as they can to the company. However, the very liquid market and declining interest rate environment which put a severe strain on the spread are economic conditions beyond the control of BDOLF. The Chairman of the meeting added that Management will continue to focus on the things within its control to ensure that the credit remains sound. Regarding the increase in fees of the external auditor, the same was due to additional audit requirements set by regulatory which required more man hours from the auditors.

Mr. Jose T. Ferrer, stockholder, commended BDOLF, the Board and Management for the cash dividends declared in February 2014. He inquired when the dividends would be paid since he has yet to receive the same. The Chairman of the meeting replied that he would endorse the concern of Mr. Ferrer to the Office of the Corporate Secretary to check on the status of his dividend payment.

In reply to the query of Mr. Willington Chua, stockholder, Mr. Tan stated that the BSP issuances could affect the funding costs which could go higher thereby lowering the spread of BDOLF. Although this could be passed on to the clients, it would depend on whether the market would accept the same. The PPPs could be potential business source but most PPPs are still in the pipeline and only a few had been awarded.

After the discussions were concluded, Mr. Vernie C. Dela Cruz, proxy holder, moved for the notation and approval of the Report on the result of the operations of the corporation for the year ended December 31, 2013 and the audited financial statements for the same period.

Ms. Zarah A. Lacaya, proxy holder, seconded the motion.

There being no objection, the Stockholders adopted the following resolution:

Stockholders' Resolution No. 2014-02

RESOLVED, That the Stockholders do hereby note and approve the Report on the Result of the Operations of BDO Leasing and Finance, Inc. and the Audited Financial Statements for the year ended December 31, 2013.

The Chairman of the meeting directed the Corporate Secretary to have the minutes reflect the tabulation of votes to include proxies that have cast their vote in favor of the approval of the Report on the Results of Operations of BDOLF for the fiscal year ended December 31, 2013 and the Audited Financial Statements for the same period, and to note the proxies that have chosen to abstain on voting for, or have voted against, the approval of the Corporation's Report on the Results of Operations for the fiscal year ended December 31, 2013 and the Audited Financial Statements for the same period.

Accordingly, based on P&A's tabulation, shareholders owning 1,841,213,587 shares or 85.14% of the total shares present and represented in the meeting, approved the Report on the Results of Operations of BDOLF for the fiscal year ended December 31, 2013 and the Audited Financial Statements for the same period. Based on the proxies submitted, no shareholder or 0.0% voted against or abstained in the approval of the Report on the Results of Operations of BDOLF for the fiscal year ended December 31, 2013 and the Audited Financial Statements for the same period.

VI. Ratification of Actions Taken by the Board of Directors, Its Duly Constituted Committees, the Management and the Officers of the Corporation Since the Last Annual Meeting of the Stockholders

Mr. Jan Jerico D. Obra, proxy holder, moved that all the acts and proceedings of the Board of Directors, the acts of the duly constituted committees, the acts of the Management and the acts of the officers of the Corporation up to the date of this 2014 annual stockholders' meeting be, in all respects, confirmed, ratified and approved.

Thereafter, Mr. Manolo O. Diaz, proxy holder, seconded the motion.

There being no further questions or objection, the Stockholders adopted the following resolution:

Stockholders' Resolution No. 2014-03

RESOLVED, That all the acts and proceedings of the Board of Directors, the acts of the duly constituted committees, the acts of the Management and the officers of BDO Leasing and Finance, Inc. (the "Corporation") in carrying out and promoting the purposes, objects, and interests of the Corporation, are confirmed, ratified and approved and hereby made the acts and deeds of the Corporation.

The Chairman of the meeting directed the Corporate Secretary to have the minutes reflect the tabulation of votes to include proxies that have cast their vote in favor of the ratification and confirmation of all the acts and proceedings of the Board of Directors, its duly constituted committees, the acts of Management and officers of BDOLF up to the date of this annual stockholders' meeting, and to note the proxies that have chosen to abstain on voting for, or have voted against, the ratification and confirmation of all the acts and proceedings of the Board of Directors, its duly constituted committees, the acts of Management and officers of BDOLF up to the date of the annual stockholders' meeting (April 23, 2014).

Accordingly, based on P&A's tabulation, shareholders owning 1,841,213,587 shares or 85.14% of the total shares present and represented in the meeting, ratified and confirmed all the acts and proceedings of the Board of Directors, its duly constituted committees, the acts of Management and officers of BDOLF up to the date of the Annual Stockholders' Meeting. Based on the proxies submitted, no shareholder or 0.0%, voted against or abstained in the ratification and confirmation of all the acts and proceedings of the Board of Directors, its duly constituted committees, the acts of Management and officers of BDOLF up to the date of the Annual Stockholders' Meeting.

VII. Election of the Board of Directors

The Chairman of the meeting then announced that the next item on the agenda was the election of the regular and independent members of the Board of Directors for the ensuing year and until the next succeeding annual stockholders meeting of the Corporation. The Chairman of the meeting also informed all the stockholders in attendance of the mandatory requirement of electing independent directors.

Atty. Jesse H. T. Andres, Independent Director and Chairman of the Nomination Committee (the "Committee") of the Corporation, informed the members of the Board and the stockholders that the following nominations have been received and passed upon by the Committee during the prescribed nomination period, and that the Committee found the following nominees to possess all

the qualifications and none of the disqualifications for election as regular and independent directors, respectively, of BDOLF:

Nominees for Regular Directors

1. Antonio N. Cotoco
2. Roberto E. Lapid
3. Jeci A. Lapus
4. Luis S. Reyes, Jr.
5. Teresita T. Sy
6. Nestor V. Tan
7. Exequiel P. Villacorta, Jr.
8. Walter C. Wassmer

Nominees for Independent Directors:

9. Jesse H. T. Andres
10. Ma. Leonora V. De Jesus
11. Jesus G. Tirona

Ms. Julienel E. Teodoro, proxy holder, observed that since the nomination period has expired and closed, and there are eleven (11) nominees for the eleven (11) seats in the corporation's Board of Directors, she moved that the Corporate Secretary be directed to cast all unqualified votes in favor of the foregoing individuals respectively nominated as regular and independent directors.

Mr. Jan Jerico D. Obra seconded the motion.

Thereafter, the Stockholders adopted the following resolution:

Stockholders' Resolution No. 2014-04

RESOLVED, That the following are elected directors of BDO Leasing and Finance, Inc. for a period of one (1) year, and to act as such until their successors are elected and qualified:

Regular Directors:

1. Antonio N. Cotoco
2. Roberto E. Lapid
3. Jeci A. Lapus
4. Luis S. Reyes, Jr.
5. Teresita T. Sy
6. Nestor V. Tan
7. Exequiel P. Villacorta, Jr.
8. Walter C. Wassmer

Independent Directors:

9. Jesse H. T. Andres
10. Ma. Leonora V. De Jesus
11. Jesus G. Tirona

The Chairman of the meeting directed that the minutes reflect a tabulation of votes to include proxies that have cast their vote in favor of the election of each director and to exclude proxies that have chosen to abstain or vote against each director. Based on the tally made by P&A, the votes cast and received by the nominees were as follows:

Nominees	Number of voting shares in favor	Number of voting shares that voted against	Number of voting shares abstained
Teresita T. Sy	1,841,213,587	0	0
Roberto E. Lapid	1,841,213,587	0	0
Jesse H. T. Andres	1,841,213,587	0	0
Antonio N. Cotoco	1,841,213,587	0	0
Ma. Leonora V. De Jesus	1,841,213,587	0	0
Jeci A. Lapus	1,841,213,587	0	0
Luis S. Reyes, Jr.	1,841,213,587	0	0
Nestor V. Tan	1,841,213,587	0	0

Nominees	Number of voting shares in favor	Number of voting shares that voted against	Number of voting shares abstained
Jesus G. Tirona	1,841,213,587	0	0
Exequiel P. Villacorta, Jr.	1,841,213,587	0	0
Walter C. Wassmer	1,841,213,587	0	0

VIII. Appointment of External Auditor

The next item in the agenda was the appointment of the external auditor of BDOLF for the year 2014.

Mr. Elmer B. Cruz, proxy holder, moved that the Accountancy and Auditing Firm of Punongbayan & Araullo, CPA's (P&A), be appointed as the external auditor of BDOLF for 2014, and that the Board of Directors be authorized to determine the terms of said external auditor's professional engagement.

Mr. Vernie C. Dela Cruz, proxy holder, seconded the motion.

There being no objection, the Stockholders adopted the following resolution:

Stockholders' Resolution No. 2014-05

RESOLVED, That the Accountancy and Auditing Firm of Punongbayan & Araullo, CPA's, be appointed as the external auditor of BDOLF for 2014;

RESOLVED FURTHER, That the Board of Directors of BDOLF or such person or persons duly authorized by the Board, be, as it/he is hereby authorized to determine the terms of engagement of the external auditor, to sign, execute and deliver the agreement and other documents pertaining to such engagement, and generally, to perform all acts necessary or appropriate to carry out the foregoing resolution and the intent hereof.

The Chairman of the meeting then directed the Corporate Secretary to have the minutes reflect the tabulation of votes to include proxies that have cast their votes in favor of the appointment of Punongbayan & Araullo, CPA's, as external auditor of BDOLF for the year 2014, and to note the proxies that have chosen to abstain on voting for, or have voted against, the appointment of Punongbayan & Araullo, CPA's, as external auditor of BDOLF for the year 2014.

Based on P&A's tabulation, shareholders owning 1,841,213,587 shares or 85.14% of the total shares present and represented in the meeting, approved the appointment of Punongbayan & Araullo, CPA's, as external auditor of BDOLF for the year 2014. Based on the proxies submitted, no shareholder or 0.0%, voted against or abstained in the appointment of Punonbayan & Araullo CPAs as external auditor of BDOLF for the year 2014.

IX. Amendment of the Third Article of the Articles of Incorporation

The Chairman of the meeting then proceeded to the next item in the agenda, which is the amendment to the Third Article of the Articles of Incorporation of BDO Leasing and Finance, Inc. (BDOLF) or the principal place of business of the Corporation, which is currently indicated as "Metropolitan Manila", to "BDO Leasing Centre, Corinthian Gardens, Ortigas Avenue, Quezon City, Philippines".

The Chairman of the meeting explained that the amendment would be for purposes of complying with the Memorandum Circular No. 6, Series of 2014 issued by the Securities and Exchange Commission ("SEC") which required all corporations and partnerships to reflect their specific addresses in their Articles of Incorporation or Articles of Partnership. The covered corporations and partnerships have until December 31, 2014 within which to comply with the SEC Circular.

Ms. Arvida F. Pinga, proxy holder, moved for the ratification and approval of the proposed amendment to the Third Article of the Articles of Incorporation of BDOLF to reflect therein the exact business address of the corporation as approved by the Board during its February 26, 2014 meeting.

Ms. Julienel E. Teodoro seconded the motion.

There being no objection, the stockholders passed and adopted the following resolution:

Stockholders' Resolution No. 2014-06

RESOLVED, That the Stockholders of BDO Leasing and Finance, Inc. ("BDOLF") do hereby approve the amendment of the Third Article of its Articles of Incorporation by changing the principal place of business of BDOLF from "Metropolitan Manila", to "BDO Leasing Centre, Corinthian Gardens, Ortigas Avenue, Quezon City, Philippines", to read as follows:

"THIRD - That the place where the principal office of the corporation shall be at BDO Leasing Centre, Corinthian Gardens, Ortigas Avenue, Quezon City, Philippines. The Corporation may establish branches anywhere in the Philippines or abroad subject to compliance with applicable laws, rules and/or regulations"

The Chairman of the meeting then directed the Corporate Secretary to have the minutes reflect the tabulation of votes to include proxies that have cast their votes in favor of the ratification and approval of the amendment of the Third Article of the Articles of Incorporation of BDOLF changing its principal place of business from "Metropolitan Manila" to "BDO Leasing Centre, Corinthian Gardens, Ortigas Avenue, Quezon City, Philippines", and to note the proxies that have chosen to abstain on voting for, or have voted against, the ratification and approval of the amendment of the Third Article of the Articles of Incorporation of BDOLF.

Based on P&A's tabulation, shareholders owning 1,841,213,587 shares or 85.14% of the total shares present and represented in the meeting, approved the ratification and approval of the amendment of the Third Article of the Articles of Incorporation of BDOLF changing its principal place of business from "Metropolitan Manila" to "BDO Leasing Centre, Corinthian Gardens, Ortigas Avenue, Quezon City, Philippines". Based on the proxies submitted, no shareholder or 0.0%, voted against or abstained in the ratification and approval of the amendment of the Third Article of the Articles of Incorporation of BDOLF.

X. Adjournment

There being no further business to transact, Ms. Zarah A. Lacaya, proxy holder, moved to adjourn the meeting.

Mr. Elmer B. Cruz, proxy holder, seconded the motion.

There having been no objection to the motion, the meeting was thereupon adjourned at 10:55 in the morning.

CERTIFIED CORRECT:


JOSEPH JASON M. NATIVIDAD
CORPORATE SECRETARY

ATTESTED:


TERESITA I. SY
CHAIRPERSON

MANAGEMENT REPORT

BDO LEASING AND FINANCE, INC.

MANAGEMENT REPORT TO STOCKHOLDERS

PART I- BUSINESS AND GENERAL INFORMATION

Marketing of Products/Services

The Company markets its products through its Head Office located in Ortigas, Quezon City and its branch network nationwide. The Company has an extensive branch network in the leasing and financing industry, with six (6) branches located in Cagayan de Oro City (Misamis Oriental), Cebu City (Cebu), Davao City (Davao), Iloilo City (Iloilo), San Fernando City (Pampanga) and Makati City (Metro Manila).

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

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

Competition

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

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

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

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

Sources and Availability of Raw Materials

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

Related Party Transactions

In the ordinary course of business, the Group enters into transactions with BDO Unibank and other affiliates. Under the Group's policy, these transactions are made substantially on the same terms as with other individuals and businesses of comparable risks.

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

The summary of the Group's significant transactions with its related parties in 2014, 2013 and 2012 are as follows:

Related Party Category	Notes	Amount of Transaction		
		2014	2013	2012
Ultimate Parent Company (BDO Unibank)				
Interest income on savings and demand deposits	(a) P	0.5 P	0.2 P	0.3
Interest expense on bills payable	(b)	94.6	148.5	98.3
Rent expense	(d)	10.5	10.7	11.0
Management fees	(e)	2.4	2.4	2.4
Subsidiary (BDO Rental)				
Interest income on loans	(b)	-	-	0.7
Service fees	(c)	6.3	5.3	8.4
Rent income	(d)	0.4	0.4	0.4
Management fees	(e)	0.4	0.4	0.4
Dividend Income		43.8	-	-
Affiliate (BDO Capital)				
Service Charges & Fees	(f)	3.5	2.2	2.8
Key management personnel				
Short-term benefits	(g)	57.6	61.7	57.7
Post-employment benefits	(g)	-	-	17.0
Advances to officer	(g)	0.3	0.9	1.7

<u>Related Party Category</u>	<u>Notes</u>	<u>Outstanding Balance</u>	
		<u>2014</u>	<u>2013</u>
Parent Company (BDO Unibank)			
Savings and demand deposits	(a)	P 409.2	P 119.2
Bills payable	(b)	4,387.2	6,119.8
Subsidiary (BDO Rental)			
Dividend Receivable	(j)	P 28.5	P -
Key Management personnel			
Advances Employees	(h)	1.9	2.2
Retirement benefit fund			
Loans to officers and employees	(h)	2.0	3.4
Loans to members and beneficiaries	(h)	-	2.4
Shares of stock	(i)	1.1	0.9

- a) The Group maintains savings and demand deposit accounts with BDO Unibank. As of December 31, 2014 and 2013, savings and demand deposit accounts maintained with BDO Unibank are included under Cash and Cash Equivalents account in the statements of financial position. Interest income earned on deposits in 2014, 2013 and 2012 is included under Interest and Discounts as part of Revenues in the statements of income.
- b) The Group obtains short-term, unsecured bills payable from BDO Unibank. The amount outstanding from borrowings as of December 31, 2014 and 2013 is presented under Bills Payable account in the statements of financial position. Interest expense incurred on these bills payable in 2014, 2013 and 2012 is included under Interest and financing charges account as part of Operating Costs and Expenses account in the statements of income. Also, the Company grants short-term, unsecured loans to BDO Rental. There is no outstanding balance arising from this transaction as of December 31, 2014 and 2013. Total interest income earned by the Company on these loans in 2014, 2013 and 2012 is included under Interest and Discounts as part of Revenues in the statements of income.
- c) On January 4, 2010, the Company and BDO Rental entered into a Service Agreement whereby BDO Rental will handle the collection of certain factored receivables of the Company, for a fee as agreed by the 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 Company all collections made and send monthly statement of accounts to customers. The related expense charged to the Company based on the Service Agreement is included under Other Operating Costs and Expenses in the Company's statements of income. There are no outstanding intercompany payable and receivable from this transaction as of December 31, 2014 and 2013.
- d) The Company leases its head office premises and certain branch offices from BDO Unibank for terms ranging from one to five years, renewable for such period and under such terms

and conditions as may be agreed upon with the Company and BDO Unibank. Related rent expense incurred in 2014, 2013 and 2012 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 Company charges BDO Rental for the spaces that the latter occupies in the head office premises. Rent charged to BDO Rental in 2014 and 2013 is presented as part of Other Income in the statements of income. There are no outstanding receivable and payable on these transactions as of the end of 2014 and 2013.

- e) In 2013, the Company entered into a service level agreement with BDO Unibank wherein BDO Unibank will charge the Company for certain management services that the former provides to the latter. Management fees paid by the Company to BDO Unibank is shown as part of Other Operating Costs and Expenses in the statement of income. Also, the Company charges BDO Rental for the management services it renders to BDO Rental. This is presented as part of Other Income in the 2014 statement of income of the Company. There are no outstanding receivable and payable on these transactions as of the end of 2014 and 2013.
- f) The 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 Company's issuance of bills payable in 2012. Service charges and fees paid by the Company to BDO Capital related to this transaction is included as part of Other Operating Costs and Expenses in the statement of income. There is no outstanding payable related on this transaction as of the end of 2014 and 2013.
- 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 Company. Short-term employee benefits include salaries, paid annual leave and paid sick leave, profit sharing and bonuses, and non-monetary benefits. The Group also incurred post-employment benefit expense related to key management personnel included as part of Employee Benefits under Operating Costs and Expenses. The Group also granted cash advances to an officer.
- h) The Group maintains a retirement benefit fund with BDO Unibank covering all regular full-time employees. In the normal course of business, the retirement benefit fund grants salary and housing loans to certain officers and employees of the Company, and members and beneficiaries of the fund who are also officers of the Company. The housing loans are secured by the mortgage on the property and bear interest at 9% per annum and have terms ranging from 13 to 20 years. The salary loans on the other hand, are unsecured and bear interest ranging from 9% to 10% per annum and have terms ranging from 18 months to 3 years. There is no impairment loss recognized on this loan.
- i) The retirement fund holds 442,750 shares of stocks of the Company as an investment, which has a market value of P2.00 per share as of December 31, 2014 and 2013.
- j) In 2014, BDO Rental declared cash dividends amounting to P43.8 million which is presented as part of Other Income in the Company's 2014 statement of income.

Employees

As of December 31, 2014, the Company had 178 employees – 20 senior officers, 72 junior officers and 86 rank & file employees. Of the total personnel, two (2) employees are under the Executive Office; one hundred fourteen (114) under the Marketing Group; fifty seven (57) under the Operations Group (Comptrollership and Operations, Risk Management, HR & Admin); three (3) under Treasury; and two (2) under the Company's subsidiary, BDO Rental. In 2015, the Company anticipates thirty two (32) additional employees. The Company believes that it has maintained good relationship with its employees. Rank & file employees receive benefits similar to those granted to the rank & file employees of BDO

Unibank, under the terms of a Collective Bargaining Agreement (CBA) between BDO Unibank and NUBE-BDO, a legitimate labor organization duly registered with the Department of Labor and Employment. The CBA expires on October 31, 2015. Coverage of the CBA includes wage increases, allowances, bonuses, loans and other benefits.

RISK FACTORS

Portfolio Concentration Risks

As of December 31, 2014, 60% of the Company's leasing and financing portfolio consisted of exposure in firms in the following sectors: transportation, construction, real estate, mining and consumer products. The Company maintains a general policy of avoiding excessive exposure in any particular sector of the Philippine Economy. The Company actively seeks to increase its exposure in industry sectors, which it believes possess attractive growth opportunities. Conversely, it actively seeks to reduce its exposure in industry sectors where growth potential is minimal. Although the Company's leasing and financing portfolio is composed of transactions with a wide variety of businesses, the results of operations and financial condition of the Company may be adversely affected by any downturn in these sectors as well as in the Philippine economy in general.

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

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

Risk Management

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

Foreign Currency Sensitivity

Most of the Company's transactions are carried out in the Philippine peso, its functional currency. Exposures to currency exchange rate on financial assets arise from an insignificant portion of the Company's leasing and financing portfolio, cash and cash equivalents and lease deposits which are denominated in US dollars.

Interest Rate Risk

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

Credit Risk

The Company manages credit risk by setting limits for individual borrowers, and groups of borrowers and industry segments. The Company maintains a general policy of avoiding excessive exposure in any particular sector of the Philippine economy.

Concentrations arise when a number of counter parties 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 Company's performance to developments affecting a particular industry or geographic location.

