

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

The management of **BDO Finance Corporation** (the Company), is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2022 and 2021, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Signature: 
TERESITA T. SY
Chairperson

Signature: 
MANUEL Z. LOCSIN JR.
President

Signature: 
LUIS S. REYES JR.
Treasurer

Signed this 5th day of April 2023.

11 APR 2023

SUBSCRIBED and SWORN to me before this _____ day of _____, 2023 affiant exhibiting to me his/her Social Security Number, as follow:

NAMES

SSS NUMBER

Teresita T. Sy
Manuel Z. Locsin Jr.
Luis S. Reyes Jr.

██████████
██████████
██████████



A handwritten signature in black ink, appearing to read "Fredrick M. Yabut".

Atty. **FREDRICK MATTHEW G. YABUT**
Appointment No. M-030; Notary Public until 31 December 2023
R01 No. 74365; IBP No. 0566767, dated 03 January 2023
IBP No. 293976 dated 10 January 2023
MCLE Compliance No. VII-0011590, 28 February 2022
21/F, BDO Towers Valero, 8741 Paseo de Roxas,
Salcedo Village, Makati City



P&A
Grant Thornton

FOR SEC FILING

Financial Statements and
Independent Auditors' Report

BDO Finance Corporation

December 31, 2022 and 2021



Report of Independent Auditors

Punongbayan & Araullo

20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 8988 2288

The Board of Directors

BDO Finance Corporation

(A Wholly Owned Subsidiary of BDO Strategic Holdings, Inc.)

12 ADB Avenue, Ortigas Center
Mandaluyong City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of BDO Finance Corporation (the Company), which comprise the statements of financial position as at December 31, 2022 and 2021, and the statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2022 and 2021, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

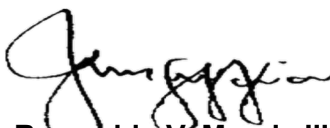
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2022 required by the BIR as disclosed in Note 20 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of management. The supplementary information 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. 9566639, January 3, 2023, Makati City
SEC Group A Accreditation
Partner - No. 95626-SEC (until financial period 2026)
Firm - No. 0002 (until Dec. 31, 2024)
BIR AN 08-002511-022-2022 (until Oct. 13, 2025)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

April 5, 2023



Supplemental Statement of Independent Auditors

Punongbayan & Araullo

20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 8988 2288

The Board of Directors
BDO Finance Corporation
(A Wholly Owned Subsidiary of BDO Strategic Holdings, Inc.)
12 ADB Avenue, Ortigas Center
Mandaluyong City

We have audited the financial statements of BDO Finance Corporation (the Company) for the year ended December 31, 2022, on which we have rendered the attached report dated April 5, 2023.

In compliance with the Revised Securities Regulation Code Rule 68, we are stating that the Company has only one stockholder owning 100 or more shares of the Company's capital stock as at December 31, 2022, as disclosed in Note 16 to the financial statements.

PUNONGBAYAN & ARAULLO

By: Romualdo V. Murcia III
Partner

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April 5, 2023

BDO FINANCE CORPORATION
(A Wholly Owned Subsidiary of BDO Strategic Holdings, Inc.)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Pesos)

	Notes		2022		2021
<u>ASSETS</u>					
CASH IN BANKS	6	P	74,367,902	P	86,181,686
LOANS AND OTHER RECEIVABLES - Net	8		6,729,355,477		7,467,715,233
INVESTMENT IN A SUBSIDIARY	9		465,983,266		413,313,292
PROPERTY AND EQUIPMENT - Net	10		31,397,096		43,106,863
INVESTMENT PROPERTIES - Net	11		127,146,741		31,980,843
OTHER ASSETS - Net	12		63,330,396		64,114,054
TOTAL ASSETS		P	7,491,580,878	P	8,106,411,971
<u>LIABILITIES AND EQUITY</u>					
BILLS PAYABLE	13	P	5,052,834,790	P	6,167,729,209
ACCOUNTS PAYABLE AND OTHER LIABILITIES	14		210,536,536		296,370,172
LEASE DEPOSITS	15		832,847,425		480,615,230
INCOME TAX PAYABLE			18,103,146		21,077,912
Total Liabilities			6,114,321,897		6,965,792,523
CAPITAL STOCK	16		1,000,000,000		1,000,000,000
NET ACCUMULATED ACTUARIAL LOSSES	18, 20	(70,859,139)	(69,355,910)
RETAINED EARNINGS	2		448,118,120		209,975,358
Total Equity			1,377,258,981		1,140,619,448
TOTAL LIABILITIES AND EQUITY		P	7,491,580,878	P	8,106,411,971

