

# COVER SHEET

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S.E.C. Registration Number

B D O L E A S I N G A N D F I N A N C E , I N C .

(Company's Full Name)

B D O L e a s i n g C e n t e r

C o r i n t h i a n G a r d e n s O r t i g a s

A v e . , Q u e z o n C i t y

(Business Address: No. Street/ City/ Town/ Province)

Elmer B. Serrano

Contact Person

687-1195

Company Telephone Number

1 2

Month

3 1

Day

Fiscal Year

SEC Form 17 - A

FORM TYPE

Any date in April

Month Day

Annual Meeting

Secondary License Type, If Applicable

C F D

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

File Number

Document I.D.

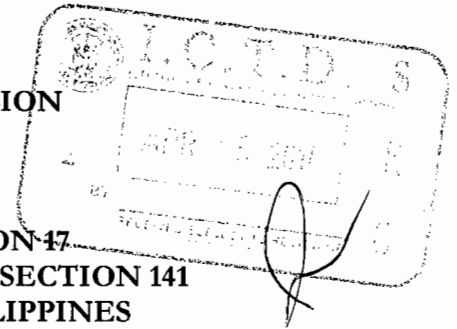
STAMPS

**SEC FORM 17-A**

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 47  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF THE CORPORATION CODE OF THE PHILIPPINES



1. For the fiscal year ended: **December 31, 2013**
2. SEC Identification Number: **97869**
3. BIR Tax Identification No.: **000-486-050-000**
4. Exact name of issuer as specified in its charter: **BDO LEASING AND FINANCE, INC.**
5. **Manila**  
Province, Country or other jurisdiction of  
incorporation or organization
6. 

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 (SEC Use Only)  
Industry Classification Code:
7. **BDO Leasing Center, Corinthian Gardens**  
**Ortigas Avenue, Quezon City, Philippines**  
Address of principal office
- 1100  
Postal Code
8. **(632)635-6416 / 635-5811**  
Issuer's telephone number, including area code
9. **N.A.**  
Former name, former address, and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	<u>Subscribed and Outstanding</u>	
	No. of Shares	Amount in Pesos
Common	2,162,475,312	Php 2,162,475,312.00
<b>Total</b>	<b>2,162,475,312</b>	<b>Php 2,162,475,312.00</b>
Short Term Commercial Paper	Authorized Php 15,000,000,000.00	Outstanding 9,120,500,000.00
Long Term Commercial Paper	<u>0.00</u>	<u>0.00</u>
<b>Total</b>	<b><u>Php 15,000,000,000.00</u></b>	<b><u>9,120,500,000.00</u></b>

11. Are any or all of these securities listed on a Stock Exchange.

Yes  No

If yes, state the name of such stock exchange and the classes of securities listed therein:

**The Philippine Stock Exchange, Inc.**                      **Common Shares**

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes  No

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes  No

13. Aggregate market value of the voting stock held by non-affiliates: **Php 644,366,790.00**

## TABLE OF CONTENTS

<b>PART I</b>	<b>BUSINESS &amp; GENERAL INFORMATION</b>	
Item 1	Business	1
Item 2	Properties	8
Item 3	Legal Proceedings	9
Item 4	Submission of Matters to a Vote of Security Holders	10
<b>PART II</b>	<b>OPERATIONAL AND FINANCIAL INFORMATION</b>	
Item 5	Market for Issuer's Common Equity and Related Stockholders Matters	10
Item 6	Management's Discussion and Analysis or Plan of Operations	12
Item 7	Financial Statements	17
Item 8	Changes in and Disagreements with Accountants on Accounting and Financial Disclosures	17
<b>PART III</b>	<b>CONTROL AND COMPENSATION INFORMATION</b>	
Item 9	Directors and Executive Officers of the Issuer	18
Item 10	Executive Compensation	24
Item 11	Security Ownership of Certain Beneficial Owners and Management	26
Item 12	Certain Relationships and Related Transactions	27
<b>PART IV</b>	<b>EXHIBITS AND SCHEDULES</b>	
Item 13	Exhibits and Schedules on SEC Form 12-C	30
<b>SIGNATURES</b>		33
<b>INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES</b>		

## PART I - BUSINESS & GENERAL INFORMATION

### ITEM 1. BUSINESS

**BDO LEASING AND FINANCE, INC.** (the “**Company**”), is a domestic corporation incorporated with the Philippine Securities and Exchange Commission (“**SEC**”) in 1981 under Republic Act No. 8556 (the “**Financing Company Act**”), and listed with The Philippine Stock Exchange, Inc. (PSE) on January 6, 1997. The Company is eighty-five percent (85%)-owned by BDO Unibank, Inc. (“**BDO**” or the “**Parent Company**”), a company incorporated and domiciled in the Philippines. The Company is the principal business unit of BDO engaged in leasing and financing.

The Company became a subsidiary of BDO when BDO and Equitable PCI Bank, Inc. entered into a merger effective May 31, 2007, with BDO as the surviving entity. BDO is presently engaged in the banking business as a universal bank.

BDO Rental, Inc. (formerly Equitable Pentad Rental, Inc. or “**BDO Rental**”), a wholly-owned subsidiary of the Company, is licensed by the SEC to engage in renting and leasing of equipment and real properties. It started commercial operations on June 30, 2005.

The Company and BDO Rental continue their respective operations up to present. The Company and BDO Rental are not under any bankruptcy, receivership or similar proceedings, and have not undertaken any material reclassification, consolidation or purchase or a sale of a significant amount of assets not in the ordinary course of their respective businesses.

#### ***Principal Products/Services***

The Company’s principal business is providing leasing & financing products to individual and corporate clients.

The Company’s leasing products include direct leases, sale-leaseback arrangements, and operating leases. The Company’s financing products include commercial and retail loans, installment paper purchases, factoring of receivables and floor stock financing. Loan availments of clients are used to finance the purchase of automobiles, trucks, office equipment, industrial, agricultural and office machinery, real property, and operating assets such as receivables and inventories.

The following is a general description of the Company’s leasing and financing products:

#### Leasing Products:

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

*Operating Lease* – This refers to a short-term lease that does not permit the recovery of the investment by the lessor during the initial period of lease. It is an off-balance sheet transaction where rentals are recorded in the lessee's book as expense. The operating lease product is being offered by BDO Rental.

*Direct Lease* - The Company purchases an asset selected by a client from a supplier and leases it to the client. Through this lease arrangement, the client overcomes budgetary constraints, enhances efficiency in cash flow management through rental payments, and minimizes the required equity contribution for asset acquisition.

*Sale-Leaseback* - The Company purchases an asset from a client based on appraised value. The Company then “leases back” the asset to the client. This type of lease arrangement simultaneously provides liquidity to the client and continued use of the asset.

#### Financing Products:

*Commercial Loan* - The Company provides financing to a commercial client through a loan secured by a mortgage on the latter’s equipment or real property. The client is able to avail of longer amortization terms as compared to unsecured loans. A commercial loan addresses a client’s capital expenditure or permanent working capital need.

*Retail Loan* - The Company provides financing to an individual client through a loan secured by a mortgage on the latter’s personal or real property. A consumer loan addresses an individual client’s financing requirements.

*Installment Paper Purchase* - The Company purchases on a “with recourse basis” the installment sales contracts of a client usually engaged in motor vehicle, appliance, or equipment dealership at a stipulated discount, thereby providing liquidity to the same client.

*Factoring of Receivable* - As a variation of the receivables discounting product, the Company’s purchase of a client’s short-term receivables is on a “with or without recourse basis”, with the Company directly collecting payment from the client’s debtors. The client gains immediate liquidity, and transfers responsibility of the collection process to the Company.

Variations of each leasing or financing products are offered, depending on the nature of a client’s business, preferences and financial position.

As of December 31, 2013, the Company’s leasing and financing products contributed 54.25% and 33.09% to its gross revenues, respectively, vis-a-vis 2013 projected ratios of forty three percent (43%) and forty three percent (43%), respectively.

#### ***New Product or Services***

There were no publicly announced new products or services.

#### ***Sales Contracts***

The Company's business is not dependent upon a single customer or a few customers, the loss of any or more of which would have a material adverse effect on the Company and its subsidiaries taken as a whole.

None of the Company’s customers account for, or based upon existing orders will account for, thirty percent (30%) or more of the Company's sales, and the Company has no existing major sales contracts.

#### ***Government Approval***

Under the Financing Company Act, only corporations for which a license to engage in the business of a financing company has been granted by the SEC may engage in both leasing and financing activities. Apart from the foregoing requirement, no other government approval is needed for the Company's and its subsidiary’s principal products and services.

### ***Market Position***

The Company occupies a dominant position in the leasing and financing industry.

### ***Marketing of Products/Services***

The Company markets its products through its Head Office located in Ortigas Avenue, Quezon City and its branch network nationwide. The Company has an extensive branch network in the leasing and financing industry, with nine (9) branches, located in Cagayan de Oro City (Misamis Oriental), Cebu City (Cebu), Dagupan City (Pangasinan), Davao City (Davao), Iloilo City (Iloilo), Dasmariñas (Cavite), Angeles City (Pampanga), San Pablo City (Laguna) and Makati City (Metro Manila). In October 2009, the Company obtained from the SEC a Certificate of Authority to operate the Makati branch.

The Company's wholly-owned subsidiary, BDO Rental, is licensed by the SEC to engage in renting and leasing of equipment.

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

### ***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 companies 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 Company and BDO Rental (collectively referred to as the “**Group**”) enters into transactions with the Parent Company 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 the Company’s related parties include BDO, affiliates, key management personnel and the retirement benefit fund discussed in detail under Item 12 on Certain Relationships and Related Transactions.

### ***Intellectual Property***

As of December 31, 2013, the Company has no existing or expiring patents, trademarks, copyrights, licenses, franchises, concessions, and royalty agreements.

### ***Governmental Regulation***

The Company does not foresee new changes or amendments to the Financing Company Act that would significantly affect the Company’s business.

### ***Research and Development***

The Company, being in the financing business, does not have research and development activities. In this regard, it does not incur research and development costs and is not affected by any environmental law.

### ***Employees***

As of December 31, 2013, the Company had 184 employees – eighteen (18) senior officers, seventy seven (77) junior officers and eighty nine (89) rank & file employees. Of the total personnel, Executive Office is composed of two (2) employees; one hundred fifteen (115) under the Marketing group, and sixty two (62) under the Operations group (Comptroller ship and Operations, Risk Management and HR & Admin) and three (3) Treasury and two (2) under the company’s subsidiary, BDO Rental. In 2014, the Company anticipates twenty seven (27) 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 the Parent Company under the terms of a Collective Bargaining Agreement (CBA) between the Parent Company and NUBE-BDO, a legitimate labor organization duly registered with the Department of Labor and Employment. 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, 2013, 86.15% of the Company’s leasing and financing portfolio consisted of exposure in firms in the following sectors: transportation and communication, manufacturing, real estate, construction, mining and quarrying and trade. 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 BOD, 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"). 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 (1) year. Consequently, the Company may be 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 Group 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 nineteen (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 ₱15 billion STCPs.

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:

- ▲ The regular income tax (RCIT) of 30% (effective January 1, 2009) is imposed on taxable income net of applicable deductions;
- ▲ 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);
- ▲ 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;
- ▲ Net operating loss carryover (NOLCO) can be claimed as deduction against taxable income within three years after NOLCO is incurred;
- ▲ Effective July 2008, Republic Act 9504 was approved giving corporate taxpayers an option to claim itemized deduction or optional standard deduction (OSD) 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;

- ▲ 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;
- ▲ 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;
- ▲ 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;
- ▲ 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;
- ▲ RR No. 9-2013 was issued 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 National Internal Revenue Code “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;
- ▲ 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;
- ▲ 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;
- ▲ 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 Code;

- ▲ 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; and
- ▲ RR No. 18-2013 which was issued 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 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 are the imposition of 20% delinquency interest, in addition to the 20% deficiency interest.

#### **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 9010. The Parent Company became subject to VAT based on their gross receipts, in lieu of the GRT under Sections 121 and 122 of the Tax Code, which was imposed on banks, non-banks financial intermediaries and finance companies in prior years.

On January 29, 2004, Republic Act 9238 reverts the imposition of GRT on banks and financial institutions. This law is retroactive to January 1, 2004. The Parent 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 on RA 9337 was approved amending, among others, the gross receipts tax 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 (RR) 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 Philippine Securities and Exchange Commission rules and regulations covering the form and content of financial statements under Securities Regulation Code Rule 68.

## **ITEM 2. PROPERTIES**

The Company leases its head office premises from the Parent Company 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 2013 and 2012, the consolidated rent expense amounted to P15.7 million and P16.2 million, respectively. Cagayan de Oro, Dagupan, San Pablo, Cavite, Davao , Iloilo, Pampanga, and Cebu branches lease their premises from the Parent Company.

Below are the details of the leases covering the branches' office premises:

**Cagayan:**

- ▲ Operates at the 2<sup>nd</sup> Floor, BDO-Lapasan Branch, National Highway, Lapasan, Cagayan de Oro City for a period of five years and will expire in January 2014. Monthly rental amounts to P27,378.00 with no escalation clause.

**Dagupan:**

- ▲ Operates at the 2<sup>nd</sup> Floor BDO Bldg, AB Fernandez Ave, Dagupan City for a period of five years and will expire in December 2013. Monthly rental amounts to P35,244.00 with no escalation clause.

**San Pablo:**

- ▲ Operates at the 3<sup>rd</sup> Floor, BDO Bldg, Rizal Street corner P. Alcantara St., San Pablo City, Laguna for a period of five years and will expire in September 2017. Monthly rental amounts to P37,686.00 with no escalation clause.

**Iloilo:**

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

**Davao:**

- ▲ Operates at the 4<sup>th</sup> Flr., BDO Davao-Claveria No. 30 C.M. Recto Avenue, Poblacion, Davao City for a period of five years and will expire in May 31, 2018. Gross monthly rental amounts to P14,313.00 with no escalation clause.

**Cavite:**

- ▲ Operates at the 2<sup>nd</sup> Flr., BDO Imus Building, Anabu I, Imus Cavite City for a period of five years and will expire on December 14, 2018. Gross monthly rental amounts to P 11,289.00 with no escalation clause.

**Cebu:**

- ▲ Operates at the Mezzanine Floor, BDO Bldg., Gorordo Ave. Lahug, Cebu City for a period of five years and will expire in May 2014. Monthly rental amounts to P30,748.00 with no escalation clause.

**Pampanga:**

- ▲ Operates at the 3<sup>rd</sup> Flr., BDO Angeles-Balibago Branch Building, Ramon Tang Avenue, Diamond Subdivision, Balibago, Angeles City for a period of five 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 Flr., Pacific Star Bldg., Sen. Gil Puyat corner Makati Avenue, Makati City for a period of three years and will expire on February 28, 2014. Monthly rental amounts to P290,892.71 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 – P22.4 million; Makati – P0.3 million; Cebu – P1.6 million; Davao – P0.6 million; Dagupan – P1.4 million; San Pablo – P0.7 million; Cagayan – P1.0 million; Iloilo – P0.9 million; Cavite – P0.7 million; Pampanga – P1.0 million.

**ITEM 3. 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.

**ITEM 4. 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**

**ITEM 5. 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, 2013 was 62,693,718 shares or a total value of ₱81,776,628.

**Dividends**

On April 17, 2013, the Company's Board of Directors approved the declaration of cash dividends at ₱0.15 per share in favor of stockholders of record as of May 17, 2013 paid on June 13, 2013. Total dividends in 2013 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 PSE. As of March 31, 2014, 322,183,095 common shares are held by the public, representing 14.90 % of the Company's outstanding shares.