Liquidity Risk

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

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

The Company believes that it currently has adequate debt funding from banks, other financial institutions, and through the issuance of Short Term Commercial Papers (STCPs). The Company has a license from the SEC to issue P15 billion STCPs. In December 2014, it obtained authorization to issue additional P10B STCPs, to bring its total authorization to P25B.

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

Taxation

Relevant Tax Regulations

Among the significant provisions of the National Internal Revenue Code (NIRC) that apply to the Group are the following:

- a) The regular corporate income tax (RCIT) tax of 30% (effective January 1, 2009) is imposed on taxable income net of applicable deductions;
- b) Fringe benefits tax of 32% is imposed on the grossed-up value of the benefits given by employers to their managerial and supervisory employees (this is a final tax to be paid by the employer);
- c) Minimum corporate income tax (MCIT) of 2% based on gross income, as defined under the Tax Code, is required to be paid at the end of the year starting on the fourth year from the date of registration with the Bureau of Internal Revenue (BIR) whenever the RCIT is lower than the MCIT. On October 19, 2007, the BIR issued RR No. 12-2007 which requires the quarterly computation and payment of the MCIT beginning on the income tax return for the fiscal quarter ending September 30, 2007. This RR amended certain provisions of RR No. 9-98 which specifically provides for the computation of the MCIT at end of each taxable year. Thus, in the computation of the tax due for the taxable quarter, if the computed quarterly MCIT is higher than the quarterly normal income tax, the tax due to be paid for such taxable quarter at the time of filing the quarterly corporate income tax return shall be the

MCIT which is 2% of the gross income as of the end of the taxable quarter;

- d) Net operating loss carryover (NOLCO) can be claimed as deduction against taxable income within three years after NOLCO is incurred;
- e) Effective July 2008, Republic Act No. 9504 was approved giving corporate taxpayers an option to claim itemized deduction or optional standard deduction (ODS) equivalent to 40% of gross sales. Once the option to use OSD is made, it shall be irrevocable for the taxable year for which the option was made;
- f) The amount of interest expense allowed as income tax deduction is reduced by an amount equal to 33% of the interest income subjected to final tax;
- g) October 2012, BIR prescribed the rules on deductibility of depreciation expenses as it relates to purchase of vehicles and other related thereto, and input taxes allowed thereto through RR No. 12-2012. Revenue Memorandum Circular No. 2-2013 was issued December 28, 2012 clarifying certain provisions on the deductibility of depreciation expense as it relates to purchase of vehicles and other related thereto, and the Input Taxes allowed;
- h) Effective November 2012, BIR issued RR No. 14-2012 for proper tax treatment of interest income earnings on Financial Instrument and other related transaction. Subsequently, BIR also issued RMO No. 27-2012 for the creation of alphanumeric tax code and RMO No. 84-2012 for the clarification on tax treatment of interest income earnings on loans that are not securitized, assigned or participated out;
- i) RR No. 18-2012 was issued for the Processing of Authority to Print Official Receipts, Sales Invoices, and Other Commercial Invoices using the On-line ATP System and providing for the Additional Requirements in the Printing thereof;
- j) RR No. 9-2013 was issued on May 10, 2013 amending certain provisions of RR No. 30-2002 relative to the payment of the amount offered as compromise settlement. Under Section 6 of the NIRC. The compromise offer shall be paid by the taxpayer upon filing of the application for compromise settlement. No application for compromise settlement shall be processed without the full settlement of the offered amount. In case of disapproval of the application for compromise settlement, the amount paid upon filing of the aforesaid application shall be deducted from the total outstanding liabilities;
- k) Effective June 01, 2013, BIR issued RR No. 10-2013 amends further pertinent provisions of RR No. 2-98, as last amended by RR No. 30-2003, providing for the inclusion of Real Estate Service Practitioners (RESP's) (i. e. real estate consultants, real estate appraisers, and real estate brokers) who passed the licensure examination given by the Real Estate Service pursuant to RA 9646 "The Real Estate Service Act of the Philippines" among those professionals falling under Sec. 2.57.2 (A)(1) of RR No. 2-98, as amended subject to the 10% and 15% creditable (expanded) withholding tax and to amend Section 2.57.2 (G) of RR 14-2002 to include real estate practitioners who did not pass or did not take up licensure examinations given by the Real Estate Service. These regulations shall cover income payments to be paid or payable starting June 01, 2013 which are required to be remitted within the month of July 2013;
- l) Beginning of the calendar year 2013, RR No. 11-2013 prescribes the filing/submission of hard copy of the Certificate of Compensation Payment /Tax Withheld (BIR Form 2316) covering employees who are qualified for substituted filing thereby amending RR No. 2-98 as last amended by RR No. 010-08. In cases covered by substituted filing, the employer shall furnish each employee with the original copy of BIR Form No. 2316 and file/submit to the BIR the duplicate copy not later than February 28 following the close of the calendar year;
- m) RR No. 12-2013 issued last July 12, 2013 amends Section 2.58.5 of RR No. 2-98, as amended, relative to the requirements for deductibility of certain income payments. No deduction will be allowed

notwithstanding payments of withholding tax at the time of audit investigation or reinvestigation / reconsideration in cases where no withholding of tax was made in accordance with Secs. 57 and 58 of the NIRC;

- n) On September 17, 2013, the BIR issued RR No. 17-2013, prescribes the guidelines on the preservation of Books of Accounts and other accounting records. Under Section 2 all taxpayers are required to preserve their books of accounts, including subsidiary books of accounts and other accounting records, for a period of ten (10) years reckoned from the day following the deadline from the date of the filing of the return, for taxable year when the last entry was made in the books of accounts;
- o) RR No. 18-2013 which was issued on November 28, 2013 amends certain sections of RR No. 12-99 relative to the due process requirement in the issuance of Deficiency Tax Assessment. RR 18-2013 introduced the New Assessment Phase which removes requirement for issuance of informal conference, mandates issuance of FAN 15 days from receipt of reply to PAN and if Taxpayer fails to reply to PAN within 15 days, he is in default and FAN issued right away. In terms of protesting and administrative appeal it requires indication of which kind of protest whether reinvestigation or reconsideration otherwise void. Other changes imposed by RR 18-2013 is the imposition of 20% delinquency interest, in addition to the 20% deficiency interest;
- p) RR No. 1-2014 was issued on December 17, 2013 amending the Provisions of Revenue Regulations (RR) No. 2-98, as further amended by RR No. 10-2008, specifically on the submission of alphabetical list of employees/payees of income payments. These Regulations were issued for purposes of ensuring that information on all income payments paid by employers/payors, whether or not subject to the withholding tax except on cases prescribed under existing international agreements, treaties, laws and revenue regulations, regardless on the number of employees and/or payees, are monitored by and captured in the taxpayer database of the BIR, with the end in view of establishing simulation model, formulating analytical framework for policy analysis, and institutionalizing appropriate enforcement activities; and
- q) On January 24, 2014, the BIR issued RR No. 2-2014 to prescribe new BIR forms that will be used for income tax returns (ITRs) filing covering and starting the taxable year ended December 31, 2013;
- r) On April 25, 2014, BIR issued RMC No. 46-2014 to clarify taxability of Financial Lease for the purpose of Documentary Stamp Tax (DST).

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

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

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

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

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

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

Properties

The Company leases its head office premises from BDO Unibank for a period of five (5) years until June 2015. Head office address is at BDO Leasing Centre, Corinthian Gardens, Ortigas Avenue, Quezon City. In 2014 and 2013, the consolidated rent expense amounted to P16.5 million and P15.7 million, respectively. Cagayan de Oro, Davao, Iloilo, Pampanga, and Cebu branches lease their premises from the Parent Company.

These are the details of the branches' office premises:

Cagayan:

- Operates at the 2nd Floor, BDO-Lapasan Branch, National Highway, Lapasan, Cagayan de Oro City for a period of five (5) years and will expire in January 2019. Monthly rental amounts to P18,435.00 with no escalation clause.

Iloilo:

- Operates at the 2nd Floor, BDO Corporate Center, BDO Valeria Branch, Valeria St., Iloilo City for a period of five (5) years and will expire in November 2018. Monthly rental amounts to P11,500.00 with no escalation clause.

Davao:

- Operates at the 4th Floor, BDO Davao-Claveria No. 30 C.M. Recto Avenue, Poblacion, Davao City for a period of five (5) years and will expire on May 31, 2018. Gross monthly rental amounts to P14,313.00 with no escalation clause

Cebu

- Operates the Mezzanine Floor, BDO Bldg., Gorordo Ave. Lahug, Cebu City for a period of five (5) years and will expire in May 2019. Monthly rental amounts to P46,122.00 with no escalation clause.

Pampanga:

- Operates at the 3rd Floor, BDO Angeles-Balibago Branch Building, Ramon Tang Avenue, Diamond Subdivision, Balibago, Angeles City for a period of five (5) years and will expire on December 14, 2018. Gross monthly rental amounts to P22,800.00 with no escalation clause.

Makati:

- Operates at the Ground Floor, Pacific Star Bldg., Sen. Gil Puyat corner Makati Avenue, Makati City for a period of three (3) years and will expire on February 28, 2017. Monthly rental amounts to P387,178.50 with escalation of 10% per annum beginning on the second year of the lease term.

The Company's facilities, office furniture, fixtures and equipment are in good condition. Distribution of office furniture fixture and equipment are as follows: Head office – P24.9 million; Makati – P0.3 million; Cebu – P1.2 million; Davao – P0.6 million; Cagayan – P1.1 million; Iloilo – P1.0 million; Pampanga – P1.3 million.

Legal Proceedings

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

Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of the calendar year covered by this report.

PART II-OPERATIONAL AND FINANCIAL INFORMATION

Market for Issuer's Common Equity and Related Stockholder Matters

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

Total treasury shares as of December 31, 2014 was 62,693,718 shares or a total value of P81,776,628.

Dividends

On February 25, 2014, the Company's Board of Directors approved the declaration of cash dividends at P0.15 per share in favor of stockholders of record as of March 13, 2014 paid on March 31, 2014. Total dividends in 2014 amounted to P324.37 million.

Dividends declared by the Company on its shares of stocks are payable in cash or in additional shares of stock. The payment of dividends will depend upon the earnings, cash flow and financial condition of the Corporations and other factors.

There are no restrictions that will limit the ability to pay dividends on common equity.

Market Information

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

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

<u>2015</u>	<u>High</u>	<u>Low</u>	<u>2014</u>	<u>High</u>	<u>Low</u>
January	2.30	2.30	1st quarter	2.00	2.00
February	2.41	2.40	2nd quarter	2.11	2.11
			3rd quarter	2.20	2.15
			4th quarter	2.15	2.15

<u>2013</u>	<u>High</u>	<u>Low</u>	<u>2012</u>	<u>High</u>	<u>Low</u>
1 st quarter	2.01	2.00	1 st quarter	1.65	1.64
2 nd quarter	2.02	2.00	2 nd quarter	1.78	1.78
3 rd quarter	1.90	1.87	3 rd quarter	2.03	1.99
4 th quarter	2.00	2.00	4 th quarter	2.00	2.00

As at March 12, 2015 and December 31, 2014, the closing price of the Company's share were at P 2.29 and P 2.15, respectively.

Total number of stockholders as of February 28, 2015 was one thousand one hundred sixty four (1,164) and as of December 31, 2014 was one thousand one hundred sixty seven (1,167). Common shares outstanding as of February 28, 2015 and December 31, 2014 totaled 2,162,475,312.

Holders

The Company's common stockholders, with their respective shareholdings, as of February 28, 2015 and December 31, 2014 are as follows:

<u>Name</u>	<u>No. of Shares Held</u>	<u>% to Total</u>
Banco de Oro Unibank, Inc. (Parent Company)	1,840,116,632	85.093070%
Various Stockholders	<u>322,358,680</u>	<u>14.906930%</u>
	<u>2,162,475,312</u>	<u>100.000000%</u>

The top twenty (20) stockholders of the Company as of February 28, 2015 are as follows:

<u>Name of Stockholders</u>	<u>Securities</u>	<u>Shares Held</u>	<u>Total Outstanding</u>
Banco De Oro Unibank, Inc.	Common	1,840,116,632	85.093070%
PCD Nominee Corporation (Filipino)	Common 232,711,118		10.761331%
Samuel Uy Chua	Common	21,000,000	0.971109%
Equitable Computer Services, Inc. A/C Cequit11	Common	12,320,000	0.569717%
Panfilo Castro Jr.	Common	6,140,000	0.283934%
Felly G. Castro	Common	5,100,480	0.235863%
Marylen Castro Mateo	Common	3,795,000	0.175493%
Jesselen Castro Versoza	Common	3,795,000	0.175493%
Samuel Uy Chua	Common	3,011,150	0.139246%
Constantino Chua	Common	2,497,200	0.115479%

Equitable Computer Services, Inc.	Common	2,070,200	0.095733%
Victor Barranda	Common	1,157,475	0.053525%
Mercury Group of Companies, Inc.	Common	1,089,165	0.050367%
Constantino Chua &/or Willington Chua &/or George W. Chua	Common	1,020,000	0.047168%
Nardo R. Leviste	Common	759,000	0.035099%
Oscar M. Lopez	Common	683,100	0.031589%
Willington/Constantino Chua/George W. Chua Chua	Common	584,430	0.027026%
PCD Nominee Corporation (Foreign)	Common	538,953	0.024923%
Willington Chua	Common	508,530	0.023516%
Pablo Son Keng Po	Common	455,400	0.021059%

The top twenty (20) stockholders of the Company as of December 31, 2014 are as follows:

<u>Name of Stockholders</u>	<u>Securities</u>	<u>Shares Held</u>	<u>Total Outstanding</u>
Banco De Oro Unibank, Inc.	Common	1,840,116,632	85.093070%
PCD Nominee Corporation(Filipino)	Common	231,756,703	10.718248%
Samuel Uy Chua	Common	21,000,000	0.971109%
Equitable Computer Services, Inc. A/C Cequit11	Common	12,320,000	0.569717%
Panfilo Castro Jr.	Common	6,140,000	0.283934%
Felly G. Castro	Common	5,100,480	0.235863%
Marylen Castro Mateo	Common	3,795,000	0.175493%
Jesselen Castro Versoza	Common	3,795,000	0.175493%
Samuel Uy Chua	Common	3,011,150	0.139246%
Constantino Chua	Common	2,497,200	0.115479%
Equitable Computer Services, Inc.	Common	2,070,200	0.095733%
Victor Barranda	Common	1,157,475	0.053525%
Mercury Group of Companies, Inc.	Common	1,089,165	0.050367%
Constantino Chua &/or Willington Chua &/or George W. Chua	Common	1,020,000	0.047168%
Nardo R. Leviste	Common	759,000	0.035099%
Yok Bing S. Pua	Common	721,050	0.033344%
PCD Nominee Corporation(Foreign)	Common	711,598	0.032907%
Oscar M. Lopez	Common	683,100	0.031589%
Willington/Constantino Chua/George W. Chua Chua	Common	584,430	0.027026%
Willington Chua	Common	508,530	0.023516%

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

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

PART III – FINANCIAL INFORMATION

Management's Discussion and Analysis or Plan of Operation

2014 Compared to 2013

Gross income for the year ended December 31, 2014 was P2.27 billion, an increase of P370.7 million, or 19.48% from P1.90 billion in 2013. Interest and discounts for the year ended December 31, 2014 were P1.45 billion, an increase of P153.0 million or 11.80% from P1.30 billion in 2013. Rent Income for the year ended December 31, 2014 were P613.1 million, an increase of P232.3 million or 61.00% from P380.8 million in 2013. The increase was due to higher operating lease income from BDO Rental. The Company's leasing and financing portfolio as of December 31, 2014 was at P24.0 billion, a P2.77 billion increase, or 13.07% from P21.20 billion as of December 31, 2013 with leasing portfolio improving by 7.96% or increase of P1.1 billion.

Interest and financing charges for 2014 amounted to P467.9 million, consisting of finance charges from borrowings of P461.7 million and interest expense on lease deposits of P3.3 million. Increase of P47.3 million in financing charges is attributed to the increase in Bills Payable from P16.45 billion last year to P19.65 billion this year. Interest expense on leased deposits in 2014 amounted to P3.3 million or a decrease of P0.9M from 2013's P4.2 million.

As of December 2014, total provision for impairment losses amounted to P100.0 million, a decrease of P26.0 million from last year's P126.0 million. There were no accounts written off in 2014.

Taxes and licenses amounted to P179.3 million for the year ended December 31, 2014, an increase of P30.6 million, or 20.58% from P148.7 million for the year ended December 31, 2013. The increase was mainly the result of higher Documentary Stamp Tax in 2014 vis a vis 2013, by P18.6 million.

Salaries and employee benefits expense amounted to P161.4 in 2014 as compared to P183.4 million in 2013. Occupancy and equipment related expenses for the year ended December 31, 2014 amounted to P534.3 million, an increase of P182.1 million, or 51.70% from December 2013's P352.2 million. This was brought about by the improved operating lease business of BDO Rental.

Litigation/assets acquired expenses increase by 46.47% or from P17.0 million in 2013 to P24.9 million in 2014.

Other expenses increased to P91.7 million in 2014 as compared to P91.2 million as of 2013.

The Company registered a net income of P504.0 million for the year ended December 31, 2014.

Total assets amounted to P29.2 billion in December 2014,, an increase of P3.91 billion from the P25.34 billion balance of December 2013. Available-for-sale financial assets of P2.37 billion is comprised of investments in Century Properties Group Inc. fixed rate bonds, San Miguel Corporation (SMC) and First Gen Corporation preferred shares purchased last September 2014, September 2012 and July 2011 respectively. Leasing and Financing portfolio increased by 13.07% represents an increase of P2.77 billion from last year. Property and Equipment-net amounted to P2,012.6 million as of 2014, or an increase of P588.44 million over last year's P1,424.2 million. This is due to the increase in booked leases of BDO Rental. Investment properties-net increased to P320.6 million from 2013's P145.7 million due to accounting reclassification of some assets from Non Current Assets Held for Sale. Other assets stood at

P479.1 million in 2014, primarily consisting of deferred input VAT of P235.4 million, prepaid expenses P102.0 million; and advances to suppliers P59.6 million.

Income tax payable, deferred tax liabilities, accounts payable, and other liabilities increased to P417.2 million from P300.8 million last year.

Lease deposits, amounting to P4.19 billion in 2014, increased by P376.8 million or 9.87% from last year's P3.82 billion. This was also due to the increase volume of lease transactions of the Company.

Stockholders' equity increased by P214.8 million or 4.50%, due to increase in Net Income year-on-year.

The Company's five (5) key performance indicators are the following:

	<u>December 2014</u>	<u>December 2013</u>
Current Ratio	0.42:1	0.43:1
Quick asset ratio	0.40:1	0.40:1
Debt to Equity Ratio	4.87:1	4.31:1
Net Profit Margin	22.17%	22.09%
Return on Equity	10.33%	8.98%

Decrease in current ratio (computed as current assets divided by current liabilities) is attributed to the P0.3 million decrease in net loans & receivables financed that are expected to be collected within the year. Quick asset ratio (quick asset divided by current liabilities) stood at 0.40:1. Debt to equity ratio, computed as total liabilities divided by total equity, increased from 4.31:1 in 2013 to 4.87:1 in 2014 because of more corporate and bank funding availed to finance the increase in lease/loan portfolio during the year. Net profit margin which is computed as Net Income over Gross Revenue, increased this year from last year due to higher Interest & Operating Lease Income from related bookings. Return on equity, which is Net Income over Average Equity, stood at 10.33% in 2014.

2013 Compared to 2012

For the year-on-year comparison of the financial and operating results, the 2012 balances have been restated to include the impact of the changes in PAS 19 that were made effective in 2013.

Gross income for the year ended December 31, 2013 was P1.90 billion, an increase of P141.4 million, or 8.03% from P1.76 billion in 2012. Interest and discounts for the year ended December 31, 2013 were P1.30 billion, an increase of P25.7 million or 2.02% from P1.27 billion in 2012. Rent Income for the year ended December 31, 2013 were P380.8 million, an increase of P151.0 million or 65.71% from P229.8 million in 2012. The increase was due to higher operating lease income from BDO Rental. The Company's leasing and financing portfolio as of December 31, 2013 was at P21.20 billion, a P3.83 billion increase, or 22.05% from P17.37 billion as of December 31, 2012 with leasing portfolio improving by 30.73% or increase of P3.2 billion.

Interest and financing charges for 2013 amounted to P418.6 million, consisting of finance charges from borrowings of P414.4 million and interest expense on lease deposits of P4.2 million. Decrease of P42.7 million in financing charges is attributed to the decrease in interest rate from 4% to 2.5%, even while Bills Payable increased from P12.70 billion last year to P16.45 billion this year. Interest expense on leased deposits in 2013 amounted to P4.2 million or a decrease of P0.3M from 2012's P4.5 million..

As of December 2013, total provision for impairment losses amounted to P126.0 million, an increase of P13.5 million from last year's P112.5 million. A total of P86.0 million provision for credit loan receivable losses was set up during the year due to more conservative provisioning policies of the

company. There were no accounts written off in 2013.

Taxes and licenses amounted to P148.7 million for the year ended December 31, 2013, an increase of P14.0 million, or 10.39% from P134.7 million for the year ended December 31, 2012. The increase was mainly the result of higher DST in 2013 vis a vis 2012, by P12.3 million.

Salaries and employee benefits expense amounted to P183.4 in 2013 as compared to P164.6 million in 2012 (restated balance). Occupancy and equipment related expenses for the year ended December 31, 2013 amounted to P350.1 million, an increase of P129.3 million, or 58.56% from December 2012's P220.8 million (restated balance). This was brought about by the improved operating lease business of BDO Rental.