See Notes to Financial Statements.

BDO FINANCE CORPORATION
(A Wholly Owned Subsidiary of BDO Strategic Holdings, Inc.)
STATEMENTS OF PROFIT OR LOSS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Pesos)

	Notes	2022	2021
REVENUES AND INCOME			
Interest and discounts	6, 8, 18, 19	P 629,963,188	P 635,686,694
Gain from sale of receivables	8, 19	73,669,015	23,067,047
Equity share in net earnings of a subsidiary	9	52,669,974	77,850,879
Dividend income	7	-	36,513,583
Reversal of impairment losses	8	-	20,262,971
Other income - net	17, 19	63,325,639	16,349,305
		819,627,816	809,730,479
OPERATING COSTS AND EXPENSES			
Employee benefits	18	152,953,244	176,490,982
Interest and financing charges	8, 13, 14, 15	147,080,844	220,149,890
Taxes and licenses	20	81,208,871	98,122,043
Occupancy and equipment-related expenses	10, 11, 12	31,616,372	28,122,163
Litigation expense		20,378,064	5,805,272
Impairment and credit losses	6, 8, 11, 12	19,680,074	100,970
Service fees expenses	19	16,876,440	7,671,110
Representation and entertainment		10,071,079	16,900,118
Commissions		7,725,291	8,015,686
Miscellaneous	12, 19	24,190,828	16,503,540
		511,781,107	577,881,774
PROFIT BEFORE TAX		307,846,709	231,848,705
TAX EXPENSE	20	69,703,947	27,111,625
NET PROFIT		P 238,142,762	P 204,737,080

See Notes to Financial Statements.

BDO FINANCE CORPORATION
(A Wholly Owned Subsidiary of BDO Strategic Holdings, Inc.)
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Pesos)

	Notes	2022	2021
NET PROFIT		<u>P 238,142,762</u>	<u>P 204,737,080</u>
OTHER COMPREHENSIVE LOSS			
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of post-employment defined benefit plan	18	(2,004,304)	(45,125,100)
Fair value losses on financial assets at fair value through other comprehensive income	7	-	(23,899,800)
Tax income	20	<u>501,075</u>	<u>12,642,172</u>
		(<u>1,503,229</u>)	(<u>56,382,728</u>)
TOTAL COMPREHENSIVE INCOME		<u>P 236,639,533</u>	<u>P 148,354,352</u>

See Notes to Financial Statements.

BDO FINANCE CORPORATION
(A Wholly Owned Subsidiary of BDO Strategic Holdings, Inc.)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Pesos)

	<u>Capital Stock</u> (Note 16)	<u>Net Accumulated Actuarial Losses</u> (Notes 18 and 20)	<u>Net Unrealized Fair Value Gains on Financial Assets at FVOCI</u> (Notes 7 and 20)	<u>Retained Earnings</u> (Note 2)	<u>Total</u>
Balance at January 1, 2022	P 1,000,000,000	(P 69,355,910)	P -	P 209,975,358	P 1,140,619,448
Total comprehensive income (loss) for the year	<u>-</u>	<u>(1,503,229)</u>	<u>-</u>	<u>238,142,762</u>	<u>236,639,533</u>
Balance at December 31, 2022	<u>P 1,000,000,000</u>	<u>(P 70,859,139)</u>	<u>P -</u>	<u>P 448,118,120</u>	<u>P 1,377,258,981</u>
Balance at January 1, 2021	P 1,000,000,000	(P 33,144,613)	P 20,171,431	P 5,238,278	P 992,265,096
Total comprehensive income (loss) for the year	<u>-</u>	<u>(36,211,297)</u>	<u>(20,171,431)</u>	<u>204,737,080</u>	<u>148,354,352</u>
Balance at December 31, 2021	<u>P 1,000,000,000</u>	<u>(P 69,355,910)</u>	<u>P -</u>	<u>P 209,975,358</u>	<u>P 1,140,619,448</u>