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

	High	Low
<b>2014</b>		
1 <sup>st</sup> quarter	2.00	2.00
<b>2013</b>		
1 <sup>st</sup> quarter	2.01	2.00
2 <sup>nd</sup> quarter	2.02	2.00
3 <sup>rd</sup> quarter	1.90	1.87
4 <sup>th</sup> quarter	2.00	2.00

<b>2012</b>		
1 <sup>st</sup> quarter	1.65	1.64
2 <sup>nd</sup> quarter	1.78	1.78
3 <sup>rd</sup> quarter	2.03	1.99
4 <sup>th</sup> quarter	2.00	2.00

As of December 31, 2013 and April 11, 2014, the closing price of the Company's share were at P2.00 and P2.02, respectively.

Total number of stockholders as of December 31, 2013 was one thousand one hundred seventy four (1,174) and as of March 31, 2014 was one thousand one hundred seventy (1,170). Common shares outstanding as of March 31, 2014 and December 31, 2013 totaled 2,162,475,312.

### Holders

The Company's common stockholders, with their respective shareholdings, as of March 31, 2014 and December 31, 2013 are as follows:

<u>Name</u>	<u>No. of Shares Held</u>	<u>% to Total</u>
BDO Unibank, Inc. (Parent Company)	1,840,116,632	85.093070%
Various Stockholders	<u>322,358,680</u>	<u>14.906930%</u>
	<u><b>2,162,475,312</b></u>	<u><b>100.00000%</b></u>

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

<i>Name of Stockholders</i>	<i>Securities</i>	<i>Shares Held</i>	<i>Total Outstanding</i>
BDO Unibank, Inc.	Common	1,840,116,632	85.093070%
PCD Nominee Corporation(Filipino)	Common	231,284,922	10.695379%
Samuel Uy Chua	Common	21,000,000	0.971109%
Equitable Computer Services,Inc. A/C	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 Mateo	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%
PCD Nominee Corporation(Foreign)	Common	1,253,938	0.057986%
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%



<i>Name of Stockholders</i>	<i>Securities</i>	<i>Shares Held</i>	<i>Total Outstanding</i>
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%

The top twenty (20) stockholders of the Company as of December 31, 2013 are as follows:

<i>Name of Stockholders</i>	<i>Securities</i>	<i>Shares Held</i>	<i>Total Outstanding</i>
BDO Unibank, Inc.	Common	1,840,116,632	85.093070%
PCD Nominee Corp (Filipino)	Common	230,937,752	10.679324%
Samuel Uy Chua	Common	21,000,000	0.971109%
Equitable Computer Services, Inc. A/C Equitable	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%
PCD Nominee Corporation(Foreign)	Common	1,547,978	0.071584%
Victor Barranda	Common	1,157,475	0.053525%
Mercury Group of Companies	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%
Oscar M. Lopez	Common	683,100	0.031589%
Willington/Constantino Chua/ George W. Chua Chua	Common	584,430	0.027026%

#### **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.

#### **ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION**

##### ***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 our subsidiary, BDO Rental, Inc. 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 Documentary Stamp Tax 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, Inc.

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 Inc. 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 BDORI bookings. Return on equity, which is Net Income over Average Equity, stood at 8.98% in 2013.

### ***2012 Compared to 2011***

Gross income for the year ended December 31, 2012 was P1.76 billion, an increase of P123.2 million, or 7.52% from P1.64 billion in 2011. Interest and discounts for the year ended December 31, 2012 amounted to P1.27 billion, an increase of P103.0 million or 8.83% from P1.17 billion in 2011. This increase was due to the increase in lease/loan portfolio from last year to this year. Rent Income for the year ended December 31, 2012 was P226.7 million, a decrease of P17.8 million or 7.28% from P244.5 million in 2011. The decrease was due to the decline in 2012 operating lease income of our subsidiary, BDO Rental, Inc. The Company's leasing and financing portfolio as of December 31, 2012 was at P18.49 billion, a P2.87 billion increase, or 18.40% from P15.62 billion as of December 31, 2011 with leasing portfolio improving by 40.47% or increase of P3.0 billion.

Interest and financing charges for 2012 amounted to P461.6 million, consisting of finance charges from borrowings of P457.1 million and interest expense on lease deposits of P4.5 million. Increase of P81.4 million in financing charges is attributed to the increase in Bills Payable which went up to P12.67 billion in 2012 compared to P10.58 billion 2011. Interest expense on leased deposits in 2012 amounted to P4.5 million or a decrease of P7.5M from 2011's P12.06 million.

As of December 2012, total provision for impairment losses amounted to P112.5 million, a decrease of P26.6 million from last year's P139.1 million. A total of P87.3 million provision for credit loan receivable losses was set up during the year due to more conservative provisioning policies of the company. Total accounts written off in 2012 amounted to P31 million.

Taxes and licenses expenses amounted to P134.7 million for the year ended December 31, 2012, an

increase of P12.1 million, or 9.87% from P122.6 million for the year ended December 31, 2011. This was mainly due to the increase in Gross Receipts Tax expenses of P10.6 million in 2012.

Salaries and employee benefits expense amounted to P178.2 in 2012 as compared to P163.9 million in 2011. Occupancy and equipment related expenses for the year ended December 31, 2012 amounted to P220.8 million, a decrease of P108.4 million, or 32.93% from December 2011's P329.2 million. This is due to the sale of assets from matured operating leases.

Litigation/assets acquired expenses increased by 88.58% or from P25.4 million in 2011 to P47.9 million in 2012.

Other expenses increased to P91.0 million in 2012 as compared to P85.9 million as of 2011. The increase of P5.1 million, or 6.0% increase, is primarily due to the increase in Entertainment and Representation expenses of P5.1 million.

The Company registered a net income of P402.3 million for the year ended December 31, 2012.

Total assets amounted to P20.74 billion in December 2012, resulting in an increase of P2.89 billion from the December 2011 balance of P17.85 billion. Available-for-sale financial assets of P2.02 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 18.40%. Property and Equipment-net amounted to P643.7 million as of 2012, or an increase of P140.5 million over last year's P503.2 million. This is due to the increase in assets for lease of BDO Rental Inc. Investment properties-net decreased to P379.5 million from 2011's P428.9 million primarily due to sale of foreclosed properties during the year. Other assets stood at P376.3 million in 2012 primarily consisting of Non-current asset held-for-sale, with net amount of P94.4 million; creditable withholding tax totaling P89.6 million; and prepaid expense-VAT of P65.3 million.

Accounts Payable, accrued expenses and other liabilities decreased by P218.0 million or 45.44% due to payment in 2012 of dividends declared in 2011 amounting P216.2 million.

Lease deposits, amounting P3.17 billion in 2012, increased by P745.3 million or 30.72% from last year's P2.42 billion. This was also due to the higher volume of lease transactions of the Company.

Stockholders' equity increased by P272.9 million or 6.26%, mainly from the increase in Net Income year-on-year.

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

	<u>December 2012</u>	<u>December 2011</u>
Current Ratio	0.42:1	0.78:1
Quick asset ratio	0.41:1	0.77:1
Debt to Equity Ratio	3.47:1	3.09:1
Net Profit Margin	22.84%	18.54%
Return on Equity	8.94%	6.96%

Decrease in current ratio (computed as current assets divided by current liabilities) and quick asset ratio (quick asset divided by current liabilities) can be attributed to the P2.87 billion increase in net loans & receivables financed that are expected to be collected for more than one year. Increase in individual/corporate and bank financing resulted to an increase in the debt to equity ratio, computed as total liabilities divided by total equity, from 3.09:1 in 2011 to 3.47:1 in 2012. Net profit margin which is computed

as Net Income over Gross Revenue, increased this year from last year due to lower operating expenses in 2012. Return on equity, which is Net Income over Average Equity, increased from 6.96% in 2011 to 8.94% in 2012.

#### ***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***

There were no material commitments for capital expenditures.

#### ***Projections***

Total Assets is projected to grow to P30.0 billion or 18% in 2014 with Net Loans and Other Receivables increasing from P20.8 billion in 2013 to P25.2 billion in 2014 or up to 21%. Total Revenue is estimated at P2.2 billion by year-end 2014 while Interest and Financing Charges and Operating Lease-related Depreciation total P549.2 million and P376.2 million, respectively.

Projected Net income is P440 million, an increase of 5% versus the P420.3 million Audited 2013 Performance.

Funding will be mainly sourced from the short-term commercial papers (STCP), bank lines and collections. The Company secured an approval in 2013 for P15 Billion worth of STCP.

**ITEM 7. FINANCIAL STATEMENTS**

The financial statements of the Company included in the 2013 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 17-A.

***Information on Independent Accountant and Other Related Matters***

(1) External Audit Fees and Services

(a) Audit and Audit-Related Fees

	<u>2013</u>	(P000's) <u>2012</u>
The aggregate fees paid by the Company	P 888	P 610
Audit fee		

There were no other assurance and related services by the external auditor that are reasonably related to the performance of the audit or review of the registrant's financial statements.

(b) Tax fees

There were no professional services rendered by the external auditor for tax accounting, compliance, advice, planning and any other form of tax services in each of the last two fiscal years.

(c) All other fees

There were no other professional services rendered by the external auditors for each of the last two fiscal years other than item (a) above

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

The Board Audit Committee has the responsibility to select on the basis of fair and transparent tender process and recommended to the Board the appointment of an External Auditor. It reviews the audit coverage of the External Auditor 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.

**ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

In 2013, the auditing firm of Punongbayan & Araullo, CPAs (P&A) has been reappointed as the Company's Independent Public Accountant. 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.

### **PART III - CONTROL AND COMPENSATION INFORMATION**

#### **ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE ISSUER**

General Management and overall direction of the Company is being provided by the Board. The following are the eleven (11) members of the Board and corporate officers of the Company as of December 31, 2013.

##### **TERESITA T. SY**

CHAIRPERSON

63 YEARS OLD, FILIPINO

Ms. Teresita T. Sy was first elected Director of the Company in September 2005 and is currently the Chairman of the Executive Committee. She was first elected to the board of BDO Unibank, Inc.\* (BDO) 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 such as BDO Private Bank, BDO Capital & Investment Corporation, BDO Foundation, Inc., Generali Pilipinas Holding Company, Inc., Generali Pilipinas Life Assurance Company, Inc., and Generali Pilipinas Insurance Co. 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 such companies as Multi-Realty Development Corporation, Bellshare 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., Bellevue Properties, Inc., Forsyth Equity Holdings, Inc., HFS Corporation, Hotel Specialist (Tagaytay), Inc., Intercontinental Dev't. Corp., Kultura Stores, Inc., Marketwatch Investment Co., Inc., Meridien Business Leader, Inc., MH Holdings, Inc., Morrison Corporation, Premier Southern Corp., Romer Mercantile, SM Foundation, Inc., Sodexo Motivation Solutions Philippines, Inc., Sports Central Manila, Inc., Sunninghill Holdings, Inc., Sybase Equity Investments Corp., Syper Holdings, Inc., Sysmart Corporation, Tangiers Resources Corp., and West Avenues Theatres Corp. A graduate of Assumption College, she brings to the Board her varied expertise in banking & finance, retail merchandising, mall and real estate development. (\*PLC)

##### **ROBERTO E. LAPID**

VICE CHAIRMAN/OFFICER-IN-CHARGE

57 YEARS OLD, FILIPINO

Mr. Roberto E. Lapid was appointed as the Vice Chairman of the Company on December 1, 2010, and currently Officer-in-Charge. He is a member of the Executive Committee and Risk Management Committee. He is concurrently Officer-in-Charge/Director in a wholly-owned subsidiary, BDO Rental, Inc. He was formerly the President of the Company, BDO Rental, Inc. and 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.

##### **GEORGIANA A. GAMBOA (resigned effective February 1, 2014)**

DIRECTOR

57 YEARS OLD, FILIPINO

Ms. Georgiana A. Gamboa was appointed President of the Company on December 1, 2010 until her resignation effective February 1, 2014. She concurrently holds the position of Senior Vice President

of BDO Unibank, Inc. and President of BDO Rental, Inc. She was formerly connected with City Trust Banking Corporation for 16 years and the Bank of the Philippine Islands for 7 years. Her banking career spanned several functions including: Branch Manager – Consumer Banking Relationship Manager – Corporate Bank (where she grew from Assistant Manager to Vice President), and Remedial Management Head. Prior to joining the Company, she was the President of BPI Leasing Corporation, a subsidiary of Bank of the Philippine Islands for 7 years. She holds a Bachelor's Degree in Economics from De La Salle University where she finished Summa Cum Laude and received her Master of Arts in Economics from the University of the Philippines.

**JESSE H.T. ANDRES**

INDEPENDENT DIRECTOR

49 YEARS OLD, FILIPINO

Atty. Jesse H.T. Andres was elected as Independent Director of the Company 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. 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. 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. Atty. Andres holds a Bachelor of Arts Degree in Economics from the UP School of Economics and a Bachelor of Laws degree from the U.P. College of Law.

**ANTONIO N. COTOCO**

DIRECTOR

65 YEARS OLD, FILIPINO

Mr. Antonio N. Cotoco was elected to the Board of the Company on January 25, 2001 and a member of the Executive Committee, Corporate Governance Committee and Nomination Committee. He currently serves as Senior Executive Vice President and a member of the Board Credit Committee of BDO Unibank, Inc.\*, 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 BDO Rental, Inc. He has been involved in Investment Banking, Corporate Finance, Treasury, Consumer Banking, Credit, Business and Development & Account Management over the past 36 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. (\*PLC)

**MA. LEONORA V. DE JESUS**

INDEPENDENT DIRECTOR

63 YEARS OLD, FILIPINO

Ms. Ma. Leonora V. De Jesus was elected as Independent Director of the Company on May 12, 2008 and is presently the Chairperson of the Company's Board Audit Committee, and a member of the Nomination Committee and Corporate Governance Committee. 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 President/Director of ROAM, Inc. 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. 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, Masteral and Doctoral degrees in Psychology from the University of the Philippines. (\*PLC)

**LUIS S. REYES JR.**

DIRECTOR

56 YEARS OLD, FILIPINO

Mr. Luis S. Reyes, Jr. was elected as Director of Company on April 18, 2012 and appointed as Officer-In-Charge - Treasurer of the Company on January 29, 2014, with effect on February 16, 2014 (subject to the clearance and/or approval of the Bangko Sentral ng Pilipinas). \* He is Senior Vice President for Investor Relations and Corporate Planning of BDO Unibank, Inc.\* He is also the Officer-in-Charge of BDO Leasing – Treasury Department, and Director and Treasurer (subject to the clearance and/or approval of the Bangko Sentral ng Pilipinas) of BDO Rental. He is currently a 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 Unibank. (\*PLC)

**NESTOR V. TAN**

DIRECTOR

56 YEARS OLD, FILIPINO

Mr. Nestor V. Tan was elected Director of the Company on January 23, 2007 and presently Chairman of the Risk Management Committee and a member of the Executive Committee. He was elected President of BDO Unibank, Inc. in July 1998. He also concurrently holds vice chairmanships and/or directorships in the following subsidiaries of BDO Unibank, Inc.\*, BDO Capital & Investment Corporation, BDO Insurance Brokers, Inc., BDO Private Bank, Inc., BDO Remit (USA), Inc. Generali Pilipinas Life Assurance Company, Inc., Generali Pilipinas Insurance Co., and SM Keppel Land, Inc. He also concurrently holds the Chairmanship of BDO Strategic Holdings Inc. and Megalink, Inc. He is a Trustee of BDO Foundation, Inc., Pinoy Me Foundation, De La Salle University Board of Advisors, Asian Institute of Management and Philippine Business for Education. He is also the director of the Asian School of Business & Technology, and Bankers Association of the Philippines. Mr. Tan had a 15-year banking career 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 the Bank, 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. (\*PLC)

**JESUS G. TIRONA**

INDEPENDENT DIRECTOR

73 YEARS OLD, FILIPINO

Mr. Jesus G. Tirona has been elected Independent Director to the Board of the Company since July 30, 2007 and is currently a member of its Board Audit Committee and Chairman of the Corporate Governance Committee. He was designated as Lead Director last December 11, 2013. He is an Independent Director of BDO Capital & Investment Corp. 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 holds a Bachelor of Arts degree from Ateneo de Manila University and earned his Masters in Business Administration degree from George Washington University. 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

68 YEARS OLD, FILIPINO

Mr. Exequiel P. Villacorta, Jr. was elected Director of the Company on May 24, 2006. He was previously a 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 BDO Unibank, Inc. 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. He holds a Business Administration degree from De La Salle University and a Masters on Business Management degree (dean's list and recipient of two (2) scholarship grants) from Asian Institute of Management.