Litigation/assets acquired expenses decrease by 64.51% or from P47.9 million in 2012 to P17.0 million in 2013.

Other expenses increased to P91.2 million in 2013 as compared to P90.9 million as of 2012.

The Company registered a net income of P420.3 million for the year ended December 31, 2013.

Total assets amounted to P25.34 billion in December 2013, an increase of P4.66 billion from the P20.67 billion from the (restated) balance of December 2012. Available-for-sale financial assets of P2.09 billion is comprised of investments in San Miguel Corporation (SMC) and First Gen Corporation preferred shares purchased last September 2012 and July 2011 respectively. Leasing and Financing portfolio increased by 22.05% represents an increase of P3.83 billion from last year. Property and Equipment-net amounted to P1,424.2 million as of 2013, or an increase of P780.5 million over last year's P643.7 million. This is due to the increase in booked leases of BDO Rental. Investment properties-net decreased to P145.7 million from 2012's P379.5 million primarily due to the sale of foreclosed properties during the year. Other assets stood at P560.8 million in 2013, primarily consisting of Non-current asset held-for-sale, with net amount of P237.4 million; creditable withholding tax totaling P85.9 million; and prepaid expense-VAT of P163.1 million.

Accounts Payable, accrued expenses and other liabilities increase to P300.7 million from P217.3 million restated balance last year.

Lease deposits, amounting to P3.82 billion in 2013, increased by P645.9 million or 20.37% from last year's P3.17 billion. This was also due to the increase volume of lease transactions of the Company.

Stockholders' equity (restated balance) increased by P182.2 million or 3.97%, mainly from the increase in Net Income year-on-year.

The Company's five (5) key performance indicators are the following:

	<u>December 2013</u>	<u>December 2012 restated</u>
Current Ratio	0.43:1	0.43:1
Quick asset ratio	0.40:1	0.41:1
Debt to Equity Ratio	4.31:1	3.51:1
Net Profit Margin	22.09%	23.32%
Return on Equity	8.98%	9.23%

Increase in current ratio (computed as current assets divided by current liabilities) is attributed to the P2.67 billion increase in net loans & receivables financed that are expected to be collected within the year. The decrease in quick asset ratio (quick asset divided by current liabilities) is due to this year's reclassification of some ROPA accounts as non-current assets held for sale. Debt to equity ratio, computed as total liabilities divided by total equity, increased from 3.51:1 in 2012 (restated balance) to 4.31:1 in 2013 because of more corporate and bank funding availed to finance the increase in lease/loan portfolio during the year. Net profit margin which is computed as Net Income over Gross Revenue, decreased this year from last year due to higher Occupancy & Equipment Related Expense from BDO Rental bookings. Return on equity, which is Net Income over Average Equity, stood at 8.98% in 2013.

Policy on Revenue Recognition – Other Income

Income related to the administration and servicing a loan are recognized as revenue as the services are rendered, these are included under Other Income such as Service Fees, Gain on disposal of property, etc. These are recognized as they are earned.

Key Variable and Other Qualitative and Quantitative Factors

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

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

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

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

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

Internal and External Sources of Liquidity

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

Material Commitments for Capital Expenditures

The Company has a project for a new computerized Leasing System which is expected to be launched in January 2015.

Projections

Total Assets is projected to grow to P35.6 billion or 22% in 2015 with Net Loans and Other Receivables increasing from P23.6 billion in 2014 to P29.2 billion in 2015 or up to 24%. Total Revenue is estimated at P2.7 billion by year-end 2015 while Interest and Financing Charges and Operating Lease-related Depreciation total P600.3 million and P643.2 million, respectively.

Projected Net income is P575 million, an increase of 14% versus the P504 million Audited 2014 Performance.

Funding will be mainly sourced from the short-term commercial papers (STCP), bank lines and collections. The Company secured an approval in 2014 for P25 Billion worth of STCP.

Financial Statements

The financial statements of the Company included in the 2014 Annual Report to Stockholders are incorporated herein by reference. The schedules listed in the accompanying Index to Supplementary Schedules are filed as part of this Form.

INFORMATION ON INDEPENDENT ACCOUNTANT

Information on Independent Accountant and Other Related Matters

(1) External Audit Fees and Services

(a) Audit and Audit-Related Fees

The aggregate fees billed for each of the last two (2) fiscal years for professional services rendered by the external auditor was P0.868 million for the year 2014 and P0.888 million for the year 2013. These fees cover services rendered by the external auditor for audit of the financial statements and other services in connection with statutory and regulatory filings for fiscal year 2014 and 2013.

(b) Tax fees and other fees

No other fees were paid to Punongbayan & Araullo (P&A) for the last two (2) fiscal years.

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

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

(2) Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

P&A has been appointed as the Company's Independent Public Accountant in 2014. There was no event in the past where P&A and the Company had any disagreement with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope and procedures.

CORPORATE GOVERNANCE

The Company has adopted a Manual of Corporate Governance, which was filed with and duly approved by the SEC. Pursuant to the Manual, the Company established an evaluation system to

measure or determine the level of performance of the Board of Directors and top level management. The rating form, which is duly approved by the Board of the Company, is accomplished on an annual basis.

The Company requires its directors and senior officers to attend seminars conducted by reputable service providers and conduct its own training and seminars to fully comply with the adopted leading practices on good governance.

There has been no deviation from the Company's Manual of Corporate Governance.

The Company will continue to send its directors and senior officers to attend training programs and seminars to further improve the corporate governance of the Company.

UNDERTAKING TO PROVIDE ANNUAL REPORT

The Registrant undertakes to provide without charge each stockholder with a copy of its Annual Report upon written request to the Registrant addressed to the:

**OFFICE OF THE CORPORATE SECRETARY
14TH FLOOR, NORTH TOWER
BDO CORPORATE CENTER
7899 MAKATI AVENUE
MAKATI CITY 0726 PHILIPPINES**

ANNEX "A"

**CERTIFICATION ON THE
DIRECTORS AND OFFICERS
WITH ATTACHED LETTER
CONSENT FROM THE
PAMANTASAN NG LUNGSOD
NG MAYNILA**

REPUBLIC OF THE PHILIPPINES)
CITY OF MAKATI) SS.

CERTIFICATION

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

1. I am the duly appointed Corporate Secretary of **BDO LEASING AND FINANCE, INC. (BDOLF)**, a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with principal office and business address at BDO Leasing Centre, Corinthian Gardens, Ortigas Avenue, Quezon City, and in that capacity, I have custody of the corporate records of BDOLF;

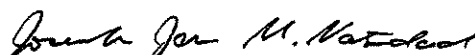
2. As Corporate Secretary and based on the corporate records on file, I hereby certify that except for Ms. Leonora V. de Jesus, Independent Director, none of the Directors, Independent Directors, Officers and Employees of BDOLF, and none of the nominees for election as Directors and Independent Directors of BDOLF, has been elected to any Government position, or appointed to any Government department, agency, bureau or office, that would disqualify them from serving as director, independent director, officer or employee of the company.

3. Ms. De Jesus was appointed President of the Pamantasan ng Lungsod ng Maynila, a City University of the City of Manila, in September 2014.

4. The Board of Regents of the Pamantasan ng Lungsod ng Maynila has signified its consent to the election and nomination of Ms. De Jesus as Independent Director of BDOLF as evidenced by the Letter Consent Form attached hereto as Annex "A".

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


IN WITNESS WHEREOF, I have hereunto affixed my signature this MAR 17 2015 at Makati City, Philippines.


JOSEPH JASON M. NATIVIDAD
Corporate Secretary

SUBSCRIBED AND SWORN to before me this MAR 17 2015 day of at Makati City, affiant exhibiting to me his Driver's License No. C05-89-038680 with validity up to 02 September 2017, and Social Security System No. 33-6273422-8.

Doc. No. 177
Page No. 37
Book No. 1
Series of 2015.

BDO Leasing & Finance, Inc.
BDO Leasing Centre
Corinthian Gardens, Ortigas Avenue
Quezon City, Philippines
Tel +63(2) 635 6416
Fax +63(2) 635 5811, 635 5805, 635 3898


Atty. **FLORALIE M. PAMFILO**
Notary Public for Makati City, Philippines
until 31 December 2015
Appointment No. M-515
14/F BDO North Tower, BDO Corporate Center
7899 Makati Avenue, Makati City
Roll No. 57379
IBP No. 0981262, 1/5/2015, Quezon City
PTR No. 4754567, 1/6/2015, Makati City
MCLE Exemption No. IV-001530, 1/27/2014



PAMANTASAN NG LUNGSOD NG MAYNILA
(University of the City of Manila)
Intramuros, Manila

Annex "A"




**OFFICE OF THE SECRETARY OF THE UNIVERSITY
AND OF THE BOARD OF REGENTS**

CERTIFICATION

This is to certify that **DR. MA. LEONORA V. DE JESUS** is an incumbent member of the Board of Regents and the current University President of the *Pamantasan ng Lungsod ng Maynila* (PLM). This is to further certify that:

1. Section 4 of Republic Act No. 4196, otherwise known as the PLM Charter, provides: "*xxx. No person in the employ of or with financial interest in any educational institution in any capacity whatsoever, except those exercising purely professional functions, shall be eligible for membership in the Board.*" In this connection, Dr. De Jesus is not prohibited from serving as an Independent Director of BDO Leasing and Finance, Incorporated (BDOLFI) since the said private corporation is not an educational institution;
2. As University President, Dr. De Jesus is not required to use a bundy clock or fill up a Daily Time Record (DTR), considering that specified University officials, including the University President, who are required to be on flexi-time and on-call 24 hours a day, are deemed exempted from bundy clock and other similar devices and accomplishment of daily time records pursuant to the PLM University Code of 2005 and subject to conditions provided under University Memorandum date 28 October 2014; and
3. The duties of Dr. De Jesus as a non-executive independent director for BDOLFI, which do not have any management responsibility and which requires her to protect the interest of minority stockholders in the Board of Directors, is not incompatible with the performance of her duties as University President.

This certification is issued for whatever legal purpose it may serve.


ATTY. RAPHAEL KENNETH E. YBAÑEZ
University and Board Secretary

ANNEX "B"

**CERTIFICATION ON THE
QUALIFICATION OF
INDEPENDENT DIRECTORS
(MA LEONORA DE JESUS,
JESUS G. TIRONA, JESSE H. T.
ANDRES)**

CERTIFICATION OF QUALIFICATION OF INDEPENDENT DIRECTOR

I, **MA. LEONORA V. DE JESUS**, Filipino, of legal age and residing at Unit 2901-A Ritz Towers, 6745 Ayala Avenue, Makati City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am an independent director of **BDO LEASING AND FINANCE, INC. ("BDOLF")**
2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
BDO Capital & Investment Corporation	Independent Director	August 28, 2010 - present
BDO Elite Savings Bank, Inc.	Independent Director	August 24, 2009 - present
SM Development Corporation	Independent Director	August 2, 2011 - present
ROAM, Inc.	Director	November 2011 - present
Pamantasan ng Lungsod ng Maynila	University President	September 2014 to present

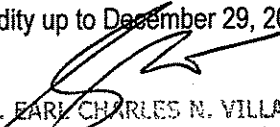
3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of BDOLF, as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.
4. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code.
5. I shall inform the corporate secretary of BDOLF of any changes in the abovementioned information within five days from its occurrence.

Done, this ____ day of 26 FEB 2015 2015, at Makati City, Philippines.


MA. LEONORA V. DE JESUS
Affiant

26 FEB 2015

SUBSCRIBED AND SWORN TO BEFORE ME this ____ day of ____ 20__ at Makati City, Philippines, affiant exhibiting to me her Passport No. EB9270181 issued at DFA-Manila with validity up to September 30, 2018, and Driver's License No. X01-81-006050 with validity up to December 29, 2016.


Atty. **EARL CHARLES N. VILLARIN**
Notary Public for Makati City, Philippines
until 31 December 2015
Appointment No. N-326

14/F North Tower, BDO Corporate Center
7889 Makati Avenue, Makati City
IBP Lifetime Member No. 07478, PPLM
PTR No. 4751246, 1/09/2015, Makati City
MCLE Compliance No. IV-0017170, 4/16/2010

Doc. No. 423;
Page No. 86;
Book No. 2;
Series of 2015.

CERTIFICATION OF QUALIFICATION OF INDEPENDENT DIRECTOR

I, **JESUS G. TIRONA**, Filipino, of legal age and residing at No. 14 Fabian de la Rosa St., Loyola Heights, Quezon City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am an independent director of **BDO LEASING AND FINANCE, INC. ("BDOLF")**
2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
Armstrong Securities, Inc.	Independent Director	May 24, 2006 – present
BDO Capital & Investment Corporation	Independent Director	Aug. 7, 2007 – present
BDO Foundation, Inc. (non-stock, non-profit organization)	Trustee	January 9, 2010 - present
Banco De Oro Savings Bank, Inc. (formerly Citibank Savings, Inc.)	Independent Director	March 25, 2014 - present

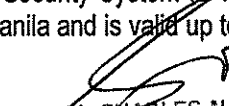
3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of BDOLF, as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.
4. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code.
5. I shall inform the corporate secretary of BDOLF of any changes in the abovementioned information within five days from its occurrence.

Done, this ____ day of 26 FEB 2015, at Makati City, Philippines.



JESUS G. TIRONA
Affiant

SUBSCRIBED and sworn to before me this ____ day of 26 FEB 2015, in the City of _____, Philippines, affiant exhibited to me his Social Security System ID No. 03-0772779-8, and his Passport No. EB0205886 issued on 12 May 2010 at DFA – Manila and is valid up to 11 May 2015.



Atty. EARL CHARLES N. VILLARIN
Notary Public for Makati City, Philippines
until 31 December 2015
Appointment No. 16-326

14/F North Tower, BDO Corporate Center
7899 Makati Avenue, Makati City
IBP Lifetime Member No. 07478, PPLM
PTR No. 4751246, 1/05/2015, Makati City
MCLE Compliance No. IV-0017178, 4/16/2013

Doc. No. 422;
Page No. 86;
Book No. 2;
Series of 2015.

CERTIFICATION OF QUALIFICATION OF INDEPENDENT DIRECTOR

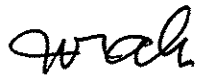
I, **JESSE H. T. ANDRES**, Filipino, of legal age and residing at No. 1 Corregidor Street, Ayala Heights, Diliman, Quezon City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am an independent director of **BDO LEASING AND FINANCE, INC. ("BDOLF")**
2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
Andres Padernal and Paras Law Offices	Managing Partner	July 1, 2011 – present
Banco De Oro Savings Bank, Inc. (formerly Citibank Savings, Inc.)	Independent Director	March 25, 2014 - present

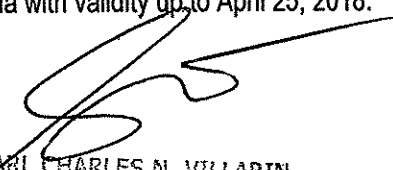
3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of BDOLF, as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.
4. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code.
5. I shall inform the corporate secretary of BDOLF of any changes in the abovementioned information within five days from its occurrence.

Done, this ____ day of 26 FEB 2015 2015, at Makati City, Philippines.


JESSE H. T. ANDRES
Affiant

SUBSCRIBED AND SWORN TO BEFORE ME this ____ day of 26 FEB 2015 20____ at Makati City, Philippines, affiant exhibiting to me his Community Tax Certificate No. 02417181 issued at Makati City on January 8, 2015, and his Passport No. EB7982910 issued at DFA-Manila with validity up to April 25, 2018.

Doc. No. 421 :
Page No. 86 :
Book No. 2 :
Series of 2015.


Atty. **EARL CHARLES N. VILLARIN**
Notary Public for Makati City, Philippines
until 31 December 2015
Appointment No. M-326
14/F North Tower, BDO Corporate Center
7899 Makati Avenue, Makati City
IBP Lifetime Member No. 07478, PPLM
PTR No. 4751246, 1/05/2015, Makati City
MCLE Compliance No. IV-0017178, 4/16/2013

ANNEX "C"

**STATEMENT OF
MANAGEMENT'S
RESPONSIBILITY, AUDITED
FINANCIAL STATEMENTS,
AND OTHER DOCUMENTS**

**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 for the years ended December 31, 2014, 2013 and 2012, in accordance with Philippine Financial Reporting Standards (PFRS), including the following additional supplemental information filed separately from the basic financial statements:

- a. Supplementary Schedules Required under Annex 68-E of the Securities Regulation Code Rule 68;
- b. Reconciliation of Retained Earnings Available for Dividend Declaration;
- c. Schedule of PFRS Effective as of December 31, 2014;
- d. Schedule of Financial Indicators for December 31, 2014 and 2013;
- e. Map Showing the Relationship Between and Among the Company and its Related Entities;

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


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

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


Signature:


TERESITA T.SY
Chairperson

Signature:


ROBERTO E. LAPID
President

Signature:


ROSALISA B. KAPUNO
Comptroller

Signed this 26th day of February 2015.



SUBSCRIBED and SWORN to me before this _____ day of MAR 06 2015, 2015 affiant exhibiting to me his/her Social Security Number, as follows:


NAMES

Teresita T. Sy
Roberto E. Lapid
Rosalisa B. Kapuno

SSS NUMBER

03-2832705-4
03-5034078-2
03-5894505-3

DOC. NO. 177
PAGE NO. 37
BOOK NO. CXIV
SERIES OF 7015


KIM BRIGUERA-DACARA
NOTARY PUBLIC FOR AND IN
PASIG CITY, TAGUIG, PATEROS, SAN JUAN, METRO M.A.
UNTIL DEC. 31, 2016 / MCLE NO. IV-0013423 / 2-25-2013
APPT. NO. 31 (2015-2016)
IBP NO. 577437 11/28/2014 (FOR 2015)
PTR NO. 0348322 PASIG CITY 1/6/2015
16th FLR., JMT BLDG., ADB AVE.,
ORTIGAS CTR., PASIG CITY

BDO Leasing & Finance, Inc.
BDO Leasing Centre
Corinthian Gardens, Ortigas Avenue
Quezon City, Philippines
Tel +63(2) 635 6416
Fax +63(2) 635 5811, 633 7736, 635 3898

www.bdo.com.ph

We find ways®



Punongbayan & Araullo

An instinct for growth™

Report of Independent Auditors

19th and 20th Floors, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 988 2288
F +63 2 886 5506
www.punongbayan-araullo.com

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

We have audited the accompanying financial statements of BDO Leasing and Finance, Inc. and subsidiary (the Group) and BDO Leasing and Finance, Inc. (the Parent Company) which comprise the statements of financial position as at December 31, 2014 and 2013, 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, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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



Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

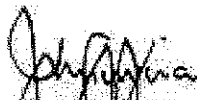
In our opinion, the financial statements present fairly, in all material respects, the financial position of BDO Leasing and Finance, Inc. and subsidiary and of BDO Leasing and Finance, Inc. as at December 31, 2014 and 2013, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2014 in accordance with Philippine Financial Reporting Standards.



Emphasis of a Matter

As discussed in Note 21 to the financial statements, the Parent Company presented the supplementary information required by the Bureau of Internal Revenue for the year ended December 31, 2014 in a supplementary schedule filed separately from the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards; it is neither a required disclosure under the Philippine Securities and Exchange Commission rules and regulations covering the form and content of financial statements under Securities Regulation Code Rule 68, as amended.

PUNONGBAYAN & ARAULLO


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

CPA Reg. No. 0095626
TIN 906-174-059
PTR No. 4748317, Jan. 5, 2015, Makati City
SEC Group A Accreditation
Partner - No. 0628-AR-2 (until Sept. 5, 2016)
Firm - No. 0002-FR-3 (until Mar. 31, 2015)
BIR AN 08-002511-22-2011 (until Nov. 7, 2016)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

February 25, 2015

BDO LEASING AND FINANCE, INC. AND SUBSIDIARY
(A Subsidiary of BDO Unibank, Inc.)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013
(Amounts in Millions of Philippine Pesos)

		Group		Parent Company	
	Notes	2014	2013	2014	2013
<u>ASSETS</u>					
CASH AND CASH EQUIVALENTS	7	P 417.7	P 138.0	P 360.3	P 129.1
AVAILABLE-FOR-SALE FINANCIAL ASSETS	8	2,373.3	2,093.5	2,373.3	2,093.5
LOANS AND OTHER RECEIVABLES - Net	9	23,646.6	20,975.0	23,672.5	20,971.2
PROPERTY AND EQUIPMENT - Net	10	2,012.6	1,424.2	4.3	7.5
INVESTMENT PROPERTIES - Net	11	320.6	145.7	320.6	145.7
OTHER ASSETS - Net	12	<u>479.1</u>	<u>561.0</u>	<u>477.8</u>	<u>720.8</u>
TOTAL ASSETS		<u>P 29,249.9</u>	<u>P 25,337.4</u>	<u>P 27,208.8</u>	<u>P 24,067.8</u>
<u>LIABILITIES AND EQUITY</u>					
BILLS PAYABLE	13	P 19,653.0	P 16,448.5	P 17,993.0	P 15,517.4
ACCOUNTS PAYABLE AND OTHER LIABILITIES	14	340.8	258.1	266.8	196.5
INCOME TAX PAYABLE		36.4	27.5	36.4	27.5
DEFERRED TAX LIABILITIES - Net	21	40.0	15.2	40.0	15.2
LEASE DEPOSITS	15	<u>4,193.9</u>	<u>3,817.1</u>	<u>4,148.9</u>	<u>3,774.6</u>
Total Liabilities		<u>24,264.1</u>	<u>20,566.4</u>	<u>22,485.1</u>	<u>19,531.2</u>
CAPITAL STOCK	16	2,225.2	2,225.2	2,225.2	2,225.2
ADDITIONAL PAID-IN CAPITAL		571.1	571.1	571.1	571.1
TREASURY SHARES		(81.8)	(81.8)	(81.8)	(81.8)
RETAINED EARNINGS	2	2,165.8	1,986.2	1,903.7	1,751.8
UNREALIZED FAIR VALUE GAINS ON AVAILABLE-FOR-SALE FINANCIAL ASSETS		140.6	112.2	140.6	112.2
NET ACCUMULATED ACTUARIAL LOSSES	2	(<u>35.1</u>)	(<u>41.9</u>)	(<u>35.1</u>)	(<u>41.9</u>)
Total Equity		<u>4,985.8</u>	<u>4,771.0</u>	<u>4,723.7</u>	<u>4,536.6</u>
TOTAL LIABILITIES AND EQUITY		<u>P 29,249.9</u>	<u>P 25,337.4</u>	<u>P 27,208.8</u>	<u>P 24,067.8</u>

See Notes to Financial Statements.