See Notes to Financial Statements.

BDO FINANCE CORPORATION
(A Wholly Owned Subsidiary of BDO Strategic Holdings, Inc.)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Pesos)

	Notes	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 307,846,709	P 231,848,704
Adjustments for:			
Interest received		635,762,385	657,299,305
Interest and discounts	6, 8, 18, 19	(629,963,188)	(635,686,694)
Interest and financing charges	13, 14, 15	147,080,844	220,149,890
Interest and financing charges paid		(110,382,687)	(197,963,429)
Equity share in net earnings of a subsidiary	9	(52,669,974)	(77,850,879)
Impairment and credit losses	8, 12	19,680,074	100,970
Depreciation and amortization	10, 11, 12	19,256,216	18,152,155
Loss (gain) on sale of property and equipment and other assets	10, 12	265,059	(109,264)
Day-one gains - net		(98,547)	(56,570)
Dividend income	7	-	(36,513,583)
Reversal of impairment losses	8	-	(20,262,971)
Gain on pretermination of lease contracts	14	-	(155,369)
Operating profit before changes in operating assets and liabilities		336,776,891	158,952,265
Decrease (increase) in loans and other receivables		592,360,780	(143,038,678)
Increase in other assets		(3,410,848)	(17,870,377)
Decrease in accounts payable and other liabilities		(75,960,176)	(44,399,507)
Increase in lease deposits		352,274,149	336,765,847
Cash generated from operations		1,202,040,796	290,409,550
Cash paid for income and final taxes		(69,661,476)	(8,004,491)
Net Cash From Operating Activities		1,132,379,320	282,405,059
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of non-current assets held for sale	12	1,013,880	-
Acquisitions of intangible assets	12	(500,776)	154,730
Acquisitions of property and equipment	10	(370,842)	(1,576,143)
Proceeds from disposal of property and equipment	10	39,477	531,387
Proceeds from redemption of financial assets at fair value through other comprehensive income	7	-	597,495,000
Net Cash From Investing Activities		181,739	596,604,974
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of bills payable	13	(21,021,281,168)	(51,971,459,709)
Availments of bills payable	13	19,888,100,000	51,064,875,035
Payments on lease liabilities	14	(11,193,675)	(12,737,833)
Net Cash Used In Financing Activities		(1,144,374,843)	(919,322,507)
NET DECREASE IN CASH IN BANKS		(11,813,784)	(40,312,474)
CASH IN BANKS AT BEGINNING OF YEAR		86,181,686	126,494,160
CASH IN BANKS AT END OF YEAR		P 74,367,902	P 86,181,686

Supplemental Information on Non-cash Investing and Financing Activities:

- In 2022 and 2021, the Company foreclosed certain properties from its customers which were recognized as acquisitions to Investment properties amounting to P103,639,771, respectively. Further, in 2021, certain properties were foreclosed and presented as part of Non-current Assets Held for Sale amounting to P1,585,596 in the 2021 statement of financial position (see Notes 11 and 12).
- In 2021, the Company recognized right-of-use assets and lease liabilities both amounting to P2,260,740 due to lease agreements entered by the Company as a lessee. In addition, in 2021, the Company pre-terminated certain lease agreements amounting to P9,464,052 for right-of-use assets and P9,619,421 for lease liabilities (see Notes 10 and 14). There was no similar transaction in 2022.

See Notes to Financial Statements.