**WALTER C. WASSMER**

DIRECTOR

56 YEARS OLD, FILIPINO

Mr. Walter C. Wassmer was elected Director of the Company on November 17, 1999 and a member of the Executive Committee. He is the Senior Executive Vice President and Head of the BDO Unibank, Inc.'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\*. He is also the President of L.P. Wassmer Trading, Inc. and Treasurer of WT & T, Inc. He holds a bachelor's degree in Commerce-Management of Financial Institutions from De La Salle University. (\*PLC)

**JOSEPH JASON M. NATIVIDAD**

CORPORATE SECRETARY

41 YEARS OLD, FILIPINO

Atty. Joseph Jason M. Natividad was appointed Corporate Secretary of the Company 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 BDO Rental, Inc. and the Agility Group of Companies in the Philippines. He has been in law practice for fifteen (15) 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

59 YEARS OLD, FILIPINO

Atty. Angelita L. Ortega-Cortez was appointed Assistant Corporate Secretary of the Company on April 17, 2013. She is concurrently the Senior Vice President and Assistant Corporate Secretary of BDO Unibank, Inc. 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 earned law degree at the University of the Philippines. She is a member of Pi Gamma Mu Honor Society and Order of the Purple Feather (Honor Society of the UP College of Law).

***Independent Directors***

The Company has three (3) independent directors namely: Atty. Jesse H.T. Andres, Mr. Jesus G. Tirona and Ms. Ma. Leonora V. De Jesus.

***Executive Officers:***

The Board of Directors is assisted in its tasks by the following, which make up the senior management of the Company. The following are the executive officers of BDO Leasing and Finance, Inc. as of December 31, 2013.

**GEORGIANA A. GAMBOA (resigned effective February 1, 2014)**

DIRECTOR

57 YEARS OLD, FILIPINO

Ms. Georgiana A. Gamboa was appointed President of the Company on December 1, 2010 until her resignation effective February 1, 2014. She concurrently holds the position of Senior Vice President of BDO Unibank, Inc. and President of BDO Rental, Inc. She was formerly connected with City Trust Banking Corporation for 16 years and the Bank of the Philippine Islands for 7 years. Her banking career spanned several functions including: Branch Manager – Consumer Banking Relationship Manager – Corporate Bank (where she grew from Assistant Manager to Vice President), and Remedial Management Head. Prior to joining BDOLF, she was the President of BPI Leasing Corporation, a subsidiary of Bank of the Philippine Islands for 7 years. She holds a Bachelor's Degree in Economics from De La Salle University where she finished Summa Cum Laude and received her Master of Arts in Economics from the University of the Philippines.

**GERARD M. AGUIRRE**

FIRST VICE-PRESIDENT

58 YEARS OLD, FILIPINO

Mr. Gerard M. Aguirre is currently the First Vice President of the Company. He is responsible for the leasing and loan portfolio in the Luzon and Visayas/Mindanao provincial divisions. He handles eight (8) BDOLF branches with a complement of more than sixty (60) 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.

**RENATO G. OÑATE (resigned effective February 16, 2014)**

FIRST VICE-PRESIDENT/TREASURER

51 YEARS OLD, FILIPINO

Mr. Renato G. Oñate served as First Vice President of the Company until his resignation effective February 16, 2014. As First Vice President, he was responsible for the financial liquidity of the company, including treasury and cost management. He also oversees HR-Admin, I.T. and Special Projects, Marketing Communications and Marketing Support. He was a Director of BDO Rental, Inc. He was the Head of Funds Management Group of PCI Capital Corp. before joining the Company. Mr. Oñate graduated from Philippine Airforce College of Aeronautics with a degree in Aircraft Maintenance Engineering and has taken up MBA units from the Ateneo Graduate School of Business.

**RODOLFO M. CARLOS JR. (transferred to BDO Unibank effective end of January 31, 2014)**

VICE-PRESIDENT/CHIEF RISK AND COMPLIANCE OFFICER

48 YEARS OLD, FILIPINO

Mr. Rodolfo M. Carlos Jr. was appointed as the Chief Risk Officer of BDO Leasing and Finance, Inc. on October 5, 2011 and as the Compliance Officer on October 3, 2012 and served in such capacities until his transfer to the Parent Company effective end of January 31, 2014. He was formerly a Credit Risk Control Team Head of the Risk Management Group of BDO Unibank, Inc. He is a Certified Public Accountant and graduated Cum Laude from the Polytechnic University of the Philippines.

***Board and Senior Management Performance***

The Board, through the Corporate Governance Committee undertakes the evaluation of its performance as a collective body, its committees and senior management to determine whether they are functioning effectively, pinpoints areas for improvement and ensures that the President is providing effective leadership to the Company.

The assessment criteria used cover, among others, the areas of leadership, stewardship, review and approval of strategic and operational plans, annual budgets, focus on strategic and long-term issues, monitoring of financial performance, management succession planning, integrity of financial reporting, review of the Company's ethical conduct, defining of roles and monitoring activities of committees.

It also conducts the Director peer evaluation survey to encourage improved performance and effectiveness of directors by identifying areas that need improvement. Each director is requested to rate their colleagues on the Board using the prescribed rating scale and questions. The assessment criteria used include, among others, the director's understanding of the Company's strategy and vision, organizational structure and culture, business and regulatory environments, responsibilities as Directors, accountability for his/her boardroom actions, contribution to board discussions, independent thinking, strategic insights and direction, active participation in committee meetings, financial literacy, time and commitment to board and committee duties, and finally, his/her overall contribution to the functioning of the Board.

Survey questionnaires were sent to all members of the Board including Advisers. Upon submission of accomplished forms, the Corporate Governance Officer tabulates the responses and prepares the final report to the Corporate Governance Committee. In turn, the Committee reviews and approves the report and submits to the Board for appropriate action. The Board then issues a resolution noting the results of the evaluation and recommendations stated in the final report.

***Significant Employee***

There is no person, other than the executive officers, who is expected by the Company to make

significant contribution to the business.

### ***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.

### ***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 other 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 of 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, or any of its director or executive officer occurring within the past five (5) years up to 28 February 2014.

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 director or executive officer, has violated a securities or commodities law.

## **ITEM 10. EXECUTIVE COMPENSATION**

### ***Disclosure and Transparency***

The Company recognizes the need to report material information in a complete, accurate and timely manner thru easily accessible medium of communications. Significant items that are disclosed include the following:

#### ***A. Executive Compensation Policy***

It is the objective of the Company to attract, motivate and retain high-performing executives necessary to maintain its leadership position in the industry. To be competitive in the marketplace, the Company offers a remuneration package composed of fixed salary, benefits and long-term incentives.

#### ***Named Group***

<b><i>Name and Principal Position ( CEO &amp; Executive Officers)</i></b>	<b><i>Year</i></b>	<b><i>Salary</i></b>	<b><i>Bonuses</i></b>	<b><i>Other Annual Compensation</i></b>
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The President and four most highly compensated executive officers				
<b>2012:</b> Georgiana A. Gamboa (President) Gerard M. Aguirre (First Vice President) Renato G. Oñate (First Vice President) Rosalisa K. Alindahao (Vice President) Jennifer F. So (Vice President)				
<b>2013:</b> Georgiana A. Gamboa (President) Gerard M. Aguirre (First Vice President) Renato G. Oñate (First Vice President) Rosalisa K. Alindahao (Vice President) Jennifer F. So (Vice President)				
<b>TOTAL SALARY</b>				
	2012	Php 16,240,532	Php 8,266,781	n.a
	2013	17,317,125	9,141,000	n.a
	2014*	19,048,837	10,055,100	n.a

\* Estimated amount for 2014

The above compensation includes the usual bonus paid to company officers. Except for salaries, allowances, retirement benefits provided under the Parent Banks's retirement plan, and company-wide benefit extended to all qualified employees under the Parent Bank's stock option plan, there is no separate stock option, stock warrant or other security compensation arrangement between the Company and its individual officers.

#### **Unnamed Group**

	<i>Year</i>	<i>Salary</i>	<i>Bonus</i>	<i>Other Annual Compensation</i>
<b>Directors and all other Officers as a group Unnamed</b>	2012	Php 72,665,954	Php 18,846,511	n.a
	2013	77,329,191	19,355,430	n.a
	2014*	85,062,110	21,290,973	n.a

#### **B. Compensation of Directors**

Each director shall receive a per diem allowance of P10,000 for attending board meetings and P5,000 for committee meetings. There is no distinction on the fee for a Committee Chairman and member. In view of possible security risks, the Company opted to disclose these on aggregate basis as a group. Other than these fees, the non-executive directors do not receive any share options, profit sharing, bonus or other forms of emoluments.

There were no other arrangements, including consulting contracts, pursuant to which any director of the Company was compensated, or is to be compensated; no employment contracts and termination of employment and change-in-control arrangements; no employment contract between the Company and a named executive officer; and no compensatory plan or arrangement, including payments to be received from the Company, with respect to a named executive officer.

**C. Outstanding warrants or options held by the Company's CEO, executive officers, and all officers and directors as a group.**

There are no outstanding warrants or options held by the Company's chief executive officer, executive officers, and all officers and directors as a group.

**D. Any repricing of warrants or options held by such officers or directors in the last completed fiscal year, as well as the basis for each such repricing.**

There are no outstanding warrants or options held by the Company's chief executive officer, executive officers, and all officers and directors as a group.

**ITEM 11. SECURITY OWNERSHIP OF CERTAIN RECORD AND BENEFICIAL OWNERS AND MANAGEMENT**

**Security Ownership of Certain Record/Beneficial Owners**

As of December 31, 2013, the Company is 85% owned by the Parent Company and the remaining 15% is owned by various stockholders with only one stockholder having a 5% holding of the outstanding capital stock as of said date.

<b>Title of Class</b>	<b>Name, address of record owner and relationship with issuer</b>	<b>Name of Beneficial Owner and Relationship with Record Owner</b>	<b>Citizenship</b>	<b>Number of Shares Held</b>	<b>Percentage</b>
Common	BDO Unibank Inc. (formerly <i>Banco De Oro Unibank, Inc.</i> ) BDO Corporate Center, 7899 Makati Avenue, Makati City  <i>BDO Unibank, Inc. is the parent company</i>	**	Filipino	1,840,116,632	85.09 %
Common	PCD Nominee Corp G/F Makati Stock Exchange Building, 6767 Ayala Ave., Makati City  <i>PCD Nominee has no relationship with the issuer except as stockholder</i>	No stockholder owns more than 5% of the company's voting securities	Filipino  Foreign	230,937,752  1,547,978	10.68 %  0.72%

**Security Ownership of Management**

As of December 31, 2013, the following are the securities beneficially owned by directors and executive officers of the Company.

**Directors:**

<b>Title of Class</b>	<b>Name of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Citizenship</b>	<b>Percent of Class</b>
Common	Teresita T. Sy Chairperson	100 (R)	Filipino	0.0000046%
Common	Roberto E. Lapid Vice Chairman	100 (R)	Filipino	0.0000046%
Common	Georgiana A. Gamboa 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	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%
	<b>Total</b>	1,115		0.0000513%

**Officers:**

<b>Title of Class</b>	<b>Name of Beneficial Owner</b>	<b>Amount and nature of beneficial ownership</b>	<b>Citizenship</b>	<b>Percent of Class</b>
Common	Teresita T. Sy Chairperson	100 (R)	Filipino	0.0000046%
Common	Roberto E. Lapid Vice Chairman	100 (R)	Filipino	0.0000046%
Common	Georgiana A. Gamboa President	100 (R)	Filipino	0.0000046%
Common	Rosario C. Crisostomo Vice President	106,260 (R)	Filipino	0.0049138%
	<b>Total</b>	1,115		0.0049276%

**ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

- 1) In the ordinary course of business, the Group enters into transactions with BDO 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 related parties include BDO, 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 2013, 2012 and 2011 are as follows:



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

<u>Related Party Category</u>	<u>Notes</u>	<u>Outstanding Balance</u>	
		<u>2013</u>	<u>2012</u>
<b>Parent Company (BDO Unibank)</b>			
Savings and demand deposits	(a)	P 119.2	P 52.7
Bills payable	(b)	6,119.8	6,731.7
<b>Key Management personnel</b>			
Advances Employees	(b)	2.2	1.6
<b>Retirement benefit fund</b>			
Loans to officers and employees	(b)	3.4	3.4
Loans to members and beneficiaries	(b)	2.4	2.4
Shares of stock	(i)	0.9	0.9

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

▲ The Group obtains short-term, unsecured bills payable from BDO. The amount outstanding from

borrowings as of December 31, 2013 and 2012 is presented under Bills Payable account in the statements of financial position. Interest expense incurred on these bills payable in 2013, 2012 and 2011 is included under Interest and financing charges account as part of Operating Costs and Expenses account in the statements of comprehensive 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, 2013 and 2012. Total interest income earned by the Company on these loans in 2013, 2012 and 2011 is included under Interest and Discounts as part of Revenues in the statements of comprehensive income.

- ▲ 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 Parent 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 comprehensive income. There are no outstanding inter-company payable and receivable from this transaction as of December 31, 2013 and 2012.
- ▲ The Company leases its head office premises and certain branch offices from BDO 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. Related rent expense incurred in 2013, 2012 and 2011 is presented as part of Occupancy and equipment-related expenses under Operating Costs and Expenses account in the statements of comprehensive 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 2013 and 2012 is presented as part of Other Income in the statements of comprehensive income. There are no outstanding receivable and payable on these transactions as of the end of 2013 and 2012.
- ▲ In 2013, the Company entered into a service level agreement with BDO wherein BDO will charge the Company for certain management services that the former provides to the latter. Management fees paid by the Company to BDO is shown as part of Other Operating Costs and Expenses in the statement of comprehensive 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 2012 statement of comprehensive income of the Company. There are no outstanding receivable and payable on these transactions as of the end of 2013.
- ▲ 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 Parent 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 comprehensive income. There is no outstanding payable related on this transaction as of the end of 2013 and 2012.
- ▲ 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 the 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.

- ▲ The Group maintains a retirement benefit fund with BDO 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.
- ▲ 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, 2013 and 2012
- 2) The Company, to finance its lending requirements, borrows funds from BDO at prevailing market rates. As of end of December 31, 2013, there were no dollar borrowings. The Company's credit line with BDO stood at P7.00 billion for the year December 31, 2013 and P7.00 billion for the year ended December 31, 2012 and P3.40 billion for December 31, 2011
- 3) The Company and its two (2) branches maintain current and savings accounts with the Parent Company. Current accounts are non-interest earning while savings accounts earned interest of 0.25% per annum.
- 4) The Company, who is in need of IT services to operate its systems, entered into a Service level Agreement with BDO, who has the IT facilities and technical competence to develop, maintain, and modify IT application software and to direct, supervise, and run the operating system software. IT is also included in our approved SLA which we will pay 200T monthly inclusive of all services extended to us by the Bank.