BDO LEASING AND FINANCE, INC. AND SUBSIDIARY
(A Subsidiary of BDO Unibank, Inc.)
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(Amounts in Millions of Philippine Pesos, Except Per Share Data)

		<u>Group</u>			<u>Parent Company</u>		
		<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
REVENUES							
Interest and discounts	9	P 1,450.9	P 1,297.8	P 1,271.2	P 1,450.7	P 1,297.7	P 1,271.8
Rent	18	613.1	380.8	229.8	-	1.2	-
Other income	17	209.6	224.3	260.5	240.3	197.4	251.2
		<u>2,273.6</u>	<u>1,902.9</u>	<u>1,761.5</u>	<u>1,691.0</u>	<u>1,496.3</u>	<u>1,523.0</u>
OPERATING COSTS AND EXPENSES							
Occupancy and equipment-related expenses	10, 11, 12	534.3	352.2	220.8	56.0	61.1	45.6
Interest and financing charges	13	467.9	418.6	463.2	431.1	400.2	458.4
Taxes and licenses	21	179.3	148.7	134.7	170.4	144.0	132.2
Employee benefits	19	161.4	183.4	164.6	161.4	183.4	164.6
Impairment and credit losses	9, 11, 12	100.0	126.0	112.5	100.0	126.0	112.5
Litigation/assets acquired expenses		24.9	17.0	47.9	24.6	17.0	47.9
Other expenses	20	91.7	91.2	90.9	91.7	88.9	90.6
		<u>1,559.5</u>	<u>1,337.1</u>	<u>1,234.6</u>	<u>1,035.2</u>	<u>1,020.6</u>	<u>1,051.8</u>
PROFIT BEFORE TAX		<u>714.1</u>	<u>565.8</u>	<u>526.9</u>	<u>655.8</u>	<u>475.7</u>	<u>471.2</u>
TAX EXPENSE	21	<u>210.1</u>	<u>145.5</u>	<u>116.2</u>	<u>179.5</u>	<u>118.2</u>	<u>99.4</u>
NET PROFIT		<u>P 504.0</u>	<u>P 420.3</u>	<u>P 410.7</u>	<u>P 476.3</u>	<u>P 357.5</u>	<u>P 371.8</u>
Basic/Diluted Earnings Per Share	22	<u>P 0.23</u>	<u>P 0.19</u>	<u>P 0.19</u>	<u>P 0.22</u>	<u>P 0.17</u>	<u>P 0.17</u>

See Notes to Financial Statements.

STATEMENTS OF COMPREHENSIVE INCOME
(A Subsidiary of BDO Unibank, Inc.)
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(Amounts in Millions of Philippine Pesos)

	Notes	Group			Parent Company		
		2014	2013	2012	2014	2013	2012
NET PROFIT		P 504.0	P 420.3	P 410.7	P 476.3	P 357.5	P 371.8
OTHER COMPREHENSIVE INCOME (LOSS)							
Items that will not be reclassified subsequently to profit or loss							
Remeasurements of post-employment defined benefit plan	19	9.7	21.7	(10.1)	9.7	21.7	(10.1)
Tax income (expense)	21	(2.9)	(6.5)	3.0	(2.9)	(6.5)	3.0
		<u>6.8</u>	<u>15.2</u>	<u>(7.1)</u>	<u>6.8</u>	<u>15.2</u>	<u>(7.1)</u>
Items that will be reclassified subsequently to profit or loss							
Unrealized fair value gains (losses) on revaluation of available-for-sale financial assets	8	28.5	71.5	(21.0)	28.5	71.5	(21.0)
Tax income (expense)	21	(0.1)	(0.4)	0.1	(0.1)	(0.4)	0.1
		<u>28.4</u>	<u>71.1</u>	<u>(20.9)</u>	<u>28.4</u>	<u>71.1</u>	<u>(20.9)</u>
Other Comprehensive Income (Loss) - net of tax		<u>35.2</u>	<u>86.3</u>	<u>(28.0)</u>	<u>35.2</u>	<u>86.3</u>	<u>(28.0)</u>
TOTAL COMPREHENSIVE INCOME		P 539.2	P 506.6	P 382.7	P 511.5	P 443.8	P 343.8

See Notes to Financial Statements.

BDO LEASING AND FINANCE, INC. AND SUBSIDIARY
(A Subsidiary of BDO Unibank, Inc.)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(Amounts in Millions of Philippine Pesos)

Group							
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, 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	-	-	-	(324.4)	-	-	(324.4)
16							
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>
Balance at January 1, 2013	P 2,225.2	P 571.1	(P 81.8)	P 1,890.3	(P 57.1)	P 41.1	P 4,588.8
Total comprehensive income	-	-	-	420.3	15.2	71.1	506.6
Cash dividends	-	-	-	(324.4)	-	-	(324.4)
16							
Balance at December 31, 2013	<u>P 2,225.2</u>	<u>P 571.1</u>	<u>(P 81.8)</u>	<u>P 1,986.2</u>	<u>(P 41.9)</u>	<u>P 112.2</u>	<u>P 4,771.0</u>
Balance at January 1, 2012	P 2,225.2	P 571.1	(P 81.8)	P 1,587.7	(P 50.0)	P 62.0	P 4,314.2
Total comprehensive income (loss)	-	-	-	410.7	(7.1)	(20.9)	382.7
Cash dividends	-	-	-	(108.1)	-	-	(108.1)
16							
Balance at December 31, 2012	<u>P 2,225.2</u>	<u>P 571.1</u>	<u>(P 81.8)</u>	<u>P 1,890.3</u>	<u>(P 57.1)</u>	<u>P 41.1</u>	<u>P 4,588.8</u>

See Notes to Financial Statements.

BDO LEASING AND FINANCE, INC. AND SUBSIDIARY
(A Subsidiary of BDO Unibank, Inc.)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(Amounts in Millions of Philippine Pesos)

		Parent Company					
						Unrealized Fair Value Gains on Available-for- Sale Financial Assets	
Notes	Capital Stock	Additional Paid-in Capital	Treasury Shares, At Cost	Retained Earnings	Net Accumulated Actuarial Losses		Net Equity
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
Total comprehensive income	-	-	-	476.3	6.8	28.4	511.5
Cash dividends	-	-	-	(324.4)	-	-	(324.4)
16							
Balance at December 31, 2014	P 2,225.2	P 571.1	(P 81.8)	P 1,903.7	(P 35.1)	P 140.6	P 4,723.7
Balance at January 1, 2013	P 2,225.2	P 571.1	(P 81.8)	P 1,718.7	(P 57.1)	P 41.1	P 4,417.2
Total comprehensive income	-	-	-	357.5	15.2	71.1	443.8
Cash dividends	-	-	-	(324.4)	-	-	(324.4)
16							
Balance at December 31, 2013	P 2,225.2	P 571.1	(P 81.8)	P 1,751.8	(P 41.9)	P 112.2	P 4,536.6
Balance at January 1, 2012	P 2,225.2	P 571.1	(P 81.8)	P 1,455.0	(P 50.0)	P 62.0	P 4,181.5
Total comprehensive income (loss)	-	-	-	371.8	(7.1)	(20.9)	343.8
Cash dividends	-	-	-	(108.1)	-	-	(108.1)
16							
Balance at December 31, 2012	P 2,225.2	P 571.1	(P 81.8)	P 1,718.7	(P 57.1)	P 41.1	P 4,417.2

See Notes to Financial Statements.

BDO LEASING AND FINANCE, INC. AND SUBSIDIARY
(A Subsidiary of BDO Unibank, Inc.)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(Amounts in Millions of Philippine Pesos)

	<u>Group</u>			<u>Parent Company</u>		
<u>Notes</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax	P 714.1	P 565.8	P 526.9	P 655.8	P 475.7	P 471.2
Adjustments for:						
Interest received	1,424.4	1,316.8	1,252.4	1,425.4	1,311.5	1,252.8
Interest and discounts	9 (1,450.9)	(1,297.8)	(1,271.2)	(1,450.7)	(1,297.7)	(1,271.8)
Interest and financing charges paid	(472.7)	(419.0)	(436.1)	(435.1)	(409.6)	(436.1)
Interest and financing charges	13 467.9	416.6	463.2	431.1	408.2	458.4
Depreciation and amortization	10, 11, 12 500.8	324.6	195.1	23.2	33.7	19.9
Impairment and credit losses	9, 11, 12 100.0	126.0	112.5	100.0	126.0	112.5
Gain on sale of property and equipment and investment properties	17 (25.7)	(24.5)	(55.1)	(19.4)	(4.7)	(51.5)
Day one loss	3.4	0.6	3.5	4.3	3.0	6.5
Operating profit before changes in operating assets and liabilities	1,261.3	1,011.1	793.2	734.6	638.1	561.9
Increase in loans and other receivables	(2,750.8)	(3,839.1)	(2,750.0)	(2,780.5)	(3,832.8)	(2,758.7)
Increase in other assets	(179.2)	(134.0)	(52.7)	(74.8)	(19.1)	(22.7)
Increase (decrease) in accounts payable and other liabilities	82.8	146.2	255.9	70.3	97.8	260.6
Increase in lease deposits	374.7	644.3	746.8	372.3	644.7	747.2
Cash used in operations	(1,211.2)	(2,171.5)	(1,518.6)	(1,678.1)	(2,471.3)	(1,729.9)
Cash paid for income taxes	(117.4)	(154.0)	(81.8)	(117.4)	(154.0)	(81.8)
Net Cash Used in Operating Activities	(1,328.6)	(2,325.3)	(1,600.4)	(1,795.5)	(2,625.3)	(1,811.7)
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisition of property and equipment	10 (1,178.3)	(1,091.0)	(334.0)	(1.8)	(3.5)	(6.5)
Proceeds from disposal of property and equipment and investment properties	10, 11 150.5	67.4	8.6	37.0	35.0	-
Acquisition of available-for-sale financial assets	8 (250.0)	-	-	(250.0)	-	-
Addition in investment properties	11 (5.0)	(14.1)	(77.8)	(5.0)	(14.1)	(77.8)
Net Cash From (Used in) Investing Activities	(1,282.8)	(1,037.7)	(403.2)	(219.8)	17.4	(84.3)
CASH FLOWS FROM FINANCING ACTIVITIES						
Net availments of bills payable	13 3,215.5	3,756.2	2,093.4	2,483.4	2,997.9	1,981.3
Payments of cash dividends	16 (324.4)	(324.4)	(108.1)	(324.4)	(324.4)	(108.1)
Redemption of preferred shares	-	-	-	87.5	-	-
Net Cash From Financing Activities	2,891.1	3,431.8	1,985.3	2,246.5	2,673.5	1,873.2
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	279.7	68.6	(18.3)	231.2	65.6	(22.8)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	138.0	69.4	87.7	129.1	63.5	86.3
CASH AND CASH EQUIVALENTS AT END OF YEAR	7 P 417.7	P 138.0	P 69.4	P 360.3	P 129.1	P 63.5

Supplemental Information on Non-cash Investing Activities:

The Company reclassified certain Non-current Assets Held-for-sale to Investment Property in 2014 and certain Investment Property to Non-current Assets Held-for-sale in 2013 (see Notes 11 and 12)

See Notes to Financial Statements.

BDO LEASING AND FINANCE, INC. AND SUBSIDIARY
(A Subsidiary of BDO Unibank, Inc.)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
*(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, Inc. (PSE) on January 6, 1997. The Parent Company operates as a leasing and financing entity which provides direct leases, sale and leaseback arrangements and real estate leases. Financing products include amortized commercial and consumer loans, installment paper purchases, floor stock financing, receivables discounting, and factoring.

The Parent Company is a subsidiary of BDO Unibank, 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. It started its commercial operations on June 30, 2005.

The Parent Company's principal office is located at BDO Leasing Centre, Corinthian Gardens, Ortigas Avenue, Quezon City. As of December 31, 2014, BDO Leasing has six branches located in the cities of Makati, 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, 2014 (including the comparative financial statements for December 31, 2013 and 2012) were authorized for issue by the Parent Company's Board of Directors (BOD) on February 25, 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.01 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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.

(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 2014 that are Relevant to the Group

In 2014, the Group adopted for the first time the following amendments and interpretations to PFRS that are relevant to the Group and effective for financial statements for the annual period beginning on or after January 1, 2014:

PAS 32 (Amendment)	:	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
PAS 36 (Amendment)	:	Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets
PAS 39 (Amendment)	:	Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting
PFRS 10, 12 and PAS 27(Amendments)	:	Consolidated Financial Statements, Disclosures of Interest in Other Entities and Separate financial Statements
Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 21	:	Levies

Discussed below are the relevant information about these amended standards and interpretation

- (i) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*. The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that an entity must currently have a right of set-off that is not contingent on a future event, and must be legally enforceable in the normal course of business; in the event of default; and, in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies that gross settlement mechanisms (such as through a clearing house) with features that both eliminate credit and liquidity risks and process receivables and payables in a single settlement process, will satisfy the criterion for net settlement. As the Group does not currently present any of its financial assets and financial liabilities on a net basis in accordance with the provision of PAS 32, the amendment has no material effect on the Group's financial statement for any periods presented.

- (ii) PAS 36 (Amendment), *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets*. The amendment clarifies that disclosure of information about the recoverable amount of individual asset (including goodwill) or a cash-generating unit is required only when an impairment loss has been recognized or reversed during the reporting period. If the recoverable amount is determined based on the asset's or cash-generating unit's fair value less cost of disposal, additional disclosures on fair value measurement required under PFRS 13, *Fair Value Measurement*, such as but not limited to the fair value hierarchy, valuation technique used and key assumptions applied should be provided in the financial statements. This amendment did not result in additional disclosures in the financial statements since the recoverable amounts of the Group's non-financial assets, where impairment losses have been recognized were determined based on fair value which have been adequately disclosed in accordance with PAS 36 (see Notes 11 and 12).
- (iii) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*. The amendment provides some relief from the requirements on hedge accounting by allowing entities to continue the use of hedge accounting when a derivative is novated to a clearing counterparty resulting in termination or expiration of the original hedging instrument as a consequence of laws and regulations, or the introduction thereof. As the Group neither enters into transactions involving derivative instruments nor does it apply hedge accounting, the amendment did not have any impact on the Group's financial statements.
- (iv) The Amendments to PFRS 10, 12 and PAS 27(Amendment), *Consolidated Financial Statements, Disclosure of Interests in Other Entities, and Separate Financial Statements*. The amendments define the term "investment entity" and provide to such an investment entity an exemption from the consolidation of particular subsidiaries and instead require to measure investment in each eligible subsidiary at fair value through profit or loss in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*, or PFRS 9, *Financial Instruments*, both in its consolidated or separate financial statements, as the case maybe. The amendments also require additional disclosures about the details of the entity's unconsolidated subsidiaries and the nature of its relationship and certain transactions with those subsidiaries. These amendments have no significant impact on the Groups' financial statements.
- (v) Philippine Interpretation IFRIC 21, *Levies*. This interpretation clarifies that the obligating event as one of the criteria under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, for the recognition of a liability for levy imposed by a government is the activity described in the relevant legislation that triggers the payment of the levy. Accordingly, the liability is recognized in the financial statements progressively if the obligating event occurs over a period of time and if an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached. This amendment had no significant impact on the Group's financial statements.

(b) *Effective Subsequent to 2014 but not Adopted Early*

There are new PFRS, amendments and annual improvements to existing standards effective for periods subsequent to 2014 which are adopted by the FRSC, subject to the approval of the BOA. Management will adopt the following relevant pronouncements in accordance with their transitional provisions and, unless otherwise stated, none of these are expected to have significant impact on the Group's financial statements:

- (i) PAS 19 (Amendment), *Employee Benefits – Defined Benefit Plans – Employee Contributions* (effective from July 1, 2014). The amendment clarifies that if the amount of the contributions from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit.
- (ii) PAS 1 (Amendment), *Presentation of Financial Statements – Disclosure Initiative* (effective from January 1, 2016). The amendment encourages entities to apply professional judgment in presenting and disclosing information in the financial statements. Accordingly, it clarifies 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 amendment clarifies that an entity's share of 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. It further clarifies that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the financial statements.
- (iii) PAS 16 (Amendment), *Property, Plant and Equipment*, and PAS 38 (Amendment), *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (effective from January 1, 2016). The amendment in PAS 16 clarifies 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, amendment to PAS 38 introduces 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 amendment also provides 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.

- (iv) PAS 27 (Amendment), *Separate Financial Statements – Equity Method in Separate Financial Statements* (effective from January 1, 2016). This amendment introduces 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 or PFRS 9, *Financial Instruments*. As of the end of the reporting period, the Parent Company has no plan to change the accounting policy for its investments in its subsidiary.
- (v) PAS 28 (Amendment), *Investments in Associates and Joint Ventures – Investment Entities – Applying the Consolidation Exception* (effective from January 1, 2016). This amendment addresses the concerns that have arisen in the context of applying the consolidation exception for investment entities. This amendment permits 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) PFRS 10 (Amendment), *Consolidated Financial Statements* and PAS 28 (Amendment), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* (effective from January 1, 2016). The amendment to PFRS 10 requires 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 amendment has 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.
- (vii) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will eventually 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 does not expect to implement and adopt any version of PFRS 9 until its effective date. In addition, management is currently assessing the impact of PFRS 9 on the financial statements of the Group and it will conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

- (viii) Annual Improvements to PFRS. Annual improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) effective for annual periods beginning on or after July 1, 2014, and to PFRS (2012-2014 Cycle) effective for annual periods beginning on or after January 1, 2016, made minor amendments to a number of PFRS. Among those improvements, the amendments presented in the succeeding pages are relevant to the Group but management does not expect those to have material impact on the Group's financial statements.

Annual Improvements to PFRS (2010-2012 Cycle)

- (a) PAS 16 (Amendment), *Property, Plant and Equipment*, and PAS 38 (Amendment), *Intangible Assets*. The amendments clarify that when an item of property, plant and equipment, and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.
- (b) PAS 24 (Amendment), *Related Party Disclosures*. The amendment clarifies that an entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also clarifies that the information required to be disclosed in the financial statements are the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity and not the amounts of compensation paid or payable by the management entity to its employees or directors.
- (c) PFRS 8 (Amendment), *Operating Segments*. This amendment requires disclosure of judgments made by management in applying the aggregation criteria to operating segments. This includes a description of the segments which have been assessed in determining that the aggregated segments share similar economic characteristics. It further clarifies the requirement to disclose for the reconciliations of segment assets to the entity's assets if that amount is regularly provided to the chief operating decision maker.
- (d) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment in the basis of conclusion of PFRS 13 clarifies that issuing PFRS 13 and amending certain provisions of PFRS 9 and PAS 39 related to discounting of financial instruments did not remove the ability to measure short-term receivables and payables with no stated interest rate on an undiscounted basis, when the effect of not discounting is immaterial.

Annual Improvements to PFRS (2011-2013 Cycle)

- (a) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of and accounted for in accordance with PAS 39 or PFRS 9, regardless of whether they meet the definition of financial assets or financial liabilities as defined in PAS 32.
- (b) PAS 40 (Amendment), *Investment Property*. The amendment clarifies the interrelationship of PFRS 3 and PAS 40 in determining the classification of property as an investment property or owner-occupied property, and explicitly requires an entity to use judgment in determining whether the acquisition of an investment property is an acquisition of an asset or a group of asset in accordance with PAS 40, or a business combination in accordance with PFRS 3.

Annual Improvements to PFRS (2012-2014 Cycle)

- (a) PFRS 5 (Amendment), *Non-current Assets Held for Sale and Discontinued Operations*. The amendment clarifies 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. It also states 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.
- (b) PFRS 7 (Amendment), *Financial Instruments – Disclosures*. The amendment provides 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.
- (c) PAS 19 (Amendment), *Employee Benefits*. The amendment clarifies 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.

2.03 Basis of Consolidation and Investment in a Subsidiary

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 is recognized in the consolidated financial statements.

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

A subsidiary is an entity (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 noncontrolling 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 acquire and the equity interests issued by the Group, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

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

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

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

The Parent Company's investment in a subsidiary is accounted for in the Parent Company's financial statements at cost, less any impairment loss (see Note 2.19).

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 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. 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 recognized at fair value and transaction costs are expensed in profit or loss. A more detailed description of the categories of financial instruments relevant to the Group is as follows:

(a) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to the debtor with no intention of trading the receivables. They are included in current assets, except for those with maturities greater than 12 months after the end of each reporting period, which are classified as non-current assets.

