

February 27, 2015

THE PHILIPPINE STOCK EXCHANGE

Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City

Attention: **JANET A. ENCARNACION**
Head, Disclosure Department

Dear Ms. Encarnacion:

Please find attached the Audited Financial Statements of BDO Leasing and Finance, Inc. and subsidiary as of and for the year ended December 31, 2014.

Thank you.

Very truly yours,


ANGELITA L. ORTEGA-CORTEZ
Assistant Corporate Secretary



Punongbayan & Araullo

An instinct for growth™

Report of Independent Auditors

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The Board of Directors and Stockholders

BDO Leasing and Finance, Inc.

(A Subsidiary of BDO Unibank, Inc.)

BDO Leasing Centre, Corinthian Gardens

Ortigas Avenue, Quezon City

We have audited the accompanying financial statements of BDO Leasing and Finance, Inc. and subsidiary (the Group) and BDO Leasing and Finance, Inc. (the Parent Company) which comprise the statements of financial position as at December 31, 2014 and 2013, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Certified Public Accountants

P&A is a member firm within Grant Thornton International Ltd

Offices in Cebu, Davao, Cavite

BOA/PRC Cert of Reg. No. 0002

SEC Group A Accreditation No. 0002-FR-3



Auditors' Responsibility

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

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

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

Opinion

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



Emphasis of a Matter

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

PUNONGBAYAN & ARAULLO

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

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

February 25, 2015

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

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

See Notes to Financial Statements.

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

	Notes	Group			Parent Company		
		2014	2013	2012	2014	2013	2012
REVENUES							
Interest and discounts	9	P 1,450.9	P 1,297.8	P 1,271.2	P 1,450.7	P 1,297.7	P 1,271.8
Rent	18	613.1	380.8	229.8	-	1.2	-
Other income	17	209.6	224.3	260.5	240.3	197.4	251.2
		2,273.6	1,902.9	1,761.5	1,691.0	1,496.3	1,523.0
OPERATING COSTS AND EXPENSES							
Occupancy and equipment-related expenses	10, 11, 12	534.3	352.2	220.8	56.0	61.1	45.6
Interest and financing charges	13	467.9	418.6	463.2	431.1	400.2	458.4
Taxes and licenses	21	179.3	148.7	134.7	170.4	144.0	132.2
Employee benefits	19	161.4	183.4	164.6	161.4	183.4	164.6
Impairment and credit losses	9, 11, 12	100.0	126.0	112.5	100.0	126.0	112.5
Litigation/assets acquired expenses		24.9	-	47.9	24.6	17.0	47.9
Other expenses	20	91.7	91.2	90.9	91.7	88.9	90.6
		1,559.5	1,320.1	1,234.6	1,035.2	1,020.6	1,051.8
PROFIT BEFORE TAX		714.1	582.8	526.9	655.8	475.7	471.2
TAX EXPENSE	21	210.1	145.5	116.2	179.5	118.2	99.4
NET PROFIT		P 504.0	P 437.3	P 410.7	P 476.3	P 357.5	P 371.8
Basic/Diluted Earnings Per Share	22	P 0.23	P 0.19	P 0.19	P 0.22	P 0.17	P 0.17

See Notes to Financial Statements.

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

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

See Notes to Financial Statements.

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

		Group						
Note	Capital Stock	Additional Paid-in Capital	Treasury Shares, At Cost	Retained Earnings	Net Accumulated Actuarial Losses	Unrealized Fair Value Gains on Available-for- Sale Financial Assets	Net Equity	
Balance at January 1, 2014	P 2,225.2	P 571.1	(P 81.8)	P 1,986.2	(P 41.9)	P 112.2	P 4,771.0	
Total comprehensive income	-	-	-	504.0	6.8	28.4	539.2	
Cash dividends	-	-	-	(324.4)	-	-	(324.4)	
	<u>P 2,225.2</u>	<u>P 571.1</u>	<u>(P 81.8)</u>	<u>P 2,165.8</u>	<u>(P 35.1)</u>	<u>P 140.6</u>	<u>P 4,985.8</u>	
Balance at December 31, 2014								
Balance at January 1, 2013	P 2,225.2	P 571.1	(P 81.8)	P 1,890.3	(P 57.1)	P 41.1	P 4,588.8	
Total comprehensive income	-	-	-	420.3	15.2	71.1	506.6	
Cash dividends	-	-	-	(324.4)	-	-	(324.4)	
	<u>P 2,225.2</u>	<u>P 571.1</u>	<u>(P 81.8)</u>	<u>P 1,986.2</u>	<u>(P 41.9)</u>	<u>P 112.2</u>	<u>P 4,771.0</u>	
Balance at December 31, 2013								
Balance at January 1, 2012	P 2,225.2	P 571.1	(P 81.8)	P 1,587.7	(P 50.0)	P 62.0	P 4,314.2	
Total comprehensive income (loss)	-	-	-	410.7	(7.1)	(20.9)	382.7	
Cash dividends	-	-	-	(108.1)	-	-	(108.1)	
	<u>P 2,225.2</u>	<u>P 571.1</u>	<u>(P 81.8)</u>	<u>P 1,890.3</u>	<u>(P 57.1)</u>	<u>P 41.1</u>	<u>P 4,588.8</u>	
Balance at December 31, 2012								

See Notes to Financial Statements.