BDO shall provide the Company with the following IT services:

Business Continuity Center and telecommunication infrastructure maintenance which includes email and network connectivity of BDO Leasing - Head Office and its branches/marketing desks with BDO, internet connectivity, transmission line security and authentication (firewall encryption/ decryption facilities, etc.), training of BDO Leasing IT personnel; IT voice and data network design, planning, project management and project implementation assistance; server administration and maintenance; system/application development and maintenance; IT product evaluation and vendor selection.

- 5) Loans to officers NIL as of December 31, 2013.

#### **PART IV - EXHIBITS AND SCHEDULES**

##### **ITEM 13. EXHIBITS AND SCHEDULES ON SEC FORM 17-C**

##### **Reports on SEC Form 17-C**

Below is a summary of the various disclosures reported by the Company under SEC Form 17-C for 2013 .

Date Reported	Items Reported
January 30, 2013	<b><u>Item 9. Setting of 2013 Annual Stockholders' Meeting</u></b>

Date Reported	Items Reported																								
	<p>At its meeting held on January 30, 2013 the Board resolved to set: the Annual Stockholders' Meeting of the Company for 2013 on April 17, 2013, with record date of March 1, 2013.</p>																								
<p><b>April 17, 2013</b></p>	<p><b><u>Item 9. Declaration of Cash Dividends</u></b></p> <p>The Board, at its regular meeting held on April 17, 2013, approved the declaration of cash dividends in the amount of Php0.15 per share to be paid to all stockholders of record as of May 17, 2013, and payable on June 13, 2013.</p> <p><b><u>Item 4.</u></b></p> <p><b>A. Election of Directors</b></p> <p>At its annual stockholders' meeting held on April 17, 2013, the following were elected directors for the year 2013-2014:</p> <p><b>Regular Directors:</b></p> <table data-bbox="565 772 1144 894"> <tr> <td>Antonio N. Cotoco</td> <td>Teresita T. Sy</td> </tr> <tr> <td>Georgiana A. Gamboa</td> <td>Nestor V. Tan</td> </tr> <tr> <td>Roberto E. Lapid</td> <td>Exequiel P. Villacorta Jr.</td> </tr> <tr> <td>Luis S. Reyes Jr.</td> <td>Walter C. Wassmer</td> </tr> </table> <p><b>Independent Directors:</b></p> <p>Jesse H.T. Ancres Ma. Leonora V. De Jesus Jesus G. Tirona</p> <p><b>B. Appointment of Corporate Officers</b></p> <p>At the organizational meeting held on the same date, the following were appointed as Corporate Officers of the Company for the year 2013-2014:</p> <table data-bbox="565 1220 1422 1535"> <tr> <td>Teresita T. Sy</td> <td>Chairperson</td> </tr> <tr> <td>Roberto E. Lapid</td> <td>Vice Chairman</td> </tr> <tr> <td>Georgiana A. Gamboa</td> <td>President</td> </tr> <tr> <td>Joseph Jason M. Natividad</td> <td>Corporate Secretary/Officer-In-Charge (for regulatory disclosures)</td> </tr> <tr> <td>Angelita O. Cortez</td> <td>Assistant Corporate Secretary/Officer-In-Charge (for regulatory disclosures)</td> </tr> <tr> <td>Elmer B. Serrano</td> <td>Corporate Information Officer</td> </tr> <tr> <td>Renato G. Oñate</td> <td>Treasurer</td> </tr> <tr> <td>Rodolfo M. Carlos Jr</td> <td>Chief Risk Officer &amp; Compliance Officer</td> </tr> </table> <p><b><u>Item 3. Appointment of External Auditor</u></b></p> <p>The Accountancy and Auditing Firm of Punongbayan &amp; Araullo, CPAs, was re-appointed as external auditor of the Company for 2013.</p> <p><b><u>Item 9. Composition of Board Committees</u></b></p> <p>At the organizational meeting of the Board held on April 17, 2013, the following were appointed:</p>	Antonio N. Cotoco	Teresita T. Sy	Georgiana A. Gamboa	Nestor V. Tan	Roberto E. Lapid	Exequiel P. Villacorta Jr.	Luis S. Reyes Jr.	Walter C. Wassmer	Teresita T. Sy	Chairperson	Roberto E. Lapid	Vice Chairman	Georgiana A. Gamboa	President	Joseph Jason M. Natividad	Corporate Secretary/Officer-In-Charge (for regulatory disclosures)	Angelita O. Cortez	Assistant Corporate Secretary/Officer-In-Charge (for regulatory disclosures)	Elmer B. Serrano	Corporate Information Officer	Renato G. Oñate	Treasurer	Rodolfo M. Carlos Jr	Chief Risk Officer & Compliance Officer
Antonio N. Cotoco	Teresita T. Sy																								
Georgiana A. Gamboa	Nestor V. Tan																								
Roberto E. Lapid	Exequiel P. Villacorta Jr.																								
Luis S. Reyes Jr.	Walter C. Wassmer																								
Teresita T. Sy	Chairperson																								
Roberto E. Lapid	Vice Chairman																								
Georgiana A. Gamboa	President																								
Joseph Jason M. Natividad	Corporate Secretary/Officer-In-Charge (for regulatory disclosures)																								
Angelita O. Cortez	Assistant Corporate Secretary/Officer-In-Charge (for regulatory disclosures)																								
Elmer B. Serrano	Corporate Information Officer																								
Renato G. Oñate	Treasurer																								
Rodolfo M. Carlos Jr	Chief Risk Officer & Compliance Officer																								


Date Reported	Items Reported
	<p><b>Adviser to the Board</b> Antonio A. Her:son Jeci A. Lapus Edmundo L. Tan</p> <p><b><u>Executive Committee</u></b> 1.Teresita T. Sy                      Chairperson 2.Antonio N. Cotoco                  Vice Chairman 3.Georgiana A. Gamboa              Member 4.Roberto E. Lapid                    Member 5.Nestor V. Tan                        Member 6.Walter C. Wassmer                Member</p> <p><b><u>Board Audit Committee</u></b> 1.Ma. Leonora V. De Jesus          Chairperson/Independent Director 2.Jesse H.T. Andres                  Member/Independent Director 3.Jesus G. Tirona                      Member/Independent Director</p> <p><b><u>Corporate Governance</u></b> 1.Jesus G. Tirona                      Chairman/Independent Director 2.Jesse H. T. Ar.dres                  Member/Independent Director 3.Antonio N. Cotoco                  Member 4.Ma. Leonora V. De Jesus          Member/Independent Director</p> <p><b><u>Nomination Committee</u></b> 1.Jesse H.T. Andres                  Chairman/Independent Director 2.Antonio N. Cotoco                  Member 3. Ma. Leonora V. De Jesus          Member/Independent Director</p> <p><b><u>Risk Management Committee</u></b> 1.Nestor V. Tan                        Chairman 2.Antonio N. Cotoco                  Member 3.Georgiana A. Gamboa              Member 4.Roberto E. Lapid                    Member</p>
<p><b>May 29, 2013</b></p>	<p><b><u>Item 9.</u></b> In Compliance with SEC Memo Circular No.4 Series of 2012, BDO Leasing and Finance, Inc. hereby discloses the following:</p> <ul style="list-style-type: none"> <li>▲ That the Board Audit Committee (BAC) of BDO Leasing and Finance, Inc. (BDOLF) has a charter, its Terms of Reference.</li> <li>▲ That in adopting best practices, the BAC of BDOLF conducted during the first quarter of 2013 a self-assessment for its 2012 performance. The performances of units covered by the oversight function of the BAC were likewise evaluated. These assessments were administered using BDOLF's standard evaluation form. The Summary of Result is hereby attached.</li> <li>▲ The results of the self-assessment conducted by the BAC had been validated by the Corporate Governance Committee of BDOLF</li> </ul>

**SIGNATURES**

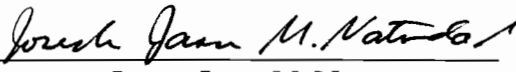
Pursuant to the requirements of Section 17 of the RSA and Section 141 of the Corporation Code, this is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of \_\_\_\_\_ on \_\_\_\_\_ 2014.

By:

  
 \_\_\_\_\_  
**ROBERTO E. LAPID**  
 VICE-CHAIRMAN/OFFICER-IN-CHARGE

  
 \_\_\_\_\_  
**LUIS S. REYES JR.**  
 OFFICER-IN-CHARGE, TREASURY


  
 \_\_\_\_\_  
**ROSALISA B. KAPUNO**  
 VICE PRESIDENT, COMPTROLLER

  
 \_\_\_\_\_  
**JOSEPH JASON M. NATIVIDAD**  
 CORPORATE SECRETARY

APR 15 2014

**SUBSCRIBED AND SWORN** to before me this \_\_\_\_\_ day of \_\_\_\_\_, 2014 affiant(s) exhibiting to me their Competent Evidence of Identity, as follows:

NAMES	TIN	SSS No.
Roberto E. Lapid	108-159-915	03-5034078-2
Luis S. Reyes Jr.	115-322-321	03-4282031-7
Joseph Jason M. Natividad	908-730-009	33-6273422-8
Rosalisa K. Alindahao	177-688-317	03-5894505-3

  
 ATTORNEY AT LAW / NOTARY PUBLIC  
 UNTIL OCTOBER 31, 2014  
 PTR NO. 2413-05 / 2014 MLA  
 IBP NO. 842503 / 2014 MLA  
 ROLL NO. 24355 / TIN NO. 144-519-006  
 MCLE III - 0013521  
 COMMISSION NO. 2013-023

Doc. No. 432  
 Page No. 40  
 Book No. 259  
 Series of 2014.

**STATEMENT OF  
MANAGEMENT'S  
RESPONSIBILITY**

# COVER SHEET

9 7 8 6 9  
S.E.C. Registration Number

B D O L E A S I N G A N D F I N A N C E , I N C .

(Company's Full Name)

B D O L e a s i n g C e n t e r

C o r i n t h i a n G a r d e n s O r t i g a s

A v e . , Q u e z o n C i t y

(Business Address: No. Street/ City/ Town/ Province)

Elmer B. Serrano

Contact Person

687-1195

Company Telephone Number

1 2

Month

3 1

Day

Fiscal Year

AUDITED FINANCIAL  
STATEMENTS

FORM TYPE

Any date in  
April

Month Day

Annual Meeting

Secondary License Type, If Applicable

C F D

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

File Number

Document I.D.

STAMPS



**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, 2013, 2012 and 2011, 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, 2013;
- d. Schedule of Financial Indicators for December 31, 2013 and 2012;
- e. Map Showing the Relationship Between and Among the Company and its Related Entities;

Management responsibility on the financial statements include designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate 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  
Vice Chairman/Officer In Charge

Signature:   
ROSALISA B. KAPUNO  
Comptroller

Signed this 10<sup>th</sup> day of March 2014.

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

**NAMES**

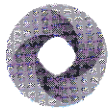
**SSS NUMBER**

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

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

DOC. NO. 777  
PAGE NO. 78  
BOOK NO. 79  
SERIES OF 74

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UNTIL  
PTR NO.  
IBP NO.  
ROLL NO.  
M. E. G. G. G.  
COMMISSION NO. 10



# 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](http://www.punongbayan-araullo.com)

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

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

### *Management's Responsibility for the Financial Statements*

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

*Auditors' Responsibility*

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

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

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

*Opinion*

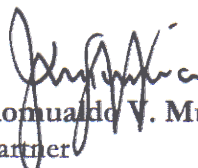
In our opinion, the financial statements present fairly, in all material respects, the financial position of BDO Leasing and Finance, Inc. and subsidiary and of BDO Leasing and Finance, Inc. as at December 31, 2013, 2012 and 2011, and their financial performance and their cash flows for the years then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



*Emphasis of Matter*

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

**PUNONGBAYAN & ARAULLO**

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

CPA Reg. No. 0095626  
TIN 906-174-059  
PTR No. 3671457, January 2, 2013, Makati City  
SEC Group A Accreditation  
Partner - No. 0628-AR-2 (until Sept. 5, 2016)  
Firm - No. 0002-FR-3 (until Jan. 18, 2015)  
BIR AN 08-002511-22-2011 (until Feb. 3, 2014)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

February 26, 2014

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2013, 2012 AND 2011**  
*(Amounts in Millions of Philippine Pesos)*

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

*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, 2013, 2012 AND 2011**  
*(Amounts in Millions of Philippine Pesos, Except Per Share Data)*

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

*See Notes to Financial Statements.*

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011**  
*(Amounts in Millions of Philippine Pesos)*

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

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

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

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

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

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

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

*See Notes to Financial Statements.*

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013, 2012 AND 2011**  
*(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 (“Ultimate Parent Company”), a universal bank incorporated and doing business in the Philippines. BDO Unibank offers a wide range of banking services such as traditional loan and deposit products, as well as treasury, remittance, trade services, credit card services, trust and others.

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

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

***1.02 Approval of Financial Statements***

The accompanying financial statements of BDO Leasing and Subsidiary (the “Group”) and of the Parent Company as of and for the year ended December 31, 2013 (including the comparatives as of and for the years ended December 31, 2012 and 2011) were authorized for issue by the Board of Directors (BOD) on February 26, 2014.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### ***2.01 Basis of Preparation of Financial Statements***

#### *(a) Statement of Compliance with Philippine Financial Reporting Standards*

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

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

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

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

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

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

#### *(c) Functional and Presentation Currency*

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

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

## 2.02 Adoption of New and Amended PFRS

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

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

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

Discussed below are the relevant information about these amended standards.

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

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

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

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

**Group**

	December 31, 2012		
	As Previously Reported	Effect of Adoption of PAS 19	As Restated
<i>Change in asset and liability:</i>			
Retirement benefit asset*	P 61.9	(P 61.2)	P 0.7
Deferred tax liability	( 28.7)	<u>15.7</u>	( 13.0)
Net decrease in equity		<u>(P 45.5)</u>	
<i>Changes in components of equity:</i>			
Accumulated actuarial losses – net of tax	P -	(P 57.1)	(P 57.1)
Retained earnings	1,878.7	<u>11.6</u>	1,890.3
Net decrease in equity		<u>(P 45.5)</u>	
	December 31, 2011		
	As Previously Reported	Effect of Adoption of PAS 19	As Restated
<i>Change in asset and liability:</i>			
Retirement benefit obligation	(P 2.7)	(P 66.9)	(P 69.6)
Deferred tax liability	( 82.5)	<u>20.1</u>	( 62.4)
Net decrease in equity		<u>(P 46.8)</u>	
<i>Changes in components of equity:</i>			
Accumulated actuarial losses – net of tax	P -	(P 50.0)	(P 50.0)
Retained earnings	1,584.5	<u>3.2</u>	1,587.7
Net decrease in equity		<u>(P 46.8)</u>	

\* included as part of Other Assets – net account

**Parent Company**

	December 31, 2012		
	As Previously Reported	Effect of Adoption of PAS 19	As Restated
<i>Change in asset and liability:</i>			
Retirement benefit asset*	P 61.9	(P 61.2)	P 0.7
Deferred tax liability	( 28.6)	<u>15.7</u>	( 12.9)
Net decrease in equity		<u>(P 45.5)</u>	
<i>Changes in components of equity:</i>			
Accumulated actuarial losses – net of tax	P -	(P 57.1)	(P 57.1)
Retained earnings	1,707.1	<u>11.6</u>	1,718.7
Net decrease in equity		<u>(P 45.5)</u>	
December 31, 2011			
	As Previously Reported	Effect of Adoption of PAS 19	As Restated
<i>Change in asset and liability:</i>			
Retirement benefit obligation	(P 2.7)	(P 66.9)	(P 69.6)
Deferred tax liability	( 89.7)	<u>20.1</u>	( 69.6)
Net decrease in equity		<u>(P 46.8)</u>	
<i>Changes in components of equity:</i>			
Accumulated actuarial losses – net of tax	P -	(P 50.0)	(P 50.0)
Retained earnings	1,451.8	<u>3.2</u>	1,455.0
Net decrease in equity		<u>(P 46.8)</u>	

\* included as part of Other Assets – net account

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

**Group**

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



**Group**

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

**Parent Company**

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

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

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

**Group**

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

**Group**

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

**Parent Company**

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

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

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

(iv) Consolidation, Associates and Disclosures

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

- PFRS 10 changes the definition of control focusing on three elements which determines whether the investor has control over the investee such as the (a) power over the investee, (b) exposure or rights to variable returns from involvement with the investee, and, (c) ability to use such power to affect the returns. This standard also provides additional guidance to assist in determining controls when this is difficult to assess, particularly in situation where an investor that owns less than 50% of the voting rights in an investee may demonstrate control to the latter.
- PFRS 12 integrates and makes consistent the disclosure requirements for entities that have interest in subsidiaries, joint arrangements, associates, special purpose entities and unconsolidated structured entities. In general, this requires more extensive disclosures about the risks to which an entity is exposed from its involvement with structured entities.
- PAS 27 (Amendment), *Separate Financial Statements*. This amended standard now covers the requirements pertaining solely to separate financial statements after the relevant discussions on control and consolidated financial statements have been transferred and included in PFRS 10.
- PAS 27 (Revised) deals with the requirements pertaining solely to separate financial statements while PAS 28 (revised) includes the requirements for joint ventures, as well as for associates, to be accounted for using the equity method.