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

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

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized 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 was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the profit or loss.

(b) *AFS Financial Assets*

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

Reversal of impairment losses is recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

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

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

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

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

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

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. 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 2.19).

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.

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. Starting 2014, 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 [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 value of investment properties, as disclosed in Note 11, are based on valuations provided by independent and/or in-house appraisers, which are market value for land and building and related improvements and reproduction cost for certain building and improvements.

Investment properties are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from 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.

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.

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

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

2.15 Revenue and Expense Recognition

Revenue comprises interest income on loans and receivables financed and rent income from operating lease contracts, measured by reference to the fair value of consideration received or receivable by the Group for products sold and services rendered, excluding value-added tax (VAT), 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.
- (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 2.21).

2.16 Leases

The Group accounts for its leases as follows:

(a) Group as a Lessor

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

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

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

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

(b) *Group as a Lessee*

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

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

2.17 Foreign Currency Transactions and Translation

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

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

2.18 Impairment of Financial Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

- (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.

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

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

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

2.19 Impairment of Non-financial Assets

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

2.20 Employee Benefits

The Group provides post-employment benefits to employees through a defined benefit plan, and 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 Corporation, that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurement, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding interest) is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset and is included as part of 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. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

(c) *Termination Benefits*

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company 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 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. Starting 2014, 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.

2.21 *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.

2.22 Income Taxes

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

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

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

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

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

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.

2.23 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.

2.24 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.

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

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

(b) 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 2014 and 2013 for AFS financial assets.

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

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

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

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

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

Starting 2014, the Group provides additional criterion for booking real and chattel properties to Non-Current Asset Held for Sale (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 23.

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 and Investment Properties*

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

The carrying amounts of property and equipment and investment properties are presented in Notes 10 and 11, respectively. Based on management's assessment as of December 31, 2014 and 2013, there is no change in estimated useful lives of property and equipment and investment properties 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 The Bangko Sentral ng Pilipinas 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 2.19. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in 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.

(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 Note 6.

(e) *Fair Value Measurement for Investment Properties*

The Group's land and building including improvements classified under investment property 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 some of the deferred tax assets recognized as at December 31, 2014 and 2013 may not be actually recoverable.

Accordingly, in 2014 and 2013, the Group partially derecognized its deferred tax asset arising from the setting up of general loan loss provision on loans and receivables. The carrying value of the remaining deferred tax assets (netted against deferred tax liabilities) as of the end of 2014 and 2013 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 six branches.

4.02 Segment Assets and Liabilities

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

4.03 Intersegment Transactions

Intersegment transactions in 2014 and 2013 pertain to service fees charged by BDO Rental to the Parent Company as well as dividends, rent income and management fee 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>
<u>For the year ended December 31, 2014</u>					
Statement of Income					
Segment revenues					
External	P 1,368.7	P 685.3	P 219.6	P -	P 2,273.6
Inter-segment	-	-	50.9	(50.9)	-
	<u>1,368.7</u>	<u>685.3</u>	<u>270.5</u>	<u>(50.9)</u>	<u>2,273.6</u>
Segment expenses					
External	938.9	470.0	150.6	-	1,559.5
Inter-segment	-	-	7.1	(7.1)	-
	<u>938.9</u>	<u>470.0</u>	<u>157.7</u>	<u>(7.1)</u>	<u>1,559.5</u>
Segment results	<u>P 429.8</u>	<u>P 215.3</u>	<u>P 112.8</u>	<u>(P 43.8)</u>	P 714.1
Tax expense					(210.1)
Net profit					<u>P 504.0</u>

	<u>Leasing</u>	<u>Financing</u>	<u>Others</u>	<u>Eliminations</u>	<u>Group</u>
<u>December 31, 2014</u>					
Statement of Financial Position					
Segment assets	P 15,331.8	P 10,155.6	P -	P -	P 25,487.4
Unallocated assets					3,762.5
Total assets					<u>P 29,249.9</u>
Segment liabilities	P 13,493.5	P 10,353.4	P -	P -	P 23,846.9
Unallocated liabilities					417.2
Total liabilities					<u>P 24,264.1</u>
Other segment information:					
Capital expenditures	P 1,176.5	P -	P 1.8	P -	P 1,178.3
Depreciation and amortization	477.7	-	5.0	-	482.7
Impairment losses	-	-	100.0	-	100.0
<u>For the year ended December 31, 2013</u>					
Statement of Income					
Segment revenues					
External	P 1,032.3	P 629.6	P 241.0	P -	P 1,902.9
Inter-segment	-	-	5.3	(5.3)	-
	<u>1,032.3</u>	<u>629.6</u>	<u>246.3</u>	<u>(5.3)</u>	<u>1,902.9</u>
Segment expenses					
External	725.2	442.3	169.6	-	1,337.1
Inter-segment	-	-	5.3	(5.3)	-
	<u>725.2</u>	<u>442.3</u>	<u>174.9</u>	<u>(5.3)</u>	<u>1,337.1</u>
Segment results	<u>P 307.1</u>	<u>P 187.3</u>	<u>P 71.4</u>	<u>P -</u>	565.8
Tax expense					(145.5)
Net profit					<u>P 420.3</u>
<u>December 31, 2013</u>					
Statement of Financial Position					
Segment assets	P 13,678.5	P 8,545.8	P -	P -	P 22,224.3
Unallocated assets					3,113.1
Total assets					<u>P 25,337.4</u>
Segment liabilities	P 11,991.9	P 8,283.6	P -	P -	P 20,275.5
Unallocated liabilities					290.9
Total liabilities					<u>P 20,566.4</u>
Other segment information:					
Capital expenditures	P 1,087.4	P -	P 3.5	P -	P 1,090.9
Depreciation and amortization	290.9	-	6.9	-	297.9
Impairment losses	-	-	126.0	-	126.0

Segment expenses are allocated on the basis of gross income.

Net segment assets are comprised of the following:

		2014	
		Leasing	Financing
Receivables	P	10,520.6	P 10,514.3
Residual value of leased assets		4,167.9	-
Unearned income	(	1,118.1)	(75.4)
Client's equity		-	(36.5)
		13,570.4	10,402.4
Equipment under lease		2,008.3	-
		15,578.7	10,402.4
Allowance for impairment	(	246.9)	(246.8)
		P 15,331.8	P 10,155.6
		2013	
		Leasing	Financing
Receivables	P	9,823.4	P 8,864.4
Residual value of leased assets		3,782.6	-
Unearned income	(	1,137.2)	(97.7)
Client's equity		-	(34.1)
		12,468.8	8,732.6
Equipment under lease		1,416.7	-
		13,885.5	8,732.6
Allowance for impairment	(	207.0)	(186.8)
		P 13,678.5	P 8,545.8

Bills payable to BDO Unibank amounting to P4,387.2 and P6,119.8 as of December 31, 2014 and 2013, respectively, is allocated between the leasing and financing segments based on the carrying amounts of receivables of these segments. Deposits on lease amounting to P4,193.9 and P3,817.1 as of December 31, 2014 and 2013, respectively, are included in the leasing segment.

5. RISK MANAGEMENT

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

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

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

5.01 Foreign Exchange Risk

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

The Group's and Parent Company's foreign-currency denominated financial assets and liabilities translated into Philippine pesos at the closing rate at December 31, 2014 and 2013 are as follows:

	<u>2014</u>		<u>2013</u>	
Cash and cash equivalents	P	53.9	P	19.1
Loans and other receivables		756.2		1,083.5
Bills payable	(	767.5)	(	1,011.5)
Lease deposits	(	32.3)	(	30.4)
	<u>P</u>	<u>10.3</u>	<u>P</u>	<u>60.7</u>

At December 31, 2014 and 2013, the currency exchange rates used to translate U.S. dollar denominated financial assets and liabilities to the Philippine pesos is approximately P44.7 and P44.4, 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 +/-27.8% change and +/-24.0% change of the Philippine peso/U.S. dollar exchange rate at December 31, 2014 and 2013, respectively. These percentages have been determined based on the average market volatility in exchange rates in the previous 12 months. The sensitivity analysis is based on the Group's foreign currency financial instruments held at the end of each reporting period.

	<u>2014</u>		<u>2013</u>	
	<u>Increase in exchange rate</u>	<u>Decrease in exchange rate</u>	<u>Increase in exchange rate</u>	<u>Decrease in exchange rate</u>
Profit before tax	P 2.9	(P 2.9)	P 14.6	(P 14.6)
Equity	2.9	(2.9)	14.6	(14.6)

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, 2014 and 2013, the Group is exposed to changes in market interest rates through its bills payable and a portion of BDO Leasing's loans and other receivables, which are subject to periodic interest rate repricing. All other financial assets and liabilities have fixed rates.

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

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

The table in the succeeding page illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates for bills payable of +/-0.4% at December 31, 2014 and +/-1.2% at December 31, 2013 and variable rate loans and other receivables of +/-2.4% at December 31, 2014 and +/-6.8% at December 31, 2013. These changes are considered to be reasonably possible based on observation of current market conditions for the past 12 months. The calculations are based on the Group's and Parent Company's financial instruments held at the end of each reporting period. All other variables are held constant.

		2014	
		<u>Increase in Interest Rate</u>	<u>Decrease in Interest Rate</u>
Loans and other receivables		+2.4%	-2.4%
Bills payable		+0.4%	-0.4%
<u>Group</u>			
Increase (decrease) in:			
Profit before tax	P	3.4	(P 3.4)
Equity		2.3	(2.3)
<u>Parent Company</u>			
Increase (decrease) in:			
Profit before tax	P	1.6	(P 1.6)
Equity		1.1	(1.1)

	2013	
	Increase in Interest Rate	Decrease in Interest Rate
Loans and other receivables	+6.8%	-6.8%
Bills payable	+1.2%	-1.2%

Group

Increase (decrease) in:

Profit before tax	P	16.3	(P	16.3)
Equity		11.4	(	11.4)

Parent Company

Increase (decrease) in:

Profit before tax	P	14.0	(P	14.0)
Equity		9.8	(	9.8)

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:

Group

	2014			2013	
	Cash and Cash Equivalents	Loans and Other Receivables	AFS Financial Assets	Cash and Cash Equivalents	Loans and Other Receivables
Concentration by sector:					
Financial intermediaries	P 417.7	P 805.7	P -	P 138.0	P 834.7
Manufacturing	-	3,475.0	-	-	3,676.9
Transportation, communication and energy	-	4,611.2	-	-	4,307.6
Wholesale and retail trade and personal activities	-	2,576.7	-	-	2,336.6
Real estate, renting and business activities	-	6,225.8	246.0	-	5,657.7
Agriculture, fishing and forestry	-	108.1	-	-	94.4
Other community, social and personal activities	-	5,844.1	-	-	4,067.1
	<u>P 417.7</u>	<u>P 23,646.6</u>	<u>P 246.0</u>	<u>P 138.0</u>	<u>P 20,975.0</u>

Parent Company

	2014			2013	
	Cash and Cash Equivalents	Loans and Other Receivables	AFS Financial Assets	Cash and Cash Equivalents	Loans and Other Receivables
Concentration by sector:					
Financial intermediaries	P 360.3	P 805.7	P -	P 129.1	P 834.7
Manufacturing	-	3,475.0	-	-	3,676.9
Transportation, communication and energy	-	4,611.2	-	-	4,307.6
Wholesale and retail trade and personal activities	-	2,576.7	-	-	2,336.6
Real estate, renting and business activities	-	6,225.8	246.0	-	5,657.7
Agriculture, fishing and forestry	-	108.1	-	-	94.4
Other community, social and personal activities	-	5,870.1	-	-	4,063.3
	<u>P 360.3</u>	<u>P 23,672.5</u>	<u>P 246.0</u>	<u>P 129.1</u>	<u>P 20,971.2</u>

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

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

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

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

(i) *Unclassified*

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

(ii) *Watchlisted*

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

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

(iii) *Adversely Classified*

a. *Loans Especially Mentioned (LEM)*

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

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

b. *Substandard*

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

c. *Doubtful*

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

d. *Loss*

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

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

The following table shows the exposure to credit risk as of December 31, 2014 and 2013 for each internal risk grade and the related allowance for impairment for loans and other receivables:

	Group		Parent	
	2014	2013	2014	2013
Carrying Amount	P 23,646.6	P 20,975.0	P 23,672.5	P 20,971.2
Individually impaired:				
Grade C: LEM	50.5	51.9	50.5	51.9
Grade D: Substandard	285.0	242.5	285.0	242.5
Grade E: Doubtful	183.3	166.0	183.3	166.0
Grade F: Loss	154.8	159.6	154.8	159.6
Gross amount	673.6	620.0	673.6	620.0
Allowance for impairment	(496.8)	(171.8)	(496.8)	(171.8)
Carrying amount	176.8	448.2	176.8	448.2
Past due but not impaired:				
Aging of past due				
30-60 days	-	3.7	-	3.7
61-90 days	-	-	-	-
91-180 days	24.1	-	24.1	-
More than 180 days	6.4	-	6.4	-
Carrying amount	30.5	3.7	30.5	3.7
Neither past due nor impaired				
Grade B: Watchlisted	259.9	130.7	259.9	130.7
Unclassified	23,179.4	20,392.4	23,205.3	20,388.6
Carrying amount	23,439.3	20,523.1	23,465.2	20,519.3
Total carrying amount	P 23,646.6	P 20,975.0	P 23,672.5	P 20,971.2

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, 2014 and 2013 is shown below.

	<u>2014</u>	<u>2013</u>
Against neither past due but not impaired		
Real property	P 2,253.8	P 3,817.3
Personal property	<u>21,412.4</u>	<u>18,816.8</u>
	<u>P 23,666.2</u>	<u>P 22,634.1</u>

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, 2014 and 2013 is shown below.

	<u>2014</u>	<u>2013</u>
Real property	P 2.4	P 160.8
Personal property	<u>1,207.9</u>	<u>670.7</u>
	<u>P 1,210.3</u>	<u>P 831.5</u>

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, 2014 and 2013.

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 12, 2013, the SEC granted the Group a license to issue P15.0 billion STCPs. In 2014, the Group obtained license from the SEC to issue additional P25.0 billion STCPs.

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

Presented below are the financial assets and liabilities as of December 31, 2014 and 2013 analyzed according to when these are expected to be recovered or settled.

		One to Three Months	Three Months to One Year	One to Three Years	More than Three Years	Total
2014						
Group						
Financial assets						
Cash and cash equivalents	P	417.7	P -	P -	P -	P 417.7
Available-for-sale financial assets		2,373.3	-	-	-	2,373.3
Loans and other receivables		2,581.4	5,505.7	9,751.8	5,807.7	23,646.6
	P	5,372.4	P 5,505.7	P 9,751.8	P 5,807.7	P 26,437.6
Financial liabilities						
Bills payable	P	18,058.3	P 981.9	P 612.8	P -	P 19,653.0
Accounts payable and other liabilities		272.8	-	-	-	272.8
Lease deposits		415.7	854.9	2,083.1	840.2	4,193.9
	P	18,746.8	P 1,836.8	P 2,695.8	P 840.2	P 24,119.7
Parent Company						
Financial assets						
Cash and cash equivalents	P	360.3	P -	P -	P -	P 360.3
Available-for-sale financial assets		2,373.3	-	-	-	2,373.3
Loans and other receivables		2,607.3	5,505.7	9,751.8	5,807.7	23,672.5
	P	5,340.9	P 5,505.7	P 9,751.8	P 5,807.7	P 26,406.1
Financial liabilities						
Bills payable	P	16,768.4	P 611.8	P 612.8	P -	P 17,993.0
Accounts payable and other liabilities		202.3	-	-	-	202.3
Lease deposits		405.5	829.9	2,075.3	838.2	4,148.9
	P	17,376.2	P 1,441.7	P 2,688.1	P 838.2	P 22,344.2

	One to Three Months	Three Months to One Year	One to Three Years	More than Three Years	Total
2013					
Group					
Financial assets					
Cash and cash equivalents	P 138.0	P -	P -	P -	P 138.0
Available-for-sale financial assets	2,093.5	-	-	-	2,093.5
Loans and other receivables	<u>2,754.8</u>	<u>5,517.5</u>	<u>9,161.4</u>	<u>3,541.3</u>	<u>20,975.0</u>
	<u>P 4,986.3</u>	<u>P 5,517.5</u>	<u>P 9,161.4</u>	<u>P 3,541.3</u>	<u>P 23,206.5</u>
Financial liabilities					
Bills payable	P 14,195.5	P 2,253.0	P -	P -	P 16,448.5
Accounts payable and other liabilities	196.4	2.6	-	-	199.0
Lease deposits	<u>568.6</u>	<u>525.1</u>	<u>1,977.2</u>	<u>746.2</u>	<u>3,817.1</u>
	<u>P 14,960.5</u>	<u>P 2,780.7</u>	<u>P 1,977.2</u>	<u>P 746.2</u>	<u>P 20,464.6</u>
Parent Company					
Financial assets					
Cash and cash equivalents	P 129.1	P -	P -	P -	P 129.1
Available-for-sale financial assets	2,093.5	-	-	-	2,093.5
Loans and other receivables	<u>2,751.0</u>	<u>5,517.5</u>	<u>9,161.4</u>	<u>3,541.3</u>	<u>20,971.2</u>
	<u>P 4,973.6</u>	<u>P 5,517.5</u>	<u>P 9,161.4</u>	<u>P 3,541.3</u>	<u>P 23,193.8</u>
Financial liabilities					
Bills payable	P 13,970.9	P 1,546.5	P -	P -	P 15,517.4
Accounts payable and other liabilities	139.6	-	-	-	139.6
Lease deposits	<u>557.3</u>	<u>504.4</u>	<u>1,970.7</u>	<u>742.2</u>	<u>3,774.6</u>
	<u>P 14,667.8</u>	<u>P 2,050.9</u>	<u>P 1,970.7</u>	<u>P 742.2</u>	<u>P 19,431.6</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 and individuals. Maturing bills payable are usually settled through repayments. When maturing financial assets are not sufficient to cover the related maturing financial liabilities, bills payable and other currently maturing financial liabilities are rolled over/refinanced or are settled by entering into new borrowing arrangements with other counterparties.

5.05 Price Risk

The Group is exposed to the changes in the market values of AFS financial assets held as of December 31, 2014 and 2013. The Group manages its risk by identifying, analyzing and measuring relevant or likely market price risks. To manage its price risk arising from its AFS financial assets, the Group does not concentrate its investment in any single counterparty.

If the prices of AFS financial assets changed by +/-2.9% in 2014, then other comprehensive income would have increased/decreased by P69.5. If the prices of AFS financial assets changed by +/-2.9% in 2013, then other comprehensive income would have increased/decreased by P59.9. The analysis is based on the assumption on the change of the correlated equity indices, with all other variables held constant.

6. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

6.01 Carrying Amounts and Fair Values by Category

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

		2014			
		Group		Parent	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets					
Loans and receivables:					
Cash and cash equivalents	P	417.7	P 417.7	P 360.3	P 360.3
Loans and other receivables		<u>23,646.6</u>	<u>23,380.7</u>	<u>23,672.5</u>	<u>23,406.6</u>
		24,064.3	23,798.4	24,032.8	23,766.9
AFS financial assets		<u>2,373.3</u>	<u>2,373.3</u>	<u>2,373.3</u>	<u>2,373.3</u>
	P	<u>26,437.6</u>	P <u>26,171.7</u>	P <u>26,406.1</u>	P <u>26,140.2</u>
Financial Liabilities					
At amortized cost:					
Bills payable	P	19,653.0	P 19,604.7	P 17,993.0	P 17,955.0
Accounts payable and other liabilities		272.8	272.8	202.3	202.3
Lease deposits		<u>4,193.9</u>	<u>4,193.9</u>	<u>4,148.9</u>	<u>4,148.9</u>
	P	<u>24,119.7</u>	P <u>24,071.4</u>	P <u>22,334.2</u>	P <u>22,306.2</u>
		2013			
		Group		Parent	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets					
Loans and receivables:					
Cash and cash equivalents	P	138.0	P 138.0	P 129.1	P 129.1
Loans and other receivables		<u>20,975.0</u>	<u>21,998.2</u>	<u>20,971.2</u>	<u>21,994.3</u>
		21,113.0	22,136.2	21,100.3	22,123.4
AFS financial assets		<u>2,093.5</u>	<u>2,093.5</u>	<u>2,093.5</u>	<u>2,093.5</u>
	P	<u>23,206.5</u>	P <u>24,229.7</u>	P <u>23,193.8</u>	P <u>24,216.9</u>

	2013			
	Group		Parent	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Liabilities				
At amortized cost:				
Bills payable	P 16,448.5	P 16,335.9	P 15,517.4	P 15,427.8
Accounts payable and other liabilities	199.0	199.0	139.6	139.6
Lease deposits	<u>3,817.1</u>	<u>3,817.1</u>	<u>3,774.6</u>	<u>3,774.6</u>
	<u>P 20,464.6</u>	<u>P 20,352.0</u>	<u>P 19,431.6</u>	<u>P 19,342.0</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, 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.

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

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

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, 2014 and 2013.

		2014				
2014	Note	Level 1	Level 2	Level 3	Total	
AFS financial assets:						
Equity securities - quoted	8	P 2,127.3	P -	P -	P 2,127.3	
Debt securities		<u>246.0</u>	<u>-</u>	<u>-</u>	<u>246.0</u>	
		<u>P 2,374.1</u>	<u>P -</u>	<u>P -</u>	<u>P 2,374.1</u>	
2013						
AFS financial assets —						
Equity securities - quoted	8	P 2,093.5	P -	P -	P 2,093.5	

The Group and the Parent Company has no financial liabilities measured at fair value as of December 31, 2014 and 2013.