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

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

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

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

- (vi) PAS 34 (Amendment), *Interim Financial Reporting and Segment Information for Total Assets and Liabilities* (effective from January 1, 2013). This standard clarifies the requirements on segment information for total resources and liabilities for each reportable segment to enhance consistency with the requirements in paragraph 23 of IFRS 8, *Operating Segments*. It also clarifies that the total resources and liabilities for a particular reportable segment are required to be disclosed if, and only if: (a) a measure of total resources or of total liabilities (or both) is regularly provided to the chief operating decision maker; and, (b) there has been a material change from those measures disclosed in the last annual financial statements for that reportable segment. The adoption of this amendment did not have an effect on the Group's financial statements as the form and content of these complete set of financial statements conform to the requirements of PAS 34.
- (vii) 2009-2011 Annual Improvements to PFRS. Annual improvement to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS. Among those improvements, the following are relevant to the Group.
  - (a) PAS 1 (Amendment), *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information*. The amendment clarifies that a statement of financial position as at the beginning of the preceding period (third statement of financial position) is required when an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the third statement of financial position. The amendment specifies that other than disclosure of certain specified information in accordance with PAS 8, related notes to the third statement of financial position are not required to be presented.

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

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

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

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

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

(c) *Effective Subsequent to 2013 but not Adopted Early*

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

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

- (ii) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2014). The amendment clarifies that the requirements for the disclosure of information about the recoverable amount of assets or cash-generating units is limited only to the recoverable amount of impaired assets that is based on fair value less cost of disposal. It also introduces an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount based on fair value less cost of disposal is determined using a present value technique. The Group does not expect this amendment to have a significant impact on its financial statements since there are no significant items of financial assets and liabilities that are offset.
- (iii) PAS 36 (Amendment), *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets* (effective from January 1, 2014). The amendment clarifies that the requirements for the disclosure of information about the recoverable amount of assets or cash-generating units is limited only to the recoverable amount of impaired assets that is based on fair value less cost of disposal. It also introduces an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount based on fair value less cost of disposal is determined using a present value technique. Management will reflect in its subsequent years' financial statements the changes arising from this relief on disclosure requirements, if the impact of the amendment will be applicable.
- (iv) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting* (effective from January 1, 2014). The amendment provides some relief from the requirements on hedge accounting by allowing entities to continue the use of hedge accounting when a derivative is novated to a clearing counterparty resulting in termination or expiration of the original hedging instrument as a consequence of laws and regulations, or the introduction thereof. As the Group neither enters into transactions involving derivative instruments nor it applies hedge accounting, the amendment will not have an impact on the financial statements.
- (v) PFRS 9, *Financial Instruments: Classification and Measurement*. This is the first part of a new standard on financial instruments that will replace PAS 39, *Financial Instruments: Recognition and Measurement*, in its entirety. The first phase of the standard was issued in November 2009 and October 2010 and contains new requirements and guidance for the classification, measurement and recognition of financial assets and financial liabilities. It requires financial assets to be classified into two measurement categories: amortized cost or fair value. Debt instruments that are held within a business model whose objective is to collect the contractual cash flows that represent solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other debt instruments and equity instruments are measured at fair value. In addition, PFRS 9 allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

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

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

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

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

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

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

*Annual Improvements to PFRS (2010-2012 Cycle)*

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

- (b) PAS 24 (Amendment), *Related Party Disclosures*. The amendment clarifies that entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also requires and clarifies that the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity should be disclosed in the financial statements, and not the amounts of compensation paid or payable by the key management entity to its employees or directors.
- (c) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment, through a revision only in the basis of conclusion of PFRS 13, clarifies that issuing PFRS 13 and amending certain provisions of PFRS 9 and PAS 39 related to discounting of financial instruments, did not remove the ability to measure short-term receivables and payables with no stated interest rate on an undiscounted basis, when the effect of not discounting is immaterial.

*Annual Improvements to PFRS (2011-2013 Cycle)*

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

**2.03 Basis of Consolidation and Investment in a Subsidiary**

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

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



A subsidiary is an entity over which the Group has the power to control the former's financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable and convertible are considered when assessing whether the Group controls another entity. A subsidiary is consolidated from the date the Group obtains control until such time that such control ceases.

The acquisition method is applied to account for any acquired subsidiaries. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

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

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

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

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

#### ***2.04 Segment Reporting***

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

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

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

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

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

### ***2.05 Financial Assets***

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

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

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

#### *(a) Loans and Receivables*

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

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

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

(b) *AFS Financial Assets*

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

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

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

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

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

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

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

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

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

### ***2.06 Other Assets***

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

### ***2.07 Property and Equipment***

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

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and amortization and any impairment losses are removed from the accounts and any resulting gain or loss is reflected in profit or loss for the period.

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

Transportation and other equipment	2-8 years
Furniture, fixtures and others	3-5 years

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

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

The residual values and estimated useful lives of property and equipment are reviewed and adjusted if appropriate, at the end of each reporting period.

An item of property and equipment, including the related accumulated depreciation and impairment losses, if any, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

### ***2.08 Non-current Assets Held-for-Sale***

Assets held-for-sale (presented under Other Assets) include chattel or personal properties acquired through repossession or foreclosure that the Group intends to sell and will be disposed of within one year from the date of classification as held-for-sale.

Assets classified as held-for-sale are measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell. Assets classified as held-for-sale are not subject to depreciation or amortization. The profit or loss arising from the sale of held-for-sale assets is recognized in profit or loss in the year the asset is disposed.

### ***2.09 Investment Properties***

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

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

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

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

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

### ***2.10 Financial Liabilities***

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

Bills payable are raised for support of long-term funding of operations. They are recognized at proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

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

Lease deposits are initially recognized at fair value. The excess of the principal amount of the deposits over its present value at initial recognition is immediately recognized and is included as part of Day One Gain under Other Income account in the statement of income (see Note 17). Meanwhile, interest expense on the amortization of lease deposits using the effective interest method is included as part of Interest and Financing Charges under Operating Costs and Expenses in the statement of income

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

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

### ***2.11 Provisions and Contingencies***

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

### ***2.12 Offsetting Financial Instruments***

Financial assets and liabilities are offset and the resulting net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

### ***2.13 Residual Value of Leased Assets***

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

### ***2.14 Equity***

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

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

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

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

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

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

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

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

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

- (a) *Interest income on finance lease receivables* – The interest income on finance lease is allocated over the lease term on a systematic and rational basis. The recognition of interest income on finance lease is based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.
- (b) *Interest* – Interest income and expenses are recognized in profit or loss for all instruments measured at amortized cost using the effective interest method.

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

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

- (c) *Rent* – Revenue from operating lease contracts is recognized in profit or loss on a straight-line basis over the lease term, or on another systematic basis which is more representative of the time pattern in which the use or benefit derived from the leased asset is diminished.
- (d) *Service fees* – Fees related to the administration and servicing a loan are recognized as revenue as the services are rendered. This account is included under Other Income.

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

## **2.16 Leases**

The Group accounts for its leases as follows:

- (a) *Group as a Lessor*

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

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



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

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

*(b) Group as a Lessee*

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

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

***2.17 Foreign Currency Transactions and Translation***

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

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

***2.18 Impairment of Financial Assets***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **2.20 Employee Benefits**

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

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

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

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

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

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

### *(b) Defined Benefit Contribution Plan*

A defined contribution plan is a pension plan under which the Group pays fixed contributions into an independent entity (such as the Social Security System). The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

(c) *Termination Benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either:

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

(d) *Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of each reporting period. They are included in Accounts Payable and Other Liabilities account in the statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

## **2.21 Income Taxes**

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

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

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

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

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

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

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

### ***2.22 Earnings Per Share (EPS)***

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

### ***2.23 Related Party Relationships and Transactions***

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

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

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

### ***2.24 Events After the End of the Reporting Period***

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

### 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

#### *3.01 Critical Management Judgments in Applying Accounting Policies*

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

(a) *Distinguishing Operating and Finance Leases*

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

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

(b) *Evaluating Impairment of AFS Financial Assets*

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

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

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



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

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

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

(e) *Recognition of Provisions and Contingencies*

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

**3.02 Key Sources of Estimation Uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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

The Group estimates the useful lives of property and equipment and investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment and investment properties are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of property and equipment, and investment properties are presented in Notes 10 and 11, respectively. Based on management's assessment as of December 31, 2013, there is no change in estimated useful lives of property and equipment and investment properties during the year. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

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

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

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

(c) *Estimating Impairment of Non-financial Assets*

The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.19. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

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

(d) *Determining Fair Value Measurement for Financial Instruments*

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

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

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

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management assessed that some of the deferred tax assets recognized as at December 31, 2013 and 2012 may not be actually recoverable.

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

(f) *Determining Post-employment Defined Benefits*

The determination of the Group's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, expected return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the expense and obligation to be recognized in such future periods.

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

#### 4. SEGMENT REPORTING

##### *4.01 Business Segments*

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

The products under the leasing segment are the following:

- Operating leases; and
- Finance leases.

The products under the financing segment are the following:

- Amortized commercial loans;
- Amortized retail loans;
- Installment paper purchases;
- Floor stock financing; and
- Factoring of receivables.

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

#### 4.02 Segment Assets and Liabilities

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

#### 4.03 Intersegment Transactions

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

#### 4.04 Analysis of Segment Information

Segment information can be analyzed as follows:

	<u>Leasing</u>	<u>Financing</u>	<u>Others</u>	<u>Eliminations</u>	<u>Group</u>
<b>For the year ended December 31, 2013</b>					
<b>Statement of Income</b>					
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					<b><u>P 420.3</u></b>
<b>December 31, 2013</b>					
<b>Statement of Financial Position</b>					
Segment assets	P 13,678.5	P 8,545.8	P -	P -	P 22,224.3
Unallocated assets					<u>3,113.1</u>
Total assets					<b><u>P 25,337.4</u></b>
Segment liabilities	P 11,991.9	P 8,283.6	P -	P -	P 20,275.5
Unallocated liabilities					<u>290.9</u>
Total liabilities					<b><u>P 20,566.4</u></b>
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

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

Segment expenses are allocated on the basis of gross income.

Net segment assets are comprised of the following:

	<b><u>2013</u></b>	
	<b><u>Leasing</u></b>	<b><u>Financing</u></b>
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	<u>-</u>	<u>( 34.1)</u>
	12,468.8	8,732.6
Equipment under lease	<u>1,416.7</u>	<u>-</u>
	13,885.5	8,732.6
Allowance for impairment	<u>( 207.0)</u>	<u>( 186.8)</u>
	<b><u>P 13,678.5</u></b>	<b><u>P 8,545.8</u></b>

	2012	
	Leasing	Financing
Receivables	P 7,279.0	P 8,086.4
Residual value of leased assets	3,128.8	-
Unearned income	( 919.5)	( 168.1)
Client's equity	-	( 35.3)
	9,488.3	7,883.0
Equipment under lease	360.2	-
	9,848.5	7,883.0
Allowance for impairment	( 146.1)	( 162.3)
	<u>P 9,702.4</u>	<u>P 7,720.7</u>

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

## 5. RISK MANAGEMENT

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

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

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

### *5.01 Foreign Exchange Risk*

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

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

	2013		
	US Dollar	Philippine Peso	Total
Cash and cash equivalents	P 19.1	P 118.9	P 138.0
Loans and other receivables	1,083.5	19,891.5	20,975.0
Bills payable	( 1,011.5)	( 15,437.0)	( 16,448.5)
Lease deposits	( 30.4)	( 3,786.7)	( 3,817.1)
	<b>P 60.7</b>	<b>P 786.7</b>	<b>P 847.4</b>
	2012		
	US Dollar	Philippine Peso	Total
Cash and cash equivalents	P 14.3	P 55.1	P 69.4
Loans and other receivables	-	17,245.0	17,245.0
Lease deposits	( 11.5)	( 3,159.7)	( 3,171.2)
	<b>P 2.8</b>	<b>P 14,140.4</b>	<b>P 14,143.2</b>

At December 31, 2013 and 2012, the currency exchange rates used to translate U.S. dollar denominated financial assets and liabilities to the Philippine pesos is approximately P44.41 and P41.05, respectively.

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

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

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

**5.02 Interest Rate Risk**

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

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

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

The table in the succeeding page illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates for bills payable of +/-0.39% at December 31, 2013 and +/-0.25% at December 31, 2012 and loans and other receivables of +/-1.30% at December 31, 2013 and +/-1.10% at December 31, 2012. These changes are considered to be reasonably possible based on observation of current market conditions for the past 12 months. The calculations are based on the Group's and Parent Company's financial instruments held at the end of each reporting period. All other variables are held constant.

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



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

### **5.03 Credit Risk**

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

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

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

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

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

**Group**

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

**Parent Company**

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

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

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

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

The Group holds collateral against loans and other receivables in the form of mortgage interests over real and personal properties. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are periodically updated especially when a loan is individually assessed as impaired. Collateral is not held against available-for-sale securities, and no such collateral was held at December 31, 2013 and 2012.

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

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

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

	<u>2013</u>		<u>2012</u>
Real property	<b>P 160.8</b>	P	201.2
Personal property	<b><u>670.7</u></b>		<u>1,578.3</u>
	<b><u>P 831.5</u></b>	P	<u>1,779.5</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, 2013 and 2012.

#### ***5.04 Liquidity Risk***

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

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

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

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

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

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

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

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

#### **5.05 Price Risk**

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

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



## 6. CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

### 6.01 Carrying Amounts and Fair Values by Category

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

	2013			
	Group		Parent	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	P 138.0	P 138.0	P 129.1	P 129.1
Loans and other receivables	<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>
	<u>P 23,206.5</u>	<u>P 24,229.7</u>	<u>P 23,193.8</u>	<u>P 24,216.9</u>
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>
	2012			
	Group		Parent	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	P 69.4	P 69.4	P 63.5	P 63.5
Loans and other receivables	<u>17,245.0</u>	<u>18,303.9</u>	<u>17,242.3</u>	<u>18,301.2</u>
	17,314.4	18,373.3	17,305.8	18,364.7
AFS financial assets	<u>2,022.0</u>	<u>2,022.0</u>	<u>2,022.0</u>	<u>2,022.0</u>
	<u>P 19,336.4</u>	<u>P 20,395.3</u>	<u>P 19,327.8</u>	<u>P 20,386.7</u>
Financial Liabilities				
At amortized cost:				
Bills payable	P 12,697.0	P 12,620.9	P 12,531.4	P 12,474.6
Accounts payable and other liabilities	112.6	112.6	99.6	99.6
Lease deposits	<u>3,171.2</u>	<u>3,171.2</u>	<u>3,127.6</u>	<u>3,127.6</u>
	<u>P 15,980.8</u>	<u>P 15,904.7</u>	<u>P 15,758.6</u>	<u>P 15,701.8</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 securities is determined by direct reference to published price quoted in an active market for traded securities.