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.

Group

	Notes	Level 1	Level 2	Level 3	Total
December 31, 2014					
<i>Financial assets:</i>					
Cash and cash equivalents	7	P 417.7	P -	P -	P 417.7
Loans and other receivables	9	<u>-</u>	<u>-</u>	<u>23,380.7</u>	<u>23,380.7</u>
		<u>P 417.7</u>	<u>P -</u>	<u>P 23,380.7</u>	<u>P 23,798.4</u>
<i>Financial liabilities:</i>					
Bills payable	13	P -	P -	P 19,604.7	P 19,604.7
Accounts payable and other liabilities	14	-	-	272.8	272.8
Lease deposits	15	<u>-</u>	<u>-</u>	<u>4,193.9</u>	<u>4,193.9</u>
		<u>P -</u>	<u>P -</u>	<u>P 24,071.4</u>	<u>P 24,071.4</u>

	Notes	Level 1	Level 2	Level 3	Total
<u>December 31, 2013</u>					
<i>Financial assets:</i>					
Cash and cash equivalents	7	P 138.0	P -	P -	P 138.0
Loans and other receivables	9	-	-	21,998.2	21,998.2
		<u>P 138.0</u>	<u>P -</u>	<u>P 21,998.2</u>	<u>P 22,136.2</u>
<i>Financial liabilities:</i>					
Bills payable	13	P -	P -	P 16,335.9	P 16,335.9
Accounts payable and other liabilities	14	-	-	199.0	199.0
Lease deposits	15	-	-	3,817.1	3,817.1
		<u>P -</u>	<u>P -</u>	<u>P 20,352.0</u>	<u>P 20,352.0</u>
<u>Parent Company</u>					
<u>December 31, 2014</u>					
<i>Financial assets:</i>					
Cash and cash equivalents	7	P 360.3	P -	P -	P 360.3
Loans and other receivables	9	-	-	23,406.6	23,406.6
		<u>P 360.3</u>	<u>P -</u>	<u>P 23,406.6</u>	<u>P 23,766.9</u>
<i>Financial liabilities:</i>					
Bills payable	13	P -	P -	P 17,955.0	P 17,955.0
Accounts payable and other liabilities	14	-	-	202.3	202.3
Lease deposits	15	-	-	4,148.9	4,148.9
		<u>P -</u>	<u>P -</u>	<u>P 22,306.2</u>	<u>P 22,306.2</u>
<u>December 31, 2013</u>					
<i>Financial assets:</i>					
Cash and cash equivalents	7	P 129.1	P -	P -	P 129.1
Loans and other receivables	9	-	-	21,994.3	21,994.3
		<u>P 129.1</u>	<u>P -</u>	<u>P 21,994.3</u>	<u>P 22,123.4</u>
<i>Financial liabilities:</i>					
Bills payable	13	P -	P -	P 15,427.8	P 15,427.8
Accounts payable and other liabilities	14	-	-	139.6	139.6
Lease deposits	15	-	-	3,774.6	3,774.6
		<u>P -</u>	<u>P -</u>	<u>P 19,342.0</u>	<u>P 19,342.0</u>

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

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

(a) Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. In 2014, the Group acquired fixed rate corporate bonds classified as AFS financial asset and are carried at Level 1. As of December 31, 2014 and 2013, 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 cutoff dates.

(b) Financial instruments in Level 2

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

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

(c) Financial instruments in Level 3

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

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.

		2014			
		Level 1	Level 2	Level 3	Total
Land	P	-	P -	P 503.9	P 503.9
Building and improvements		-	-	71.6	71.6
	P	-	P -	P 575.5	P 575.5
		2013			
		Level 1	Level 2	Level 3	Total
Land	P	-	P -	P 257.2	P 257.2
Building and improvements		-	-	57.1	57.1
	P	-	P -	P 314.3	P 314.3

The fair value of the investment properties of the Group and the Parent Company as of December 31, 2014 and 2013, determined under Level 3 measurement, was derived on the basis of a valuation carried out on the respective dates by either an independent or internal appraiser having appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value of investment properties was derived using the market approach that reflects the recent transaction prices for similar properties in nearby locations, adjusted for differences in property size, age, condition, and location. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

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

7. CASH AND CASH EQUIVALENTS

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

	Group		Parent Company	
	2014	2013	2014	2013
Cash on hand and in banks	P 393.8	P 119.6	P 336.3	P 110.8
Cash equivalents	23.9	18.4	24.0	18.3
	P 417.7	P 138.0	P 360.3	P 129.1

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 30 to 90 days and annual interest rates ranging from 0.3% to 1.9% in 2014 and 0.3% to 1.5% in 2013.

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>2014</u>		<u>2013</u>
San Miguel Corporation				
preferred shares (SMC Shares)	P	1,270.0	P	1,270.0
First Gen Corp. Series "F"				
preferred shares (First Gen Shares)		700.0		700.0
Century Properties Group, Inc. fixed				
rate bonds (Century Bonds)		250.0		-
Club shares and				
other equity investments		<u>0.8</u>		<u>0.8</u>
		2,220.8		1,970.8
Accumulated unrealized fair				
value gains		151.2		122.7
Accrued interest receivable		<u>1.3</u>		<u>-</u>
	P	<u><u>2,373.3</u></u>	P	<u><u>2,093.5</u></u>

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

		<u>2014</u>		<u>2013</u>
Balance at the beginning of year	P	2,093.5	P	2,022.0
Additions		250.0		-
Accrued interest receivable		1.3		-
Fair value gains – net		<u>28.5</u>		<u>71.5</u>
Balance at end of year	P	<u><u>2,373.3</u></u>	P	<u><u>2,093.5</u></u>

In September 2014, the Group acquired P250.0 fixed rate Century Bonds. Century Bonds carry a fixed rate of 6% per annum maturing three years after grant date.

The First Gen Shares carry a dividend rate of 8% per annum and are cumulative, non-voting, non-participating and non-convertible. SMC Shares also bear an annual dividend rate of 8%.

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

Dividend income earned from available-for-sale 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 gains of P28.5 and P71.5 in 2014 and 2013, respectively, and fair value loss of P21.0 in 2012, 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 market (see Note 6).

Certain AFS financial assets with face amount of P1,970.0 as of December 31, 2014 and 2013 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:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Receivables from customers:				
Finance lease receivables	P 10,520.6	P 9,823.4	P 10,520.6	P 9,823.4
Residual value of leased assets	4,167.9	3,782.6	4,167.9	3,782.6
Unearned leased income	(1,118.1)	(1,137.2)	(1,118.1)	(1,137.2)
	<u>13,570.4</u>	<u>12,468.8</u>	<u>13,570.4</u>	<u>12,468.8</u>
Loans and receivables financed	10,514.3	8,864.4	10,514.3	8,864.4
Unearned finance income	(75.4)	(97.7)	(75.4)	(97.6)
Client's equity	(36.5)	(34.1)	(36.5)	(34.1)
	<u>10,402.4</u>	<u>8,732.6</u>	<u>10,402.4</u>	<u>8,732.6</u>
Other receivables:				
Accrued interest receivable	113.5	88.2	113.5	88.2
Dividends receivable	26.6	51.4	55.0	51.4
Sales contract receivable	16.1	18.2	16.1	18.2
Accounts receivable	11.9	8.6	11.9	8.7
Accrued rental receivable	<u>2.5</u>	<u>4.0</u>	<u>-</u>	<u>-</u>
	<u>170.6</u>	<u>170.4</u>	<u>196.5</u>	<u>166.5</u>
Total	24,143.4	21,371.8	24,169.3	21,368.0
Allowance for impairment	(496.8)	(396.8)	(496.8)	(396.8)
	<u>P 23,646.6</u>	<u>P 20,975.0</u>	<u>P 23,672.5</u>	<u>P 20,971.2</u>

As of December 31, 2014 and 2013, 47.0% and 56.0%, 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 4.3% to 28.0% in 2014 and 4.0% to 30.0% in 2013.

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

	<u>Group</u>		<u>Parent Company</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Secured				
Chattel mortgage	P 14,704.1	P 14,321.7	P 14,704.1	P 14,321.7
Real estate mortgage	920.2	770.3	920.2	770.3
Others	<u>5,406.3</u>	<u>2,258.4</u>	<u>5,406.3</u>	<u>2,258.4</u>
	<u>21,030.6</u>	<u>17,350.4</u>	<u>21,030.6</u>	<u>17,350.4</u>
Unsecured	<u>2,616.0</u>	<u>3,624.6</u>	<u>2,641.9</u>	<u>3,620.8</u>
	<u>P 23,646.6</u>	<u>P 20,975.0</u>	<u>P 23,672.5</u>	<u>P 20,971.2</u>

An analysis of the Group's and Parent Company's finance lease receivables as of December 31, 2014 and 2013 is shown below.

	<u>2014</u>	<u>2013</u>
Maturity of gross investment in:		
Finance lease receivables		
Within one year	P 1,130.5	P 612.3
Beyond one year but not beyond five years	9,390.1	9,205.2
Beyond five years	<u>-</u>	<u>5.9</u>
	<u>10,520.6</u>	<u>9,823.4</u>
Residual value of leased assets		
Within one year	1,242.2	1,060.8
Beyond one year but not beyond five years	<u>2,925.7</u>	<u>2,721.8</u>
	<u>4,167.9</u>	<u>3,782.6</u>
Gross finance lease receivables	14,688.5	13,606.0
Unearned lease income	(1,118.1)	(1,137.2)
Net investment in finance lease receivables	<u>P 13,570.4</u>	<u>P 12,468.8</u>

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

	<u>2014</u>	<u>2013</u>
Due within one year	P 2,308.4	P 1,624.0
Due beyond one year but not beyond five years	11,262.0	10,840.0
Beyond five years	-	4.8
	<u>P 13,570.4</u>	<u>P 12,468.8</u>

Past due finance lease receivables amount to P343.6 and P203.0 as of December 31, 2014 and 2013, respectively.

Past due loans and receivables financed amount to P107.0 and P109.3 as of December 31, 2014 and 2013, respectively.

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

	<u>Group</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Finance lease receivables	P 761.1	P 661.6	P 494.2
Loans and receivable financed	686.9	634.8	776.4
Interest on defined benefit plan	2.3	0.9	-
Cash and cash equivalents	0.6	0.5	0.6
	<u>P 1,450.9</u>	<u>P 1,297.8</u>	<u>P 1,271.2</u>

	<u>Parent Company</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Finance lease receivables	P 761.1	P 661.6	P 494.2
Loans and receivables financed	686.9	634.8	777.0
Interest on defined benefit plan	2.3	0.9	-
Cash and cash equivalents	0.4	0.4	0.6
	<u>P 1,450.7</u>	<u>P 1,297.7</u>	<u>P 1,271.8</u>

Interest income recognized on impaired loans and receivables amounted to P5.5 in 2014, P5.4 in 2013 and P14.9 in 2012.

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Balance at beginning of year	P 396.8	P 311.5	P 285.1
Impairment losses during the year	100.0	86.0	87.3
Reclassification	-	(0.7)	-
Accounts written off	-	-	(60.9)
Balance at end of year	<u>P 496.8</u>	<u>P 396.8</u>	<u>P 311.5</u>

Certain loans and receivables with carrying amount of P817.0 and P109.0 as of December 31, 2014 and 2013, respectively, 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 2014 and 2013 are shown below.

	Transportation and Other Equipment	Furniture, Fixtures and Others	Leasehold Improvements	Total
Group				
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	<u>P 2,008.3</u>	<u>P 3.5</u>	<u>P 0.8</u>	<u>P 2,012.6</u>
December 31, 2013				
Cost	P 2,028.8	P 30.6	P 26.2	P 2,085.6
Accumulated depreciation and amortization	(612.1)	(25.3)	(24.0)	(661.4)
Net carrying amount	<u>P 1,416.7</u>	<u>P 5.3</u>	<u>P 2.2</u>	<u>P 1,424.2</u>
January 1, 2013				
Cost	P 1,128.8	P 28.0	P 25.5	P 1,182.3
Accumulated depreciation and amortization	(496.1)	(22.2)	(20.3)	(538.6)
Net carrying amount	<u>P 632.7</u>	<u>P 5.8</u>	<u>P 5.2</u>	<u>P 643.7</u>
Parent Company				
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	<u>P -</u>	<u>P 3.5</u>	<u>P 0.8</u>	<u>P 4.3</u>
December 31, 2013				
Cost	P -	P 30.6	P 26.2	P 56.8
Accumulated depreciation and amortization	-	(25.3)	(24.0)	(49.3)
Net carrying amount	<u>P -</u>	<u>P 5.3</u>	<u>P 2.2</u>	<u>P 7.5</u>
January 1, 2013				
Cost	P -	P 28.0	P 25.5	P 53.5
Accumulated depreciation and amortization	-	(22.2)	(20.3)	(42.5)
Net carrying amount	<u>P -</u>	<u>P 5.8</u>	<u>P 5.2</u>	<u>P 11.0</u>

A reconciliation of the carrying amounts of property and equipment at the beginning and end of 2014 and 2013 is shown below.

	<u>Transportation and Other Equipment</u>	<u>Furniture, Fixtures and Others</u>	<u>Leasehold Improvements</u>	<u>Total</u>
Group				
Balance at January 1, 2014, net of accumulated depreciation and amortization	P 1,416.7	P 5.3	P 2.2	P 1,424.2
Additions	1,176.5	1.3	0.5	1,178.3
Disposals- net	(107.2)	-	-	(107.2)
Depreciation and amortization charges for the year	(477.7)	(3.1)	(1.9)	(482.7)
Balance at December 31, 2014, net of accumulated depreciation and amortization	<u>P 2,008.3</u>	<u>P 3.5</u>	<u>P 0.8</u>	<u>P 2,012.6</u>
Balance at January 1, 2013, net of accumulated depreciation and amortization	P 632.7	P 5.8	P 5.2	P 643.7
Additions	1,087.5	2.8	0.7	1,091.0
Disposals-net	(12.6)	-	-	(12.6)
Depreciation and amortization charges for the year	(290.9)	(3.3)	(3.7)	(297.9)
Balance at December 31, 2013, net of accumulated depreciation and amortization	<u>P 1,416.7</u>	<u>P 5.3</u>	<u>P 2.2</u>	<u>P 1,424.2</u>
Parent Company				
Balance at January 1, 2014, net of accumulated depreciation and amortization	P -	P 5.3	P 2.2	P 7.5
Additions	-	1.3	0.5	1.8
Depreciation and amortization charges for the year	-	(3.1)	(1.9)	(5.0)
Balance at December 31, 2014, net of accumulated depreciation and amortization	<u>P -</u>	<u>P 3.5</u>	<u>P 0.8</u>	<u>P 4.3</u>

	Transportation and Other Equipment	Furniture, Fixtures and Others	Leasehold Improve- ments	Total
Parent Company				
Balance at January 1, 2013, net of accumulated depreciation and amortization	P -	P 5.8	P 5.2	P 11.0
Additions	-	2.8	0.7	3.5
Depreciation and amortization charges for the year	-	(3.3)	(3.7)	(7.0)
Balance at December 31, 2013, net of accumulated depreciation and amortization	P -	P 5.3	P 2.2	P 7.5

The cost of fully depreciated assets that are still being used in operations amounts to P3.2 and P99.6 for the Group as of December 31, 2014 and 2013, respectively, and P3.2 and P20.4 for the Parent Company as of December 31, 2014 and 2013, respectively.

Depreciation and amortization charges for 2014 and 2013 are included as part of Occupancy and Equipment-related Expenses account in the statements of income.

As of December 31, 2014 and 2013, the net book value of transportation and other equipment leased out by the Group (nil for the Parent Company) under operating lease arrangements amounts to P2,008.3 and P1,416.7, respectively.

In 2014 and 2013, the Group disposed of certain transportation equipment with carrying value of P107.2 and P12.6, respectively, resulting to a gain on sale of P6.3 and P19.8, respectively (see Note 17).

11. INVESTMENT PROPERTIES

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

The carrying amounts and accumulated depreciation at the beginning and end of 2014 and 2013 in the Group's and Parent Company's financial statements are shown below.

	Land	Building and Improvements	Total
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	P 301.0	P 19.6	P 320.6

	<u>Land</u>	<u>Building and Improvements</u>	<u>Total</u>
December 31, 2013			
Cost	P 175.0	P 46.2	P 221.2
Accumulated depreciation	(-)	(25.8)	(25.8)
Accumulated impairment	(49.7)	(-)	(49.7)
Net carrying amount	<u>P 125.3</u>	<u>P 20.4</u>	<u>P 145.7</u>
January 1, 2013			
Cost	P 389.6	P 105.3	P 494.9
Accumulated depreciation	(-)	(59.2)	(59.2)
Accumulated impairment	(54.9)	(1.3)	(56.2)
Net carrying amount	<u>P 334.7</u>	<u>P 44.8</u>	<u>P 379.5</u>

A reconciliation of the carrying amounts at the beginning and end of 2014 and 2013 of investment properties in the Group's and Parent Company's financial statements is shown below.

	<u>Land</u>	<u>Building and Improvements</u>	<u>Total</u>
Balance at January 1, 2014, net of accumulated depreciation and impairment	P 125.3	P 20.4	P 145.7
Additions - net	4.0	1.0	5.0
Disposals	(8.3)	(9.3)	(17.6)
Reclassifications	180.0	24.3	204.3
Depreciation and amortization charges for the year	-	(16.8)	(16.8)
Balance at December 31, 2014, net of accumulated depreciation and impairment	<u>P 301.0</u>	<u>P 19.6</u>	<u>P 320.6</u>
Balance at January 1, 2013, net of accumulated depreciation and impairment	P 334.7	P 44.8	P 379.5
Additions	7.9	6.2	14.1
Disposals-net	(23.4)	(6.9)	(30.3)
Reclassifications	(186.9)	(19.6)	(206.5)
Depreciation and amortization charges for the year	-	(4.1)	(4.1)
Impairment losses during the year	(7.0)	-	(7.0)
Balance at December 31, 2013, net of accumulated depreciation and impairment	<u>P 125.3</u>	<u>P 20.4</u>	<u>P 145.7</u>

The appraised values of the investment properties as of December 31, 2014 and 2013 follow:

	<u>2014</u>	<u>2013</u>
Land	P 503.9	P 257.2
Building and improvements	<u>71.6</u>	<u>57.1</u>
	<u>P 575.5</u>	<u>P 314.3</u>

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

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

Gain on sale of investment properties of the Parent Company, recorded as Gain on sale of property and equipment and investment properties as part of Other Income, amounted to P19.4, P4.7 and P51.5 in 2014, 2013 and 2012, respectively (see Note 17).

12. OTHER ASSETS

Other assets consist of the following:

Note	Group		Parent Company	
	2014	2013	2014	2013
Deferred input VAT	P 235.4	P 163.1	P -	P -
Prepaid expenses	102.0	103.8	29.5	26.8
Advances to supplier	59.6	-	59.6	-
Retirement benefit asset	56.2	43.1	56.2	43.1
Non-current assets				
held-for-sale – net	11.8	237.4	11.8	237.4
Repossessed chattels and other				
equipment - net	-	2.8	-	2.8
Investment in a subsidiary	-	-	312.5	400.0
Miscellaneous - net	14.1	10.8	8.2	10.7
	<u>P 479.1</u>	<u>P 561.0</u>	<u>P 477.8</u>	<u>P 720.8</u>

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.

Prepaid expenses (Group) include creditable withholding taxes of BDO Rental amounting to P72.0 and P74.9 as of December 31, 2014 and 2013, respectively.

Advances to supplier pertains to payments for the new leasing system of the Parent Company.

In 2014 and 2013, the Group reclassified certain non-current assets held-for-sale to investment properties and disposed all repossessed chattels and other equipment.

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

	<u>2014</u>		<u>2013</u>	
Cost	P	28.8	P	328.8
Accumulated impairment losses	(	<u>17.0</u>)	(	<u>91.4</u>)
	P	<u>11.8</u>	P	<u>237.4</u>

A reconciliation of the carrying amounts of non-current assets held-for-sale at the beginning and end of 2014 and 2013 is shown below.

	<u>2014</u>		<u>2013</u>	
Balance at January 1, net of accumulated impairment losses	P	237.4	P	94.4
Additions		3.5		3.1
Reclassifications	(	204.3)		206.5
Disposals	(	24.8)	(	33.6)
Impairment loss for the year		<u>-</u>		<u>33.0</u>)
Balance at December 31, net of accumulated impairment losses	P	<u>11.8</u>	P	<u>237.4</u>

Depreciation expense of repossessed chattels and other equipment amounted to P1.3 and P22.6 in 2014 and 2013, respectively. No impairment loss was recognized on repossessed chattels and other equipment in 2014 and 2013.

Investment in a subsidiary represents 100.0% ownership of the Parent Company in BDO Rental. Prior to 2014, investment in BDO Rental consisted of 150 million common shares and 250 million non-voting, cumulative and redeemable preferred shares. In 2014, BDO Rental redeemed 87.5 million preferred shares at P1.00 par value per share or P87.5, while the remaining 162.5 million shares were converted to 100 million common shares. Consequently, as of December 31, 2014, the Parent Company holds 250 million common shares of BDO Rental still representing 100.0% ownership.

13. BILLS PAYABLE

This account consists of:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Borrowings from:				
Banks	P 7,924.1	P 7,337.9	P 6,268.6	P 6,414.4
Others	11,715.9	9,086.7	11,715.9	9,086.7
Accrued interest	<u>13.0</u>	<u>23.9</u>	<u>8.5</u>	<u>16.3</u>
	<u>P 19,653.0</u>	<u>P 16,448.5</u>	<u>P 17,993.0</u>	<u>P 15,517.4</u>

Bills payable to banks represent peso borrowings from local banks (including BDO Unibank as of December 31, 2014 and 2013 – see Note 20), with annual interest rates ranging from 2.2% to 3.0% in 2014 and 2.2% to 6.9% in 2013. As of December 31, 2014 and 2013, bills payable – others represent short-term notes issued to individual and corporate investors, with annual interest rates ranging from 2.4% to 2.5% and 2.3% to 3.5% in 2014 and 2013, respectively. These rates approximate prevailing market rates. As of December 31, 2014 and 2013, bills payable amounting to P1,123.0 and P851.1, respectively, are secured by the Group's AFS financial assets with face amount of P1,970.0 both as of December 31, 2014 and 2013, and certain loans receivables with carrying value amounting to P817.0 as of December 31, 2014 and P109.9 as of December 31, 2013.

Interest and financing charges consist of interest on:

	Notes	Group		
		2014	2013	2012
Bills payable - banks		P 177.7	P 239.2	P 134.9
Bills payable - others		284.0	175.2	322.2
Amortization on lease deposits	15	3.3	4.2	4.5
Interest on defined benefit plan	19	-	-	1.6
Others		2.9	-	-
		<u>P 467.9</u>	<u>P 418.6</u>	<u>P 463.2</u>
	Notes	Parent Company		
		2014	2013	2012
Bills payable - banks		P 142.0	P 222.6	P 131.7
Bills payable - others		284.0	175.1	322.2
Amortization on lease deposits	15	2.2	2.5	2.9
Interest on defined benefit plan	19	-	-	1.6
Others		2.9	-	-
		<u>P 431.1</u>	<u>P 400.2</u>	<u>P 458.4</u>

14. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities consist of the following:

	Group		Parent Company	
	2014	2013	2014	2013
Accounts payable	P 218.0	P 151.4	P 155.4	P 94.1
Accrued taxes and other expenses	46.3	43.1	46.3	43.1
Withholding taxes payable	13.5	14.5	11.8	13.3
Other liabilities	<u>63.0</u>	<u>49.1</u>	<u>53.3</u>	<u>46.0</u>
	<u>P 340.8</u>	<u>P 258.1</u>	<u>P 266.8</u>	<u>P 196.5</u>

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:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Finance leases	P 4,148.9	P 3,774.6	P 4,148.9	P 3,774.6
Operating leases	<u>45.0</u>	<u>42.5</u>	<u>-</u>	<u>-</u>
	<u>P 4,193.9</u>	<u>P 3,817.1</u>	<u>P 4,148.9</u>	<u>P 3,774.6</u>

Interest expense on lease deposits accrued using the effective interest method in the Group's financial statements amounted to P3.3, P4.2 and P4.5 in 2014, 2013 and 2012 respectively, and P2.1, P2.5 and P2.9 in 2014, 2013 and 2012, 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, 2014 and 2013 are shown below.

	<u>2014</u>	<u>2013</u>
Total equity	P 4,985.8	P 4,771.0
Cash and cash equivalents	<u>(417.7)</u>	<u>(138.0)</u>
Net capital	<u>P 4,568.1</u>	<u>P 4,633.0</u>

	<u>2014</u>	<u>2013</u>
Bills payable	P 19,653.0	P 16,448.5
Lease deposits	4,193.9	3,817.1
Total equity	<u>4,985.8</u>	<u>4,771.0</u>
Overall financing	<u>P 28,832.7</u>	<u>P 25,036.6</u>
Capital-to-overall financing ratio	<u>0.16:1</u>	<u>0.19:1</u>

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, 2014 and 2013, the Group is in compliance with this minimum paid-up capital requirement.

16.02 Preferred Shares

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

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

None of these authorized preferred shares are issued as of December 31, 2014 and 2013.

16.03 Common Shares

As of December 31, 2014 and 2013, out of the total authorized capital stock of 3,400,000,000 common shares with par value of one peso per share, 2,162,475,312 common shares, net of treasury shares of 62,693,718, common shares amounting to P2,162.5 are issued and outstanding.

16.04 Retained Earnings

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

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

On April 18, 2012, the BOD approved the declaration of cash dividends at P0.05 per share amounting to P108.1. The dividends were declared in favor of stockholders of record as of May 31, 2012 and were paid on June 27, 2012.

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 new additional common shares and 15,120,000 existing common shares with par value of P1 per share. The listing was approved by the SEC in May 1996. As of December 31, 2014 and 2013, the Parent Company's number of shares registered totaled 3,400,000,000 with par value of P1.00 per share and closed at a price of P2.00 both in 2014 and 2013. The total number of stockholders is 1,167 and 1,117 as of December 31, 2014 and 2013, respectively.

17. OTHER INCOME

This account is composed of the following:

	Notes	Group		
		2014	2013	2012
Dividend income	8	P 155.2	P 155.2	P 160.9
Gain on sale of property and equipment and investment properties	10, 11	25.7	24.5	55.1
Day one gains — net		1.1	4.0	2.6
Miscellaneous	10, 20	27.6	40.6	41.9
		<u>P 209.6</u>	<u>P 224.3</u>	<u>P 260.5</u>
	Notes	Parent Company		
		2014	2013	2012
Dividend income	8	P 199.0	P 155.2	P 160.9
Gain on sale of property and equipment and investment properties	10, 11	19.4	4.7	51.5
Day one gains — net		0.1	1.6	1.5
Miscellaneous	10, 20	21.8	35.9	37.3
		<u>P 240.3</u>	<u>P 197.4</u>	<u>P 251.2</u>

Dividend income pertains to income earned for investments in SMC Shares and First Gen Shares (see Note 8). Dividend Income on Parent Company's 2014 statement of income also includes cash dividends declared by BDO Rental amounting to P43.8.

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 to 60 months. Operating lease income, presented under Rent account in the Group statements of income for the years ended December 31, 2014, 2013 and 2012, amounted to P613.1, P380.8 and P229.8, respectively.

Future minimum rental receivables under operating leases follow:

	2014	2013	2012
Within one year	P 97.7	P 91.7	P 71.1
After one year but not more than five years	<u>1,421.8</u>	<u>890.0</u>	<u>289.1</u>
	<u>P 1,519.5</u>	<u>P 981.7</u>	<u>P 360.2</u>

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.

	2014	2013	2012
Salaries and wages	P 99.6	P 99.3	P 97.8
Bonuses	33.5	33.0	30.9
Retirement – defined benefit plan	15.3	16.4	14.1
Social security costs	3.5	3.4	3.4
Other benefits	<u>9.5</u>	<u>31.3</u>	<u>18.4</u>
	<u>P 161.4</u>	<u>P 183.4</u>	<u>P 164.6</u>

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 2014 and 2013.

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>2014</u>		<u>2013</u>
Fair value of plan assets	P 230.4	P	206.6
Present value of the obligation	(167.5)	(	159.4)
Effect of asset ceiling	(6.7)	(	4.1)
Balance at end of year	<u>P 56.2</u>	P	<u>43.1</u>

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

	<u>2014</u>		<u>2013</u>
Balance at beginning of year	P 206.6		163.1
Interest income	9.9		10.0
Return on plan assets (excluding amounts included in net interest)	2.3		2.0
Contributions to the plan	28.7		36.1
Benefits paid	(17.1)	(	4.6)
Balance at end of year	<u>P 230.4</u>	P	<u>206.6</u>

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

	<u>2014</u>		<u>2013</u>
Balance at beginning of year	P 159.4	P	162.3
Current service cost	15.3		16.4
Interest expense	7.6		9.1
Remeasurements:			
Actuarial losses (gains) arising from:			
- changes in financial assumptions	1.9	(	1.7)
- experience adjustments	(1.5)	(	22.1)
- changes in demographic assumptions	(10.4)		-
Other liabilities	12.3		-
Benefits paid	(17.1)	(	4.6)
Balance at end of year	<u>P 167.5</u>	P	<u>159.4</u>

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

	2014	2013
Cash and cash equivalents	P 49.2	P 36.6
Unit Investment Trust Funds	31.9	30.4
Loans	6.7	13.3
Equity instruments	2.7	2.1
Real estate	2.7	3.0
	<u>93.2</u>	<u>85.4</u>
Debt instruments:		
Government bonds	76.9	78.8
Other bonds	39.0	21.1
	<u>115.9</u>	<u>99.9</u>
Others	<u>21.3</u>	<u>21.3</u>
	<u>P 230.4</u>	<u>P 206.6</u>

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

Actual return on plan assets amounted P12.2 in 2014, P12.0 in 2013 and P7.3 in 2012.

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:

	2014	2013	2012
<i>Reported in profit or loss:</i>			
Current service cost	P 15.3	P 16.4	P 14.1
Net interest expense (income)	(2.3)	(0.9)	1.6
	<u>P 13.0</u>	<u>P 15.5</u>	<u>P 15.7</u>
<i>Reported in other comprehensive income:</i>			
Actuarial losses (gains) arising from changes in:			
- changes in financial assumptions	P 1.9	(P 1.7)	P 1.4
- experience adjustments	(1.5)	(22.1)	9.0
- demographic changes	(10.4)	-	-
Return on plan assets (excluding amounts included in net interest)	(2.3)	(2.0)	(0.3)
Effect of asset ceiling	2.6	4.1	-
	<u>(P 9.7)</u>	<u>(P 21.7)</u>	<u>P 10.1</u>

Current service cost is presented as a part of Employee Benefits account. The net interest expense (income) is included as part of Interest and Financing Charges and Interest and Discounts accounts, respectively, in the statements of income.

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

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

	2014	2013	2012
Discount rates	4.6%	4.7%	5.6%
Expected rate of salary increases	8.0%	8.0%	9.5%

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, 2014 and 2013, the net accumulated actuarial losses amount to P35.1 and P41.9, respectively, due mainly to the declining discount rates. Nevertheless, the Group has net retirement benefit asset amounting to P56.2 and P43.1 as of December 31, 2014 and 2013, respectively (see Note 12), due to higher contributions made in 2014 and 2013.

(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, equity securities and debt instruments. Due to the long-term nature of plan obligation, a level of continuing equity investments is an appropriate element of the Group's long-term strategy to manage the plans efficiently.

(ii) *Longevity and Salary Risks*

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

(d) *Other Information*

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

(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, 2014 and 2013:

	<u>Impact on retirement benefit obligation</u>		
	<u>Change in assumption</u>	<u>Increase in assumption</u>	<u>Decrease in assumption</u>
<u>2014</u>			
Discount rate	+/-1.0%	(P 7.2)	P 8.7
Salary growth rate	+/-1.0%	6.2 (	5.7)
<u>2013</u>			
Discount rate	+/-1.0%	(P 5.4)	P 6.1
Salary growth rate	+/-1.0%	5.1 (	4.6)

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

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

(ii) *Asset-liability matching strategy*

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

(iii) *Funding Arrangements and Expected Contributions.*

The plan is currently overfunded by P62.9 based on the latest actuarial valuation.

The Parent Company expects to make contribution of P17.1 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	6.3
More than one year to five years		52.4
More than five years to ten years		<u>142.1</u>
	P	<u>200.7</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 2014, 2013 and 2012 are as follows:

Related Party Category	Notes	Amount of Transaction		
		2014	2013	2012
Ultimate Parent Company (BDO Unibank)				
Interest income on savings and demand deposits	(a)	P 0.5	P 0.2	P 0.3
Interest expense on bills payable	(b)	94.6	148.5	98.3
Rent expense	(d)	10.5	10.7	11.0
Management fees	(e)	2.4	2.4	2.4
Subsidiary (BDO Rental)				
Interest income on loans	(b)	-	-	0.7
Service fees	(c)	6.3	5.3	8.4
Rent income	(d)	0.4	0.4	0.4
Management fees	(e)	0.4	0.4	0.4
Dividend income	(f)	43.8	-	-
Related Party under Common Ownership (BDO Capital)				
Service and charges fees	(f)	3.5	2.2	2.8
Key management personnel				
Short-term benefits	(g)	57.6	61.7	57.7
Post-employment benefits	(g)	-	-	17.0
Advances to an officer	(g)	0.3	0.9	1.7

Related Party Category	Notes	Outstanding Balance	
		2014	2013
Ultimate Parent Company (BDO Unibank)			
Savings and demand deposits	(a)	P 409.2	P 119.2
Bills payable	(b)	4,387.2	6,119.8
Subsidiary (BDO Rental)			
Dividend receivable	(j)	28.5	-
Key management personnel			
Advances to an officer	(g)	1.9	2.2
Retirement benefit fund			
Loans to officers and employees	(b)	2.0	3.4
Loans to members and beneficiaries	(b)	-	2.4
Shares of stock	(i)	1.1	0.9

(a) The Group maintains savings and demand deposit accounts with BDO Unibank. As of December 31, 2014 and 2013, 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 2014, 2013 and 2012 is included under Interest and Discounts under the Revenues account in the statements of income.

(b) The Group obtains short-term, unsecured bills payable from BDO Unibank. The amount outstanding from borrowings as of December 31, 2014 and 2013 is presented under Bills Payable account in the statements of financial position (see Note 13). Interest expense incurred on these bills payable in 2014, 2013 and 2012 is included under Interest and financing charges account as part of Operating Costs and Expenses account in the statements of income. Also, the Parent Company grants short-term, unsecured loans to BDO Rental. There is no outstanding balance arising from this transaction as of December 31, 2014 and 2013. Total interest income earned by the Parent Company on these loans in 2014, 2013 and 2012 is included under Interest and Discounts as part of Revenues in the statements of income.

(c) On January 4, 2010, the Parent Company and BDO Rental entered into a Service Agreement whereby BDO Rental will handle the collection of certain factored receivables of the Parent Company, for a fee as agreed by the Parent Company and the sellers of the factored receivables. Under the Service Agreement, BDO Rental shall perform the monitoring of the payment due dates of the factored receivables, remit to the Parent Company all collections made and send monthly statement of accounts to customers. The related expense charged to the Parent Company based on the Service Agreement is included under Other Operating Costs and Expenses in the Parent Company's statements of income. There are no outstanding intercompany payable and receivable from this transaction as of December 31, 2014 and 2013.

- (d) The Parent Company leases its head office premises and certain branch offices from BDO Unibank for terms ranging from one to five years, renewable for such period and under such terms and conditions as may be agreed upon with the Parent Company and BDO Unibank. Related rent expense incurred in 2014, 2013 and 2012 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 2014 and 2013 is presented as part of Other Income in the statements of income. There are no outstanding receivable and payable on these transactions as of the end of 2014 and 2013.
- (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 statements of income of the Parent Company. There are no outstanding receivable and payable on these transactions as of the end of 2014 and 2013.
- (f) The Parent Company engaged the services of BDO Capital and Investment Corporation (BDO Capital), a wholly owned subsidiary of BDO Unibank for underwriting services related to the Parent Company's issuance of bills payable in 2012. Service and charges fees paid by the Parent Company to BDO Capital related to this transaction is included as part of Other Operating Costs and Expenses in the statements of income. There are no outstanding payable related on this transaction as of the end of 2014 and 2013.
- (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 incurred post-employment benefit expense related to key management personnel included as part of Employee Benefits under Operating Costs and Expenses. The Group also granted cash advances to an officer.
- (h) The Group maintains a retirement benefit fund with BDO Unibank covering all regular full-time employees. In the normal course of business, the retirement benefit fund grants salary and housing loans to certain officers and employees of the Parent Company, and members and beneficiaries of the fund who are also officers of the Parent Company. The housing loans are secured by the mortgage on the property and bear interest at 9.0% 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 this loan.

- (i) The retirement fund holds 442,750 shares of stock of the Parent Company as an investment, which has a market value of P2.00 per share as of December 31, 2014 and 2013.
- (j) In 2014, BDO Rental declared cash dividends amounting to P43.8 which is presented as part of Other Income in the Parent Company's 2014 statement of income.

21. TAXES

21.01 Taxes and Licenses

This account is composed of the following:

	Group		
	2014	2013	2012
Documentary stamp tax	P 91.8	P 73.2	P 60.9
Gross receipts tax	68.4	63.1	62.9
Local taxes	10.8	11.8	10.5
Others	8.3	0.6	0.4
	P 179.3	P 148.7	P 134.7

	Parent Company		
	2014	2013	2012
Documentary stamp tax	P 85.6	P 70.2	P 60.4
Gross receipts tax	68.4	63.1	62.8
Local taxes	8.1	10.1	8.5
Others	8.3	0.6	0.5
	P 170.4	P 144.0	P 132.2

21.02 Current and Deferred Taxes

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

	Group		
	2014	2013	2012
<i>Reported in statements of income:</i>			
Current tax expense:			
Regular corporate income tax (RCIT)	P 182.0	P 129.7	P 166.1
at 30%	6.3	20.5	0.1
Final tax at 20%	188.3	150.2	166.2
Deferred tax expense (income) relating to			
origination and reversal of	21.8	(4.7)	(50.0)
temporary differences			
	P 210.1	P 145.5	P 116.2

	Group		
	2014	2013	2012
<i>Reported in statements of comprehensive income:</i>			
Deferred tax expense (income) relating to origination of temporary differences:			
Actuarial gains and losses	P 2.9	P 6.5	(P 3.0)
AFS financial assets	<u>0.1</u>	<u>0.4</u>	<u>(0.1)</u>
	<u>P 3.0</u>	<u>P 6.9</u>	<u>(P 3.1)</u>
Parent Company			
	2014	2013	2012
<i>Reported in statements of income:</i>			
Current tax expense:			
RCIT at 30%	P 151.4	P 102.3	P 156.6
Final tax at 20%	<u>6.3</u>	<u>20.5</u>	<u>0.1</u>
	<u>157.7</u>	<u>122.8</u>	<u>156.7</u>
Deferred tax expense (income) relating to originating and reversal of temporary differences	<u>21.8</u>	<u>(4.6)</u>	<u>(57.3)</u>
	<u>P 179.5</u>	<u>P 118.2</u>	<u>P 99.4</u>
<i>Reported in statements of comprehensive income</i>			
Deferred tax expense (income) relating to origination of temporary differences:			
Actuarial gains and losses	P 2.9	P 6.5	(P 3.0)
AFS financial assets	<u>0.1</u>	<u>0.4</u>	<u>(0.1)</u>
	<u>P 3.0</u>	<u>P 6.9</u>	<u>(P 3.1)</u>

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

	Group		
	2014	2013	2012
Tax on pretax profit	P 214.2	P 169.7	P 158.1
Adjustment for income subjected to lower tax rates	(3.2)	(3.7)	(0.1)
Tax effects of:			
Non-deductible expense	39.0	4.9	3.9
Non-taxable income	(48.2)	(27.1)	(45.7)
Non-deductible interest expense	4.3	1.7	-
Reversal of deferred tax asset	<u>4.0</u>	<u>-</u>	<u>-</u>
	<u>P 210.1</u>	<u>P 145.5</u>	<u>P 116.2</u>

	Parent Company					
	2014		2013		2012	
Tax on pretax profit	P	196.7	P	142.7	P	141.4
Adjustment for income subjected to lower tax rates	(	3.2)	(	3.7)	-	
Tax effects of:						
Non-taxable income	(	61.2)	(	26.5)	(	45.4)
Non-deductible interest expense		3.8		0.8	-	
Non-deductible expense		39.4		4.9		3.4
Reversal of deferred tax asset		4.0		-		-
	P	179.5	P	118.2	P	99.4

The components of net deferred tax liabilities as of December 31, 2014 and 2013 follow:

	Statements of Financial Position			
	Group		Parent Company	
	2014	2013	2014	2013
Deferred tax assets:				
Allowance for impairment on:				
Loans and discounts	P 60.3	P 85.3	P 60.3	P 85.3
Investment properties and non-current assets held-for-sale	22.2	42.3	22.2	42.3
Accounts receivable	0.9	0.9	0.9	0.9
Retirement benefit obligation	8.0	12.0	8.0	12.0
Others	-	3.8	-	3.7
	91.4	144.3	91.4	144.2
Deferred tax liabilities:				
Lease income differential	(120.8)	(148.6)	(120.8)	(148.6)
Unrealized fair value gain on AFS	(10.6)	(10.5)	(10.6)	(10.5)
Others	-	(0.4)	-	(0.3)
	(131.4)	(159.5)	(131.4)	(159.4)
Net deferred tax liabilities	(P 40.0)	(P 15.2)	(P 40.0)	(P 15.2)

The components of deferred tax expense (income) in profit and loss and in other comprehensive income for the years ended December 31, 2014, 2013 and 2012 follow:

	Group		
	2014	2013	2012
<i>In profit or loss:</i>			
Deferred tax assets:			
Allowance for impairment on:			
Loans and discounts	P 25.1	P 2.4	(P 4.9)
Investment properties and non-current assets held-for-sale	20.1	(0.4)	(14.1)
Accounts receivable	-	0.1	1.0
Retirement benefit obligation	1.1	(1.7)	3.3
Net operating loss carryover	-	-	7.2
Other	3.8	(3.2)	-
Total deferred tax assets	50.1	(2.8)	(7.5)
Deferred tax liabilities:			
Lease income differential	(27.8)	-	(43.1)
Others	(0.5)	1.9	0.6
	(28.3)	(1.9)	(42.5)
Net deferred tax expense (income)	P 21.8	(P 4.7)	(P 50.0)

	Parent Company		
	2014	2013	2012
<i>In profit or loss:</i>			
Deferred tax assets:			
Allowance for impairment on:			
Loans and discounts	P 25.1	P 2.4	(P 4.9)
Investment properties and non-current assets held-for-sale	20.1	(0.4)	(14.1)
Accounts receivable	-	0.1	1.0
Retirement benefit obligation	1.1	(1.7)	3.3
Other	3.8	(3.1)	-
	50.1	(2.7)	(14.7)
Deferred tax liabilities:			
Lease income differential	(27.8)	-	(43.1)
Others	(0.5)	1.9	0.5
	(28.3)	(1.9)	(42.6)
Net deferred tax expense (income)	P 21.8	(P 4.6)	(P 57.3)

	<u>Group/Parent Company</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
<i>In other comprehensive income:</i>			
Deferred tax expense (income) on:			
Net actuarial losses	P 2.9	P 6.5	(P 3.0)
Unrealized fair value gains on AFS financial assets	<u>0.1</u>	<u>0.4</u>	(<u>0.1</u>)
	<u>P 3.0</u>	<u>P 6.9</u>	(<u>P 3.1</u>)

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

The Bureau of Internal Revenue (BIR) issued RR 15-2010 and 19-2011 which required certain supplementary information to be disclosed as part of the notes to financial statements. The supplementary information is, however, not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards; it is neither a required disclosure under the Philippine Securities and Exchange Commission rules and regulations covering the form and content of financial statements under 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>Group</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net profit	P 504.0	P 420.3	P 410.7
Divided by the weighted average number of outstanding common shares – net*	<u>2,162.0</u>	<u>2,162.0</u>	<u>2,162.0</u>
Basic earnings per share	<u>P 0.23</u>	<u>P 0.19</u>	<u>P 0.19</u>

	<u>Parent Company</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net profit	P 476.2	P 357.5	P 371.8
Divided by the weighted average number of outstanding common shares – net*	<u>2,162.0</u>	<u>2,162.0</u>	<u>2,162.0</u>
Basic earnings per share	<u>P 0.22</u>	<u>P 0.17</u>	<u>P 0.17</u>

* net of treasury shares

There were no outstanding dilutive potential common shares as of December 31, 2014 and 2013.