*(iii) Loans and other receivables*

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

*(iv) Bills payable*

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

*(v) Accounts payable and other liabilities*

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

*(vi) Lease deposits*

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

**6.02 Fair Value Hierarchy**

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

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

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

The financial assets and liabilities as of December 31, 2013 and 2012 are grouped into the fair value hierarchy as presented in the following table. For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

**Group**

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

**Parent Company**

	<u>Notes</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>December 31, 2013</u></b>					
<i>Financial assets:</i>					
Cash and cash equivalents	7	P 129.1	P -	P -	P 129.1
AFS financial assets					
Equity securities - quoted	8	2,093.5	-	-	2,093.5
Loans and other receivables	9	-	-	21,994.3	21,994.3
		<u>P 2,222.6</u>	<u>P -</u>	<u>P 21,994.3</u>	<u>P 24,216.9</u>
<i>Financial liabilities:</i>					
Bills payable	13	P -	P -	P 15,427.8	P 15,427.8
Accounts payable and other liabilities	14	-	-	196.5	196.5
Lease deposits	15	-	-	3,774.6	3,774.6
		<u>P -</u>	<u>P -</u>	<u>P 19,398.9</u>	<u>P 19,398.9</u>
<b><u>December 31, 2012</u></b>					
<i>Financial assets:</i>					
Cash and cash equivalents	7	P 63.5	P -	P -	P 63.5
AFS financial assets					
Equity securities - quoted	8	2,022.0	-	-	2,022.0
Loans and other receivables	9	-	-	18,301.2	18,301.2
		<u>P 2,085.5</u>	<u>P -</u>	<u>P 18,301.2</u>	<u>P 20,386.7</u>
<i>Financial liabilities:</i>					
Bills payable	13	P -	P -	P 12,474.6	P 12,474.6
Accounts payable and other liabilities	14	-	-	99.6	99.6
Lease deposits	15	-	-	3,127.6	3,127.6
		<u>P -</u>	<u>P -</u>	<u>P 15,701.8</u>	<u>P 15,701.8</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. As of December 31, 2013 and 2012, the Group holds preferred shares which are listed in the PSE and are classified as AFS financial assets and are the only financial assets which are carried at Level 1. The quoted market prices used by the Group are the closing share prices of the said preferred shares in the PSE as of the cutoff dates.

(b) Financial instruments in Level 2

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

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

(c) Financial instruments in Level 3

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

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Land	P -	P -	P 742.7	P 742.7
Building and improvements	<u>-</u>	<u>-</u>	<u>123.1</u>	<u>123.1</u>
	<u>P -</u>	<u>P -</u>	<u>P 865.8</u>	<u>P 865.8</u>

The fair value of the investment properties of the Group and the Parent Company as of December 31, 2013 and 2012, determined under Level 3 measurement, was derived on the basis of a valuation carried out on the respective dates by either an independent or internal appraiser having appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value of investment properties was derived using the market approach that reflects the recent transaction prices for similar properties in nearby locations, adjusted for differences in property size, age, condition, and location. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

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

**7. CASH AND CASH EQUIVALENTS**

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

	<u>Group</u>		<u>Parent Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Cash on hand and in banks	<b>P 119.6</b>	P 53.2	<b>P 110.8</b>	P 47.3
Cash equivalents	<u><b>18.4</b></u>	<u>16.2</u>	<u><b>18.4</b></u>	<u>16.2</u>
	<u><b>P 138.0</b></u>	<u>P 69.4</u>	<u><b>P 129.1</b></u>	<u>P 63.5</u>

Cash in banks earn interest at rates based on daily bank deposit rates. Cash equivalents represent a special savings account and time deposit with annual interest rates ranging from 0.6% to 2.0% in 2013 and 1.0% to 4.0% in 2012.

**8. AVAILABLE-FOR-SALE FINANCIAL ASSETS**

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

	<u>2013</u>	<u>2012</u>
San Miguel Corporation preferred shares	<b>P 1,270.0</b>	P 1,270.0
First Gen Corp. Series “F” preferred shares	<b>700.0</b>	700.0
Club shares and other equity investments	<u><b>0.8</b></u>	<u>0.8</u>
	<b>1,970.8</b>	1,970.8
Accumulated unrealized fair value gains	<u><b>122.7</b></u>	<u>51.2</u>
	<u><b>P 2,093.5</b></u>	<u>P 2,022.0</u>

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

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

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

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

## 9. LOANS AND OTHER RECEIVABLES

This account consists of the following:

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

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

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

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

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

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

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



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

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

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

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

In 2012, the BOD approved the write-off of certain loans and receivables financed and finance lease receivables with total amount of P60.9. There was no similar transaction in 2013.

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

	<u>Group</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Finance lease receivables	<b>P 658.6</b>	P 494.2	P 444.3
Loans and receivable financed	<b>637.8</b>	776.4	721.1
Cash and cash equivalents	<u>0.5</u>	<u>0.6</u>	<u>1.0</u>
	<b><u>P 1,296.9</u></b>	<b><u>P 1,271.2</u></b>	<b><u>P 1,166.4</u></b>
	<u>Parent Company</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Finance lease receivables	<b>P 658.6</b>	P 494.2	P 444.3
Loans and receivables financed	<b>637.6</b>	777.0	721.8
Cash and cash equivalents	<u>0.5</u>	<u>0.6</u>	<u>0.6</u>
	<b><u>P 1,296.8</u></b>	<b><u>P 1,271.8</u></b>	<b><u>P 1,166.7</u></b>

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

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

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

## 10. PROPERTY AND EQUIPMENT

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

	<u>Transportation and Other Equipment</u>	<u>Furniture, Fixtures and Others</u>	<u>Leasehold Improve- ments</u>	<u>Total</u>
<b><u>Group</u></b>				
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>
December 31, 2012				
Cost	P 1,128.8	P 28.0	P 25.5	P 1,182.3
Accumulated depreciation and amortization	( 496.1)	( 22.2)	( 20.3)	( 538.6)
Net carrying amount	<u>P 632.7</u>	<u>P 5.8</u>	<u>P 5.2</u>	<u>P 643.7</u>
January 1, 2012				
Cost	P 854.5	P 25.8	P 23.8	P 904.1
Accumulated depreciation and amortization	( 363.8)	( 21.1)	( 16.0)	( 400.9)
Net carrying amount	<u>P 490.7</u>	<u>P 4.7</u>	<u>P 7.8</u>	<u>P 503.2</u>
<b><u>Parent Company</u></b>				
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>

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

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

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

**Group**

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

**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	<u>P -</u>	<u>P 5.3</u>	<u>P 2.2</u>	<u>P 7.5</u>
Balance at January 1, 2012, net of accumulated depreciation and amortization	P -	P 4.7	P 7.8	P 12.5
Additions	-	4.8	1.7	6.5
Depreciation and amortization charges for the year	-	( 3.7)	( 4.3)	( 8.0)
Balance at December 31, 2012, net of accumulated depreciation and amortization	<u>P -</u>	<u>P 5.8</u>	<u>P 5.2</u>	<u>P 11.0</u>

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

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

As of December 31, 2013 and 2012, the net book value of transportation and other equipment leased out by the Group (nil for the Parent Company) under operating lease arrangements amounted to P1,416.7 and P632.7, respectively.

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

## 11. INVESTMENT PROPERTIES

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

The carrying amounts and accumulated depreciation at the beginning and end of 2013 and 2012 in the Group and Parent Company financial statements are shown below.

	<u>Land</u>	<u>Building and Improve- ments</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>
December 31, 2012			
Cost	P 389.6	P 105.3	P 494.9
Accumulated depreciation	-	( 59.2)	( 59.2)
Accumulated impairment	( 54.9)	( 1.3)	( 56.2)
Net carrying amount	<u>P 334.7</u>	<u>P 44.8</u>	<u>P 379.5</u>
January 1, 2012			
Cost	P 461.1	P 109.4	P 570.5
Accumulated depreciation	-	( 50.0)	( 50.0)
Accumulated impairment	( 40.2)	( 51.4)	( 91.6)
Net carrying amount	<u>P 420.9</u>	<u>P 8.0</u>	<u>P 428.9</u>

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

	<u>Land</u>	<u>Building and Improve- ments</u>	<u>Total</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	( 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	<b><u>P 125.3</u></b>	<b><u>P 20.4</u></b>	<b><u>P 145.7</u></b>
Balance at January 1, 2012, net of accumulated depreciation and impairment	P 420.9	P 8.0	P 428.9
Additions	1.4	76.4	77.8
Disposals	( 72.9)	( 17.3)	( 90.2)
Depreciation and amortization charges for the year	-	( 11.8)	( 11.8)
Impairment losses during the year	( 14.7)	( 10.5)	( 25.2)
Balance at December 31, 2012, net of accumulated depreciation and impairment	<b><u>P 334.7</u></b>	<b><u>P 44.8</u></b>	<b><u>P 379.5</u></b>

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

	<u>2013</u>	<u>2012</u>
Land	<b>P 742.7</b>	P 748.9
Building and improvements	<b><u>123.1</u></b>	<u>127.4</u>
	<b><u>P 865.8</u></b>	<u>P 876.3</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 included under Gain on sale of property and equipment and investment properties as part of Other Income amounted to P4.7, P51.5 and P40.4 in 2013, 2012 and 2011, respectively (see Note 17).

## 12. OTHER ASSETS

Other assets consist of the following:

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

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

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

	<u>2013</u>	<u>2012</u>
Cost	<b>P 328.8</b>	P 150.9
Accumulated impairment	<u>( 91.4)</u>	<u>( 56.5)</u>
	<b><u>P 237.4</u></b>	<b><u>P 94.4</u></b>

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

	<u>2013</u>	<u>2012</u>
Balance at January 1, net of accumulated impairment	<b>P 94.4</b>	P -
Additions	<b>3.1</b>	147.7
Reclassifications	<b>205.7</b>	9.8
Disposals	<u>( 32.8)</u>	<u>( 6.9)</u>
Impairment loss for the year	<u>( 33.0)</u>	<u>( 56.2)</u>
Balance at December 31, net of accumulated impairment loss	<b><u>P 237.4</u></b>	<b><u>P 94.4</u></b>

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

	<u>2013</u>	<u>2012</u>
Cost	<b>P 53.9</b>	P 56.1
Accumulated depreciation	<u>( 51.1)</u>	<u>( 26.9)</u>
	<b><u>P 2.8</u></b>	<b><u>P 29.2</u></b>

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

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



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

Deferred input VAT pertains to the VAT due or paid by the Group on purchases of capital assets for lease in the ordinary course of business wherein the application against the output VAT is amortized over a period of 60 months.

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

### 13. **BILLS PAYABLE**

This account consists of borrowings from:

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

Bills payable to banks represent peso borrowings from local banks (including BDO Unibank as of December 31, 2013 and 2012 – see Note 20), with annual interest rates ranging from 2.3% to 3.5% in 2013 and 3.5% to 6.9% in 2012. As of December 31, 2013 and 2012, bills payable – others represent short-term notes issued to individual and corporate investors, with annual interest rates ranging from 2.40% to 4.70% and 3.5% to 4.0%, respectively. These rates approximate prevailing market rates. As of December 31, 2013 and 2012, bills payable amounting to P851.1 and P1,696.0, respectively, are secured by the Group’s AFS financial assets amounting to P1,970.0 and certain loans receivables with carrying amount of P109.9 and P362.4, respectively.

Interest and financing charges consist of interest on:

	<u>Notes</u>	<u>Group</u>			
		<u>2013</u>	<u>2012</u> [As Restated – see Note 2.02(a)]	<u>2011</u> [As Restated – see Note 2.02(a)]	<u>2010</u> [As Restated – see Note 2.02(a)]
Bills payable - banks		<b>P 239.2</b>	P 134.9	P 95.7	
Bills payable - others		<b>175.2</b>	322.2	280.0	
Amortization on lease deposits	15	<b>4.2</b>	4.5	12.0	
Interest on defined benefit plan	19	<b>-</b>	1.6	3.3	
		<b><u>P 418.6</u></b>	<u>P 463.2</u>	<u>P 391.0</u>	

	<u>Notes</u>	<u>Parent Company</u>			
		<u>2013</u>	<u>2012</u> [As Restated – see Note 2.02(a)]	<u>2011</u> [As Restated – see Note 2.02(a)]	<u>2010</u> [As Restated – see Note 2.02(a)]
Bills payable - banks		<b>P 222.6</b>	P 131.7	P 95.2	
Bills payable - others		<b>175.1</b>	322.2	280.0	
Amortization on lease deposits	15	<b>2.5</b>	2.9	6.1	
Interest on defined benefit plan	19	<b>-</b>	1.6	3.3	
		<b><u>P 400.2</u></b>	<u>P 458.4</u>	<u>P 384.6</u>	

**14. ACCOUNTS PAYABLE AND OTHER LIABILITIES**

Accounts payable and other liabilities consist of the following:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Accounts payable	P 151.4	P 25.8	P 94.1	P 19.6
Accrued taxes and other expenses	44.9	29.2	43.7	29.2
Withholding taxes payable	14.5	10.6	13.3	10.4
Other liabilities	47.3	47.0	45.4	40.3
	<u>P 258.1</u>	<u>P 112.6</u>	<u>P 196.5</u>	<u>P 99.6</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>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Finance leases	P 3,774.6	P 3,127.6	P 3,774.6	P 3,127.6
Operating leases	42.5	43.6	-	-
	<u>P 3,817.1</u>	<u>P 3,171.2</u>	<u>P 3,774.6</u>	<u>P 3,127.6</u>

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

**16. EQUITY**

***16.01 Capital Management Objectives, Policies and Procedures***

The Group's capital management objectives are:

- a. To provide an adequate return to shareholders by pricing products commensurately with the level of risk; and
- b. To ensure the Group's ability to continue as a going concern.

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

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

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

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

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

As of December 31, 2013 and 2012, the Group is in compliance with this minimum paid-up capital requirement.

#### ***16.02 Preferred Shares***

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

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

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

**16.03 Common Shares**

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

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

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

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

**16.04 Track Record of Registration of Securities**

On January 6, 1997, the Parent Company was listed with the PSE with 106,100,000 new additional common shares and 15,120,000 existing common shares with par value of P1 per share. The listing was approved by the SEC in May 1996. As of December 31, 2013 and 2012, the Parent Company's number of shares registered totaled 2,225,169,030 with par value of P1.00 per share and closed at a price of P2.00 both in 2013 and 2012. The total number of stockholders is 1,183 and 1,199 as of December 31, 2013 and 2012, respectively.

**17. OTHER INCOME**

This account is composed of the following:

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

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

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

Fair value gains (losses) – net represent the fair value gains on initial recognition of lease deposits (representing excess of principal amount over fair value of leased deposits), net of the fair value losses on initial recognition of the residual value receivables under finance lease.

## 18. LEASES

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

In the ordinary course of business, the Group enters into various operating leases with lease terms ranging from 6 to 60 months. Operating lease income presented under Rent account in the Group statements of income for the years ended December 31, 2013, 2012 and 2011 amounted to P380.8, P229.8 and P244.5, respectively.