23. CONTINGENT LIABILITIES AND COMMITMENTS

23.01 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 P10.5 in 2014, P11.2 in 2013 and P11.0 in 2012.

Future minimum lease payments under these operating leases follow:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Within one year	P 14.9	P 15.71	P 11.2
After one year but not more than five years	<u>28.8</u>	<u>68.88</u>	<u>55.2</u>
	<u>P 43.7</u>	<u>P 84.59</u>	<u>P 66.4</u>

23.02 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, 2014, management does not anticipate significant losses from these contingencies and commitments that would adversely affect the Group's financial position and results of operations.



Punongbayan & Araullo

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Report of Independent Auditors To Accompany SEC Schedules Filed Separately from the Basic Financial Statements

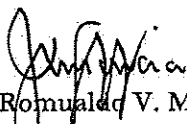
19th and 20th Floors, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 988 2288
F +63 2 886 5506
www.punongbayan-araullo.com

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

We have audited the financial statements of BDO Leasing and Finance, Inc. and subsidiary (the Group) and BDO Leasing and Finance, Inc. (the Parent Company) for the year ended December 31, 2014, on which we have rendered the attached report dated February 25, 2015. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The applicable supplementary schedules (see table of contents) to the Group and the Parent Company as of December 31, 2014 and for the year then ended, in compliance with the requirements of the Securities Regulation Code Rule 68, are presented for purposes of additional analysis and are not required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of management. The information in such supplementary schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: 
Romualdo V. Murcia III
Partner

CPA Reg. No. 0095626
TIN 906-174-059
PTR No. 4748317, Jan. 5, 2015, Makati City
SEC Group A Accreditation
Partner - No. 0628-AR-2 (until Sept. 5, 2016)
Firm - No. 0002-FR-3 (until Mar. 31, 2015)
BIR AN 08-002511-22-2013 (until Nov. 7, 2016)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

February 25, 2015

BDO LEASING AND FINANCE, INC.
SEC Supplementary Schedules
December 31, 2014

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BDO LEASING AND FINANCE, INC. AND SUBSIDIARY

(A Subsidiary of BDO Unibank, Inc.)

Schedule A - Financial Assets

December 31, 2014

(Amount in Philippine Pesos)

<i>Name of issuing entity and association of each issue ⁽ⁱ⁾</i>	<i>Number of shares or principal amount of bonds or notes</i>	<i>Amount shown on the balance sheet ⁽ⁱⁱ⁾</i>	<i>Valued based on the market quotation at balance sheet date ⁽ⁱⁱⁱ⁾</i>	<i>Income received and accrued</i>
<u><i>Available-for-sale securities</i></u>				
Century Properties Group Inc.	250,000,000	P 250,000,000	P 245,939,681	P 5,000,000
San Miguel Corporation	8,466,600	634,995,000	661,664,790	48,418,369
San Miguel Corporation	8,466,600	634,995,000	660,394,800	50,799,600
First Gen Corporation	7,000,000	700,000,000	805,000,000	56,000,000
Valley Golf Country Club	1	25,000	180,000	0
Tagaytay Splendido	1	800,000	80,000	0
Total AFS Financial Assets		P 2,220,815,000	P 2,373,259,271	P 160,217,969

BDO LEASING AND FINANCE, INC. AND SUBSIDIARY

(A Subsidiary of BDO Unibank, Inc.)

Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders

December 31, 2014

(Amount in Philippine Pesos)

<i>Name and designation of debtor ⁽¹⁾</i>	<i>Balance at beginning of period</i>	<i>Additions</i>	<i>Amounts collected ⁽²⁾</i>	<i>Amounts written off ⁽³⁾</i>	<i>Current</i>	<i>Not current</i>	<i>Balance at end of period</i>
Amounts Due from Related Interest:							
L.V. Locsin Condominium Corporation	P 5,202,149	-	P 1,734,149	-	P 3,468,000	-	P 3,468,000
L.V. Locsin Condominium Corporation	9,251,281	-	2,707,697	-	6,543,584	-	6,543,584
Westech Wipi Manufacturing Corporation	11,536,680	-	4,614,672	-	6,922,008	-	6,922,008
Ariece Enterprises	2,337,053	-	2,337,053	-	-	-	-
A-best Express	-	-	-	-	-	-	-
Bautista, Sps. Arnold S. and Venus T.	2,814,523	-	274,740	-	2,539,783	-	2,539,783
Giron, Sps. Conrado L. & Dalisay G.	594,556	-	594,556	-	-	-	-
Matby Food Ventures Corporation	-	-	-	-	-	-	-
Martinez Vergara Gonzales & Serrano	-	60,000,000	-	-	60,000,000	-	60,000,000
Total Amounts Due from Related Parties	31,736,242	60,000,000	12,262,867	-	79,473,375	-	79,473,375
DOSRI Loans - Director (not officer nor employee)							
Andres, Jesse Hermogenes Torres	-	2,127,792	265,974	-	1,861,818	-	1,861,818
Total Loans to Director	-	2,127,792	265,974	-	1,861,818	-	1,861,818
Loans to Officers and Employees:							
Lapid, Roberto Estreca	2,177,656	1,183,907	1,846,477	-	1,515,086	-	1,515,086
Total Loans to Officers and Employees	2,177,656	1,183,907	1,846,477	-	1,515,086	-	1,515,086
Total	P 33,913,898	P 63,311,699	P 14,375,318	-	P 82,850,279	-	P 82,850,279

BDO LEASING AND FINANCE, INC. AND SUBSIDIARY

(A Subsidiary of BDO Unibank, Inc.)

Schedule C - Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements

December 31, 2014

(Amount in Philippine Pesos)

Name and Designation of debtor	Balance at beginning of period	Additions	Deductions		Current	Non-current	Balance at end of period
			Amounts collected (i)	Amounts written off (ii)			
BDO Rental Inc.		P 28,437,500			P 28,437,500		<u>P 28,437,500</u>

BDO LEASING AND FINANCE, INC. AND SUBSIDIARY
(A Subsidiary of BDO Unibank, Inc.)
Schedule D - Intangible Assets - Other Assets
December 31, 2014
(Amount in Philippine Pesos)

<i>Description ⁽ⁱ⁾</i>	<i>Beginning balance</i>	<i>Additions at Cost ⁽ⁱⁱ⁾</i>	<i>Charged to cost and expenses</i>	<i>Charged to other accounts</i>	<i>Other changes additions (deductions) ⁽ⁱⁱⁱ⁾</i>	<i>Ending balance</i>
Deferred Charges		P 3,455,274				P 3,455,274
Total	-	P 3,455,274	-	-	P -	P 3,455,274

BDO LEASING AND FINANCE, INC. AND SUBSIDIARY
(A Subsidiary of BDO Unibank, Inc.)
Schedule E - Long-Term Debt
December 31, 2014
(Amount in Philippine Pesos)

Title of issue and type of obligation ⁽ⁱ⁾	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet ⁽ⁱⁱ⁾	Amount shown under caption "Long-Term Debt" in related balance sheet ⁽ⁱⁱⁱ⁾	Interest Rate	Maturity Date
Bills Payable - Others Development Bank of the Philippines (DBP)	P 612,750,000	P 408,500,000	P 204,250,000	3.250%	June 30, 2016
Total Bills Payable - Others	P 612,750,000	P 408,500,000	P 204,250,000		

BDO LEASING AND FINANCE, INC. AND SUBSIDIARY
(A Subsidiary of BDO Unibank, Inc.)
Schedule F - Indebtedness to Related Parties
December 31, 2014
(Amount in Philippine Pesos)

Name of related party ⁽¹⁾	Balance at beginning of period	Balance at end of period ⁽²⁾
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- nothing to report -

BDO LEASING AND FINANCE, INC. AND SUBSIDIARY
(A Subsidiary of BDO Unibank, Inc.)

Schedule G - Guarantees of Securities of Other Issuers ⁽¹⁾

December 31, 2014

(Amount in Philippine Pesos)

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding ⁽²⁾	Amount owned by person for which statement is filed	Nature of guarantee ⁽³⁾
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- nothing to report -

BDO LEASING AND FINANCE, INC. AND SUBSIDIARY
(A Subsidiary of BDO Unibank, Inc.)
Schedule H - Capital Stock ⁽¹⁾
December 31, 2014
(Amount in Philippine Pesos)

Title of Issue ⁽²⁾	Number of shares authorized	Number of shares issued and outstanding as shown under the related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by		
				Related parties ⁽³⁾	Directors, officers and employees	Others

Preferred Shares	200,000	-	-	-	-	-
Common shares	3,400,000,000	P 2,162,475,312		1,890,610,907	134,340	271,730,065

*Determination of number of shares and outstanding

Number of shares issued	2,225,169,030
Less shares held in treasury	<u>62,693,718</u>
	<u>2,162,475,312</u>

BDO Leasing and Finance, Inc.
Ortigas Avenue, Quezon City

Reconciliation of Retained Earnings Available for Dividend Declaration
December 31, 2014
(Amounts in Millions)

Unappropriated Retained Earnings at Beginning of Year	P 1,751.8
Prior Year's Outstanding Reconciling Items , net of tax Deferred tax income	(<u>91.4</u>)
Unappropriated Retained Earnings Available for Dividend declaration at beginning of Year, as Adjusted	<u>1,660.4</u>
Net Profit realized during the Year	476.3
Non -actual/unrealized income, net of tax	<u>-</u>
Net income actually earned during the period	<u>476.3</u>
Other Transactions During the Year Dividend declarations during the period	(<u>324.4</u>)
Unappropriated Retained Earnings Available for Dividend Declaration at End of Year	<u><u>P 1,812.3</u></u>

BDO LEASING AND FINANCE, INC.

**Schedule of Philippine Financial Reporting Standards and Interpretations
Adopted by the Securities and Exchange Commission and the
Financial Reporting Standards Council as of December 31, 2014**

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements		✓		
Conceptual Framework Phase A: Objectives and Qualitative Characteristics		✓		
Practice Statement Management Commentary			✓	
<i>Philippine Financial Reporting Standards (PFRS)</i>				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters **	✓		
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters **	✓		
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters **	✓		
	Amendment to PFRS 1: Government Loans **	✓		
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures – Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendment to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures** (effective when PFRS 9 is first applied)	✓		
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments * (effective January 1, 2018)			✓
PFRS 10	Consolidated Financial Statements	✓		
	Amendment to PFRS 10: Transition Guidance	✓		
	Amendment to PFRS 10: Investment Entities	✓		
	Amendment to PFRS 10: Investment Entities – Applying the Consolidation Exception * (effective January 1, 2016)			✓
PFRS 11	Joint Arrangements			✓
	Amendment to PFRS 11: Transition Guidance	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendment to PFRS 12: Transition Guidance	✓		
	Amendment to PFRS 12: Investment Entities	✓		
	Amendment to PFRS 10: Investment Entities – Applying the Consolidation Exception * (effective January 1, 2016)			✓
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts * (effective January 1, 2018)			✓
Philippine Accounting Standards (PAS)				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation**	✓		
	Amendment to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendment to PAS 1: Disclosure Initiative * (effective January 1, 2016)			✓
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendment to PAS 19: Defined Benefit Plans - Employee Contributions * (effective July 1, 2014)			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation **	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		
PAS 27 (Revised)	Separate Financial Statements	✓		
	Amendment to PAS 27: Investment Entities	✓		
PAS 28 (Revised)	Investments in Associates and Joint Ventures	✓		
	Amendment to PAS 28: Investment Entities - Applying the Consolidation Exception	✓		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PAS 32	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation **	✓		
	Amendment to PAS 32: Classification of Rights Issues **	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
	Amendment to PAS 36: Recoverable Amount Disclosures for Non-financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions **	✓		
	Amendments to PAS 39: The Fair Value Option **	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts **	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives **	✓		
	Amendment to PAS 39: Eligible Hedged Items **	✓		
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	✓		
PAS 40	Investment Property	✓		
PAS 41	Agriculture			✓
<i>Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)</i>				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities **	✓		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives **	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives **	✓		
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes	✓		
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement and their Interaction **	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners **	✓		
IFRIC 18	Transfers of Assets from Customers **	✓		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments **	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies	✓		

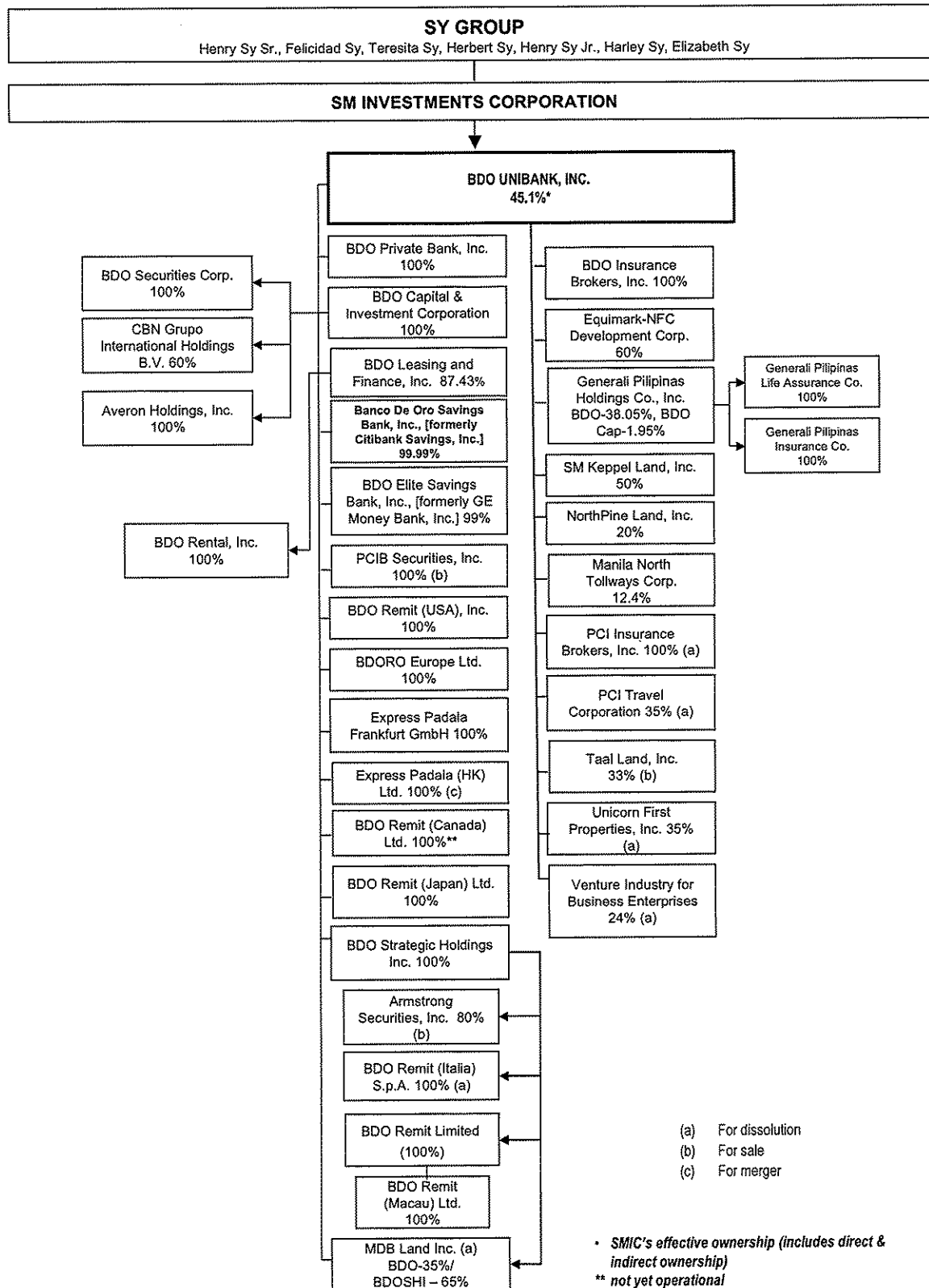
Philippine Interpretations - Standing Interpretations Committee (SIC)

SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders **	✓		
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services	✓		
SIC-32	Intangible Assets - Web Site Costs **	✓		

* These standards will be effective for periods subsequent to 2014 and are not early adopted by the Company.

** These standards have been adopted in the preparation of financial statements but the Company has no significant transactions covered in both years presented.

BDO Unibank, Inc. Subsidiaries and Affiliates
Organizational Chart
As of 31 December 2014



BDO Leasing and Finance, Inc. and Subsidiary
 Financial Ratios
 December 31, 2014 and 2013
 (Amounts in Millions of Philippine Pesos)

	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
I. Current/liquidity ratios				
Current ratio				
<u>Total current assets</u>	<u>8,668.8</u>	<u>8,766.7</u>	0.42	0.43
Total current liabilities	20,728.2	20,524.0		
Quick ratio				
<u>Quick assets</u>	<u>8,189.6</u>	<u>8,208.6</u>	0.40	0.40
Total current liabilities	20,728.2	20,524.0		
II. Solvency ratios; debt-to-equity ratios				
Solvency ratio				
<u>(After tax net profit + Depreciation)</u>	<u>984.8</u>	<u>744.9</u>	0.04	0.04
Total liabilities	24,264.1	20,566.4		
Debt-to-equity ratio				
<u>Total liabilities</u>	<u>24,264.1</u>	<u>20,566.4</u>	4.87	4.31
Total equity	4,985.8	4,771.0		
III. Asset-to-equity ratio				
Asset-to-equity ratio				
<u>Total assets</u>	<u>29,249.9</u>	<u>25,337.4</u>	5.87	5.31
Total equity	4,985.8	4,771.0		
IV. Interest coverage ratio				
Interest coverage ratio				
<u>Earnings before interest and taxes</u>	<u>1,182.0</u>	<u>984.4</u>	2.53	2.35
Interest expense	467.9	418.6		

BDO Leasing and Finance, Inc. and Subsidiary
Financial Ratios
December 31, 2014 and 2013
(Amounts in Millions of Philippine Pesos)

	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
V. Profitability ratios				
Net profit margin				
<u>Net Profit</u>	<u>504.0</u>	<u>420.3</u>	22.17%	22.09%
Interest income + Other operating income	2,273.6	1,902.9		
Return on equity				
<u>Net profit</u>	<u>504.0</u>	<u>420.3</u>	10.33%	8.98%
Average equity	4,878.4	4,679.9		
Return on assets				
<u>Net profit</u>	<u>504.0</u>	<u>420.3</u>	1.85%	1.83%
Average assets	27,293.7	23,005.9		
VI. Others				
Total real estate investments to Assets				
<u>Total investment properties</u>	<u>320.6</u>	<u>145.7</u>	1.10%	0.58%
Total assets	29,249.9	25,337.4		
Loans to Assets				
<u>Total loans and other receivables</u>	<u>23,646.6</u>	<u>20,975.0</u>	80.84%	82.78%
Total assets	29,249.9	25,337.4		
DOSRI to Net worth				
Receivables from Directors, Officers, <u>Stakeholders and Related Interests</u>	<u>82.8</u>	<u>2.2</u>	1.66%	0.05%
Total equity	4,985.8	4,771.0		
Amount of receivable from a single corporation to Total receivables				
<u>Loan to a single corporation</u>	<u>1,300.0</u>	<u>1,234.8</u>	5.50%	5.89%
Total loans and other receivables	23,646.6	20,975.0		