Future minimum rental receivables under operating leases follow:

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

**19. EMPLOYEE BENEFITS**

***19.01 Salaries and Employee Benefits Expense***

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Salaries and wages	<b>P 99.3</b>	P 97.8	P 85.3
Bonuses	<b>33.0</b>	30.9	31.0
Retirement – defined benefit plan	<b>16.4</b>	14.1	12.0
Social security costs	<b>7.2</b>	3.4	6.4
Other benefits	<u>27.5</u>	<u>18.4</u>	<u>19.3</u>
	<b><u>P 183.4</u></b>	<b><u>P 164.6</u></b>	<b><u>P 154.0</u></b>

***19.02 Post-employment Benefits***

*(a) Characteristics of the Defined Benefit Plan*

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

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

*(b) Explanation of Amounts Presented in the Financial Statements*

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

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

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

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

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

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

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

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	<b>P 36.6</b>	P 7.9
Equity instruments	<b>2.1</b>	4.2
Loans	<b>13.3</b>	11.3
Unit investment trust funds	<b>30.4</b>	23.8
Real estate	<b><u>3.0</u></b>	<u>3.5</u>
	<b><u>85.4</u></b>	<u>50.7</u>
Debt instruments:		
Government bonds	<b>78.8</b>	76.8
Other bonds	<b><u>21.1</u></b>	<u>16.9</u>
	<b><u>99.9</u></b>	<u>93.7</u>
Others	<b><u>21.3</u></b>	<u>18.7</u>
	<b><u>P 206.6</u></b>	<u>P 163.1</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 P12.1 in 2013, P7.3 in 2012, and P3.4 in 2011.

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

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit plan are as follows:

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

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

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

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Discount rates	4.69%	5.62%	6.33%
Expected rate of salary increases	8.00%	9.45%	10.00%



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

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

(c) *Risks Associated with the Retirement Plan*

The plan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) *Investment and Interest Risk*

The present value of the retirement benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has relatively balanced investment in cash and cash equivalents, equity securities and debt instruments. Due to the long-term nature of plan obligation, a level of continuing equity investments is an appropriate element of the Group's long-term strategy to manage the plans efficiently.

(ii) *Longevity and Salary Risks*

The present value of the retirement benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will results 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, 2013:

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

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

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

(ii) *Asset-liability matching strategy*

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

(iii) *Funding Arrangements and Expected Contributions.*

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

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

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

Within one year	P -
More than one year to five years	59.7
More than five years to ten years	<u>95.2</u>
	<u>P 150.9</u>

## 20. RELATED PARTY TRANSACTIONS

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

The summary of the Group's and Parent Company's transactions with its related parties in 2013, 2012 and 2011 are as follows:

<u>Related Party Category</u>	<u>Notes</u>	<u>Amount of Transaction</u>		
		<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>Ultimate Parent Company</b>				
Interest income on savings and demand deposits	(a)	P 0.2	P 0.3	P 0.8
Interest expense on bills payable	(b)	148.5	98.3	86.7
Rent expense	(d)	10.7	11.0	11.5
Management fees	(e)	2.4	2.4	-
<b>Subsidiary</b>				
Interest income on loans	(b)	-	0.7	0.7
Service fees	(c)	5.3	8.4	9.9
Rent income	(d)	0.4	0.4	0.4
Management fees	(e)	0.4	0.4	0.8
<b>Affiliate</b>				
Professional fees	(f)	2.2	2.8	-
<b>Key management personnel</b>				
Short-term benefits	(g)	61.7	57.7	44.7
Post-employment benefits	(g)	-	17.0	13.2
Advances to officer	(g)	0.9	1.7	-
		<u>Outstanding Balance</u>		
<u>Related Party Category</u>	<u>Notes</u>	<u>2013</u>	<u>2012</u>	
<b>Parent Company</b>				
Savings and demand deposits	(a)	P 119.2	P 52.7	
Bills payable	(b)	6,119.8	6,731.7	
<b>Key management personnel</b>				
Advances to officer	(g)	2.2	1.6	
<b>Retirement benefit fund</b>				
Loans to officers and employees	(b)	3.4	P 3.4	
Loans to members and beneficiaries	(b)	2.4	2.4	
Shares of stock	(i)	0.9	0.9	

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

- (a) The Group obtain short-term, unsecured bills payable from BDO Unibank. The amount outstanding from borrowings as of December 31, 2013 and 2012 is presented under Bills Payable account in the statements of financial position (see Note 13). Interest expense incurred on these bills payable in 2013, 2012 and 2011 is included under Interest and financing charges account as part of Operating Costs and Expenses account in the statements of income. Also, the Parent Company grants short-term, unsecured loans to BDO Rental. There is no outstanding balance arising from this transaction as of December 31, 2013 and 2012. Total interest income earned by the Parent Company on these loans in 2012 and 2011 is included under Interest and Discounts as part of Revenues in the statements of income.
- (b) On January 4, 2010, the Parent Company and BDO Rental entered into a Service Agreement whereby BDO Rental will handle the collection of certain factored receivables of the Parent Company, for a fee as agreed by the Parent Company and the sellers of the factored receivables. Under the Service Agreement, BDO Rental shall perform the monitoring of the payment due dates of the factored receivables, remit to the Parent Company all collections made and send monthly statement of accounts to customers. The related expense charged to the Parent Company based on the Service Agreement is included under Other Operating Costs and Expenses in the Parent Company's statements of income. There are no outstanding intercompany payable and receivable from this transaction as of December 31, 2013 and 2012.
- (c) The Parent Company leases its head office premises and certain branch offices from BDO Unibank for terms ranging from one to five years, renewable for such period and under such terms and conditions as may be agreed upon with the Parent Company and BDO Unibank. Related rent expense incurred in 2013, 2012 and 2011 is presented as part of Occupancy and equipment-related expenses under Operating Costs and Expenses account in the statements of income. On the other hand, the Parent Company charges BDO Rental for the spaces that the latter occupies in the head office premises. Rent charged to BDO Rental in 2013 and 2012 is presented as part of Other Income in the statements of income. There are no outstanding receivable and payable on these transactions as of the end of 2013 and 2012.
- (d) In 2012, the Parent Company entered into a service level agreement with BDO Unibank wherein BDO Unibank will charge the Parent Company for certain management services that the former provides to the latter. Management fees paid by the Parent Company to BDO Unibank is shown as part of Other Operating Costs and Expenses in the statements of income.

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

- (e) 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. Professional 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 2012 statement of comprehensive income. There are no outstanding payable related on this transaction as of the end of 2013 and 2012.
- (f) Compensation of key management personnel (covering officer positions starting from Assistant Vice President and up) is included as part of Employee Benefits under Operating Costs and Expenses in the statements of income of the Group and Parent Company. Short-term employee benefits include salaries, paid annual leave and paid sick leave, profit sharing and bonuses, and non-monetary benefits. The Group also incurred post-employment benefit expense related to key management personnel included as part of Employee Benefits under Operating Costs and Expenses. The Group also granted cash advances to an officer.
- (g) The Group maintains a retirement benefit fund with BDO Unibank covering all regular full-time employees. In the normal course of business, the retirement benefit fund grants salary and housing loans to certain officers and employees of the Parent Company, and members and beneficiaries of the fund who are also officers of the Parent Company. The housing loans are secured by the mortgage on the property and bear interest at 9% per annum and have terms ranging from 13 to 20 years. The salary loans on the other hand, are unsecured and bear interest ranging from 9% to 10% per annum and have terms ranging from 18 months to 3 years. There is no impairment loss recognized on this loan.
- (h) The retirement fund holds 442,750 shares of stock of the Parent Company [see Note 19 (b)] as an investment, which has a market value of P2.00 per share as of December 31, 2012.

## 21. TAXES

### *21.01 Taxes and Licenses*

This account is composed of the following:

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

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

### 21.02 Current and Deferred Taxes

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

	<b>Group</b>		
	<b>2013</b>	2012 (As Restated - see Note 2)	2011 (As Restated - see Note 2)
<i>Reported in statements of income</i>			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	<b>P 129.7</b>	P 166.1	P 88.8
Final tax at 20%	<b>20.5</b>	0.1	0.2
	<b><u>150.2</u></b>	<u>166.2</u>	<u>89.0</u>
Deferred tax income relating to origination and reversal of temporary difference	<b>( 4.7)</b>	( 50.0)	( 6.2)
	<b><u>P 145.5</u></b>	<u>P 116.2</u>	<u>P 82.8</u>
<i>Reported in statements of comprehensive income</i>			
Deferred tax expense (income) relating to origination of temporary differences:			
AFS financial assets	<b>P 0.4</b>	(P 0.1)	(P 0.9)
Actuarial gains and losses	<b>6.5</b>	( 3.0)	( 11.7)
	<b><u>P 6.9</u></b>	<u>(P 3.1)</u>	<u>(P 12.6)</u>
<b>Parent Company</b>			
	<b>2013</b>	2012 (As Restated - see Note 2)	2011 (As Restated - see Note 2)
<i>Reported in statements of income</i>			
Current tax expense:			
RCIT at 30%	<b>P 102.3</b>	P 156.6	P 88.8
Final tax at 20%	<b>20.5</b>	0.1	0.1
	<b><u>122.8</u></b>	<u>156.7</u>	<u>88.9</u>
Deferred tax income			
Deferred tax relating to origination and reversal of temporary difference	<b>( 4.6)</b>	( 57.3)	( 6.8)
	<b><u>P 118.2</u></b>	<u>P 99.4</u>	<u>P 82.1</u>

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

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

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

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

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

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

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

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



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

*In profit or loss:*

Deferred tax assets:			
Allowance for impairment on:			
Loans and discounts	P 2.4	(P 4.9)	(P 14.6)
Investment properties and non-current assets held-for-sale	( 0.4)	( 14.1)	( 6.6)
Accounts receivable	0.1	1.0	0.1
Retirement benefit obligation	( 1.7)	3.3	3.0
Other	( 3.1)	-	-
	( 2.7)	( 14.7)	18.1
Deferred tax liabilities:			
Lease income differential	-	( 43.1)	11.3
Others	1.9	0.5	-
	( 1.9)	( 42.6)	11.3
Net deferred tax expense (income)	(P 4.6)	(P 57.3)	(P 6.8)

**Group and Parent Company**

<b>2013</b>	<b>2012</b>
-------------	-------------

*In other comprehensive income:*

Deferred tax expense (income) on:		
Net actuarial losses	P 6.5	(P 3.0)
Unrealized fair value gains on AFS financial assets	0.4	( 0.1)
	P 6.9	(P 3.1)

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

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

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

**22. EARNINGS PER SHARE**

Basic earnings per share were computed as follows:

	<u>Group</u>		
	2012	2011	
<u>2013</u>	(As Restated - see Note 2)	(As Restated - see Note 2)	
Net profit	<b>P 420.3</b>	P 410.7	P 308.3
Divided by the weighted average number of outstanding common shares – net*	<u>2,162</u>	<u>2,162</u>	<u>2,162</u>
Basic earnings per share	<u><b>P 0.19</b></u>	<u>P 0.19</u>	<u>P 0.14</u>
	<u>Parent Company</u>		
	2012	2011	
<u>2013</u>	(As Restated - see Note 2)	(As Restated - see Note 2)	
Net profit	<b>P 357.5</b>	P 371.8	P 313.2
Divided by the weighted average number of outstanding common shares – net*	<u>2,162</u>	<u>2,162</u>	<u>2,162</u>
Basic earnings per share	<u><b>P 0.17</b></u>	<u>P 0.17</u>	<u>P 0.14</u>

\* net of treasury shares

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

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

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

## 24. CONTINGENT LIABILITIES AND COMMITMENTS

### *24.01 Operating Lease Commitments – Group as Lessee*

The Group leases the head office and certain branch offices from BDO Unibank. Total lease payments presented as part of Occupancy and equipment-related expenses under Operating Costs and Expenses in the statements of income amounted to P11.2 in 2013, P11.0 in 2012, and P11.5 in 2011.

Future minimum lease payments under these operating leases follow:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Within one year	<b>P 15.71</b>	P 11.2	P 11.0
After one year but not more than five years	<u>68.88</u>	<u>55.2</u>	<u>55.0</u>
	<u><b>P 84.59</b></u>	<u>P 66.4</u>	<u>P 66.0</u>

### *24.02 Others*

In addition to those already mentioned in the preceding notes, in the ordinary course of business, the Group incurs contingent liabilities and commitments arising from normal business transactions which are not reflected in the accompanying financial statements. As of December 31, 2013, management does not anticipate significant losses from these contingencies and commitments that would adversely affect the Group's financial position and results of operations.



# Punongbayan & Araullo

An instinct for growth™

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

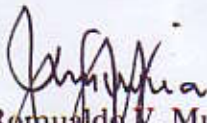
19th and 20th Floors, Tower 1  
The Enterprise Center  
6766 Ayala Avenue  
1200 Makati City  
Philippines

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

**The Board of Directors**  
**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, 2013, on which we have rendered the attached report dated February 26, 2014. 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, 2013 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. 4225011, January 2, 2014, Makati City  
SEC Group A Accreditation  
Partner - No. 0628-AR-2 (until Sept. 5, 2016)  
Firm - No. 0002-FR-3 (until Jan. 18, 2015)  
BIR AN 08-002511-22-2013 (until Nov. 7, 2016)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)



**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES**  
**DECEMBER 31, 2013**

Statement of Management's Responsibility for Financial Statements

Report of Independent Auditors on Supplementary Schedules Filed Separately  
from the Basic Financial Statements

- (1) Supplementary Schedules to Financial Statements  
*(Annex 68-E, SRC Rule 68)*

<u>Schedule</u>	
A	Financial Assets
B	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)
C	Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
D	Intangible Assets - Other Assets
E	Long-Term Debt
F	Indebtedness to Related Parties
G	Guarantees of Securities of Other Issuers
H	Capital Stock

- (2) Reconciliation of Retained Earnings Available for Dividend Declaration

- (3) Map Showing the Relationship Between and Among Related Entities

- (4) List of Standards and Interpretations under Philippine Financial Reporting Standards  
as of December 31, 2013

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**SCHEDULE A - FINANCIAL ASSETS**  
**DECEMBER 31, 2013**  
*(Amounts in Philippine Pesos)*

Name of issuing entity and association of each issue (i)	Number of shares or principal amount of bonds or notes	Amount shown on the balance sheet	Valued based on the market quotation at end of reporting period	Income received and accrued
<i>Available-for-sale (AFS) Financial Assets</i>				
San Miguel Corporation Preferred Shares	16,933,200	P 1,302,163,080	P 1,302,163,080	P 99,217,969
First Gen Corporation Preferred Shares	7,000,000	791,000,000	791,000,000	56,000,000
Valley Golf Country Club	1	200,000	200,000	-
Splendido Tagaytay	1	150,000	150,000	-
<b>Total AFS Financial Assets</b>		<b><u>P 2,093,513,080</u></b>	<b><u>P 2,093,513,080</u></b>	<b><u>P 155,217,969</u></b>

**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 (OTHER THAN RELATED PARTIES)**

DECEMBER 31, 2013  
*(Amounts in Philippine Pesos)*

Name and designation of debtor	Balance at beginning of period	Additions	Deductions		Ending Balance		Balance at end of period
			Amounts collected	Amounts written off	Current	Not current	

**Amounts Due from Related Parties:**

- nothing to report -

**Advances/Loans to Officers and Employees:**

Lapid, Roberto Estreca

P	1,626,955	P	922,332	P	371,631	P	-	P	2,177,656	P	-	P	2,177,656
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**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, 2013**  
*(Amounts in Philippine Pesos)*

Name and designation of debtor	Balance at beginning of period	Additions	Deductions		Ending Balance		Balance at end of period
			Amounts collected	Amounts written off	Current	Not current	
- nothing to report -							



**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**SCHEDULE D - INTANGIBLE ASSETS - OTHER ASSETS**  
**DECEMBER 31, 2013**  
*(Amounts in Philippine Pesos)*

<i>Description</i>	<i>Beginning balance</i>	<i>Additions at cost</i>	<i>Charged to cost and expenses</i>	<i>Charged to other accounts</i>	<i>Other changes additions (deductions)</i>	<i>Ending balance</i>
<i>- nothing to report -</i>						

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**

*(A Subsidiary of BDO Unibank, Inc.)*

**SCHEDULE E - LONG-TERM DEBT**

**DECEMBER 31, 2013**

*(Amounts in Philippine Pesos)*

<i>Title of issue and type of obligation</i>	<i>Amount authorized by indenture</i>	<i>Amount shown under caption "Current portion of long-term debt" in related balance sheet **</i>	<i>Amount shown under caption "Long-Term Debt" in related balance sheet</i>
--	---------------------------------------	---	---

- nothing to report -

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

**SCHEDULE F - INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)**  
**DECEMBER 31, 2013**  
*(Amounts in Philippine Pesos)*

<i>Name of related party</i>	<i>Balance at beginning of period</i>	<i>Balance at end of period</i>
------------------------------	---------------------------------------	---------------------------------

- nothing to report -



**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**

*(A Subsidiary of BDO Unibank, Inc.)*

**SCHEDULE G - GUARANTEE OF SECURITIES OF OTHER ISSUERS**

**DECEMBER 31, 2013**

*(Amounts in Philippine Pesos)*

<i>Name of issuing entity of securities guaranteed by the company for which this statement is filed</i>	<i>Title of issue of each class of securities guaranteed</i>	<i>Total amount of guaranteed and outstanding</i>	<i>Amount owned by person for which statement is filed</i>	<i>Nature of guarantee</i>
---	--	---	--	----------------------------

- nothing to report -

**BDO LEASING AND FINANCE, INC AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**SCHEDULE H - CAPITAL STOCK**  
**DECEMBER 31, 2013**

<i>Title of Issue</i>	<i>Number of Shares Authorized</i>	<i>Number of Shares Issued and Outstanding under Related Balance Sheet Caption *</i>	<i>Number of Shares Reserved for Options, Warrants, Conversions and Other Rights</i>	<i>Number or Shares Held By</i>		
				<i>Related Parties (Parent, Affiliates)</i>	<i>Directors, Officers and Employees</i>	<i>Others</i>
Preferred Shares	200,000	-	-	-	-	-
Common Shares	3,400,000,000	2,162,475,312	-	1,890,610,907	134,340	271,730,065

\* Determination of number of shares issued and outstanding:  
 Number of shares issued 2,225,169,030  
 Less shares held in treasury 62,693,718

2,162,475,312

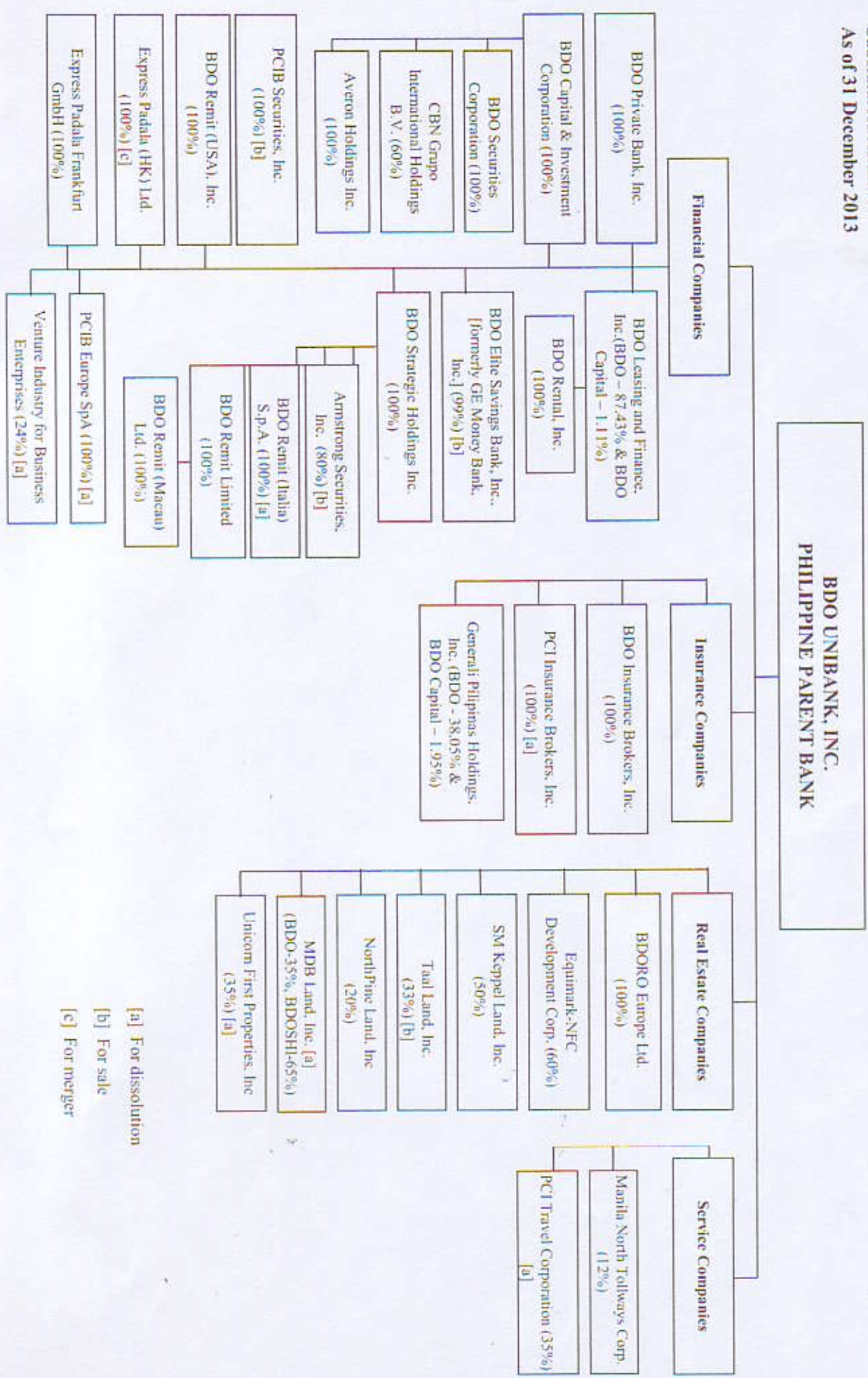
**BDO LEASING AND FINANCE, INC.**  
BDO Leasing Centre, Corinthian Gardens, Ortigas Avenue, Quezon City

**Reconciliation of Retained Earnings Available for Dividend Declaration**  
**For the Year Ended December 31, 2013**  
*(Amounts in Millions of Philippine Pesos)*

Unappropriated Retained Earnings at Beginning of Year	P 1,707.1
Prior Years' Outstanding Reconciling Items, net of tax	
Deferred tax income	( 50.0)
Effect of PAS 19 adjustment	<u>11.6</u>
<b>Unappropriated Retained Earnings Available for</b>	
<b>Dividend Declaration at Beginning of Year, as Adjusted</b>	<u>1,668.7</u>
<b>Net Profit Realized during the Year</b>	
Net profit per audited financial statements	357.5
Non-actual/unrealized income, net of tax	
Deferred tax income	( 4.7)
Unrealized foreign currency gain	<u>( 1.4)</u>
	<u>351.4</u>
<b>Other Transactions During the Year</b>	
Dividends declared	<u>( 324.4)</u>
<b>Retained Earnings Restricted for Treasury Shares</b>	<u>( 81.8)</u>
<b>Unappropriated Retained Earnings Available for</b>	
<b>Dividend Declaration at End of Year</b>	<u><b>P 1,613.9</b></u>



**BDO UNIBANK GROUP  
ORGANIZATIONAL CHART  
Subsidiaries/Affiliates  
As of 31 December 2013**



[a] For dissolution

[b] For sale

[c] For merger



**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, 2013

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	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	✓		
	Amendment to PFRS 1: First-time Adoption of PFRS – Repeated Application of PFRS 1 and Borrowing Costs**	✓		
	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: Meaning of Effective PFRS* (effective July 1, 2014)			✓
	Amendments to PFRS 1: Government Loans**			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Definition of Vesting Condition* (effective July 1, 2014)			✓
	Amendment to PFRS 2: Share-based Payment – Definition of Vesting Condition**			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions**			✓
PFRS 3	Business Combinations			✓
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination* (effective July 1, 2014)			✓
	Amendment to PFRS 3: Scope Exceptions for Joint Ventures* (effective July 1, 2014)			✓
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 (Amended)	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	✓		
	Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures* (effective January 1, 2015)			✓
PFRS 8 (Amended)	Amendment to PFRS 8: Aggregation of Operating Segments, and Reconciliation of the Total of the Reportable Segment's Assets to the Entity's Assets* (effective July 1, 2014)			✓
PFRS 9	Financial Instruments**	✓		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures*** (effective January 1, 2015)			✓
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance	✓		
	Consolidation of Investment Entities* (effective January 1, 2014)			✓
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Transition Guidance			✓



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PFRS 12	Disclosure of Interests in Other Entities			✓
	Amendments to PFRS 12: Transition Guidance			✓
	Amendments to PFRS 12: Consolidation of Investment Entities* (effective January 1, 2014)			✓
PFRS 13	Fair Value Measurement	✓		
	Amendment to PFRS 13: Discounting of Short-term Receivables and Payables* (effective July 1, 2014)			✓
	Amendment to PFRS 13: Scope of Portfolio Exception**			✓
<b>Philippine Accounting Standards (PAS)</b>				
PAS 1	Presentation of Financial Statements	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Presentation of Financial Statements – Clarification of the Requirements for Comparative Information	✓		
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	Amendment to PAS 16: Classification of Servicing Equipment**	✓		
	Amendment to PAS 16: Revaluation Method – Proportionate Restatement of Accumulated Depreciation* (effective July 1, 2014)			✓
PAS 17	Leases	✓		
PAS 18	Revenue**	✓		
PAS 19	Employee Benefits**	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures**	✓		
PAS 19 (Revised)	Employee Benefits**	✓		
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 (Amended)	Related Party Disclosures	✓		
	Disclosure of Key Management Personnel * (effective July 1, 2014)			✓
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		
PAS 27	Consolidated and Separate Financial Statements	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in Subsidiary, Jointly Controlled Entity or Associate	✓		
PAS 27	Separate Financial Statements	✓		
	Amendments to PAS 27 (Amended): Investment Entities* (effective January 1, 2013)			✓
PAS 28	Investments in Associates			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures			✓



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**	✓		
	Amendment to PAS 32: Tax Effect of Distributions to Holders of Equity Instruments**	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities* (effective January 1, 2014)			✓
PAS 33	Earnings per Share	✓		
PAS 34 (Amended)	Interim Financial Reporting and Segment Information for Total Assets and Liabilities	✓		
PAS 36 (Amended)	Recoverable Amount Disclosures for Non-financial Assets* (effective January 1, 2014)			✓
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38 (Amended)	Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization * (effective July 1, 2014)			✓
PAS 39 (Amended)	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**	✓		
	Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (effective January 1, 2014)			✓
	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**	✓			
PAS 40 (Amended)	Clarifying the Interrelationship between PFRS 3 and PAS 40**	✓		
PAS 41	Agriculture			✓
<b>Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)</b>				
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**	✓		
IFRIC 15	Agreements for the Construction of Real Estate****			✓
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* (effective January 1, 2014)			✓



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
<i>Philippine Interpretations - Standing Interpretations Committee (SIC)</i>				
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
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 2013 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 for in both years presented.

\*\*\* The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. This consists of three main phases enumerated below.

Phase 1 : Classification and Measurement (issued to date)

Phase 2 : Impairment methodology

Phase 3 : Hedge accounting (issued to date at the IASB level)

Mandatory effectivity date of PFRS/IFRS 9 has been deferred with the new date to be determined when IFRS 9 is closer to completion.

\*\*\*\* Deferred application in the Philippines approved by the Philippine SEC until completion and effectivity of the revenue recognition project of the FASB and IASB.

**BDO Leasing and Finance, Inc. and Subsidiary**  
**Financial Ratios**  
**December 31, 2013 and 2012**  
*(Amounts in Millions of Philippine Pesos)*

	<u>2013</u>	<u>2012</u> (As Restated)	<u>2013</u>	<u>2012</u> (As Restated)
<b>I. Current/liquidity ratios</b>				
Current ratio				
Total current assets	<u>8,766.7</u>	<u>5,803.1</u>	<b>0.43</b>	0.43
Total current liabilities	<u>20,524.0</u>	<u>13,513.4</u>		
Quick ratio				
Quick assets	<u>8,208.6</u>	<u>5,593.4</u>	<b>0.40</b>	0.41
Total current liabilities	<u>20,524.0</u>	<u>13,529.2</u>		
<b>II. Solvency ratios; debt-to-equity ratios</b>				
Solvency ratio				
(After tax net profit + Depreciation)	<u>744.9</u>	<u>937.6</u>	<b>0.04</b>	0.06
Total liabilities	<u>20,566.4</u>	<u>16,085.5</u>		
Debt-to-equity ratio				
Total liabilities	<u>20,566.4</u>	<u>16,085.5</u>	<b>4.31</b>	3.51
Total equity	<u>4,771.0</u>	<u>4,588.8</u>		

**BDO Leasing and Finance, Inc. and Subsidiary**  
**Financial Ratios**  
**December 31, 2013 and 2012**  
*(Amounts in Millions of Philippine Pesos)*

	<u>2013</u>	<u>2012</u> (As Restated)	<u>2013</u>	<u>2012</u> (As Restated)
<b>III. Asset-to-equity ratio</b>				
Asset-to-equity ratio				
Total assets	<u>25,337.4</u>	<u>20,674.3</u>	<b>5.31</b>	4.51
Total equity	<u>4,771.0</u>	<u>4,588.8</u>		
<b>IV. Interest coverage ratio</b>				
Interest coverage ratio				
Earnings before interest and taxes	<u>984.4</u>	<u>990.1</u>	<b>2.35</b>	2.14
Interest expense	<u>418.6</u>	<u>463.2</u>		
<b>V. Profitability ratios</b>				
Net profit margin				
Net Profit	<u>420.3</u>	<u>410.7</u>	<b>22.09%</b>	23.32%
Interest income + Other operating income	<u>1,902.9</u>	<u>1,761.5</u>		
Return on equity				
Net profit	<u>420.3</u>	<u>410.7</u>	<b>8.98%</b>	9.23%
Average equity	<u>4,680.0</u>	<u>4,451.5</u>		
Return on assets				
Net profit	<u>420.3</u>	<u>410.7</u>	<b>1.83%</b>	2.13%
Average assets	<u>23,005.9</u>	<u>19,261.8</u>		

**BDO Leasing and Finance, Inc. and Subsidiary**  
**Financial Ratios**  
**December 31, 2013 and 2012**  
*(Amounts in Millions of Philippine Pesos)*

	<u>2013</u>	<u>2012</u> (As Restated)	<u>2013</u>	<u>2012</u> (As Restated)
<b>VI. Others</b>				
Total real estate investments to Assets				
Total investment properties	145.7	379.5	0.58%	1.84%
Total assets	25,337.4	20,674.3		
Loans to Assets				
Total loans and other receivables	20,975.0	17,245.0	82.78%	83.41%
Total assets	25,337.4	20,674.3		
DOSRI to Net worth				
Receivables from Directors, Officers Stakeholders and Related Interests	2.2	1.6	0.05%	0.03%
Total equity	4,771.0	4,588.8		
Amount of receivable from a single corporation to Total receivables				
Loan to a single corporation	1,234.8	1,275.6	5.89%	7.40%
Total loans and other receivables	20,975.0	17,245.0		