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

		Parent Company						
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, 2014	P 2,225.2	P 571.1	(P 81.8)	P 1,751.8	(P 41.9)	P 112.2	P 4,536.6
	Total comprehensive income	-	-	-	476.3	6.8	28.4	511.5
16	Cash dividends	-	-	-	(324.4)	-	-	(324.4)
	Balance at December 31, 2014	<u>P 2,225.2</u>	<u>P 571.1</u>	<u>(P 81.8)</u>	<u>P 1,903.7</u>	<u>(P 35.1)</u>	<u>P 140.6</u>	<u>P 4,723.7</u>
	Balance at January 1, 2013	P 2,225.2	P 571.1	(P 81.8)	P 1,718.7	(P 57.1)	P 41.1	P 4,417.2
	Total comprehensive income	-	-	-	357.5	15.2	71.1	443.8
16	Cash dividends	-	-	-	(324.4)	-	-	(324.4)
	Balance at December 31, 2013	<u>P 2,225.2</u>	<u>P 571.1</u>	<u>(P 81.8)</u>	<u>P 1,751.8</u>	<u>(P 41.9)</u>	<u>P 112.2</u>	<u>P 4,536.6</u>
	Balance at January 1, 2012	P 2,225.2	P 571.1	(P 81.8)	P 1,455.0	(P 50.0)	P 62.0	P 4,181.5
	Total comprehensive income (loss)	-	-	-	371.8	(7.1)	(20.9)	343.8
16	Cash dividends	-	-	-	(108.1)	-	-	(108.1)
	Balance at December 31, 2012	<u>P 2,225.2</u>	<u>P 571.1</u>	<u>(P 81.8)</u>	<u>P 1,718.7</u>	<u>(P 57.1)</u>	<u>P 41.1</u>	<u>P 4,417.2</u>

See Notes to Financial Statements.

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

Notes	Group			Parent Company		
	2014	2013	2012	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax	P 714.1	P 565.8	P 526.9	P 655.8	P 475.7	P 471.2
Adjustments for:						
Interest received	1,424.4	1,316.8	1,252.4	1,425.4	1,311.5	1,252.8
Interest and discounts	9 (1,450.9)	(1,297.8)	(1,271.2)	(1,450.7)	(1,297.7)	(1,271.8)
Interest and financing charges paid	(472.7)	(419.0)	(436.1)	(435.1)	(409.6)	(436.1)
Interest and financing charges	13 467.9	418.6	463.2	431.1	400.2	458.4
Depreciation and amortization	10, 11, 12 500.8	324.6	195.1	23.2	33.7	19.9
Impairment and credit losses	9, 11, 12 100.0	126.0	112.5	100.0	126.0	112.5
Gain on sale of property and equipment and investment properties	17 (25.7)	(24.5)	(55.1)	(19.4)	(4.7)	(51.5)
Day one loss	3.4	0.6	5.5	4.3	3.0	6.5
Operating profit before changes in operating assets and liabilities	1,261.3	1,011.1	793.2	734.6	638.1	561.9
Increase in loans and other receivables	(2,750.8)	(3,839.1)	(2,750.0)	(2,780.5)	(3,832.8)	(2,755.7)
Increase in other assets	(179.2)	(134.0)	(52.7)	(74.8)	(19.1)	(22.7)
Increase (decrease) in accounts payable and other liabilities	82.8	146.2	255.9	70.3	97.8	260.6
Increase in lease deposits	374.7	644.3	746.8	372.3	644.7	747.2
Cash used in operations	(1,211.2)	(2,171.5)	(1,518.6)	(1,678.1)	(2,471.3)	(1,729.9)
Cash paid for income taxes	(117.4)	(154.0)	(81.8)	(117.4)	(154.0)	(81.8)
Net Cash Used in Operating Activities	(1,328.6)	(2,325.5)	(1,600.4)	(1,795.5)	(2,625.3)	(1,811.7)
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisition of property and equipment	10 (1,178.3)	(1,091.0)	(334.0)	(1.8)	(3.5)	(6.5)
Proceeds from disposal of property and equipment and investment properties	10, 11 150.5	67.4	8.6	37.0	35.0	-
Acquisition of available-for-sale financial assets	8 (250.0)	-	-	(250.0)	-	-
Addition in investment properties	11 (5.0)	(14.1)	(77.8)	(5.0)	(14.1)	(77.8)
Net Cash From (Used in) Investing Activities	(1,282.8)	(1,037.7)	(403.2)	(219.8)	17.4	(84.3)
CASH FLOWS FROM FINANCING ACTIVITIES						
Net availments of bills payable	13 3,215.5	3,756.2	2,093.4	2,483.4	2,997.9	1,981.3
Payments of cash dividends	16 (324.4)	(324.4)	(108.1)	(324.4)	(324.4)	(108.1)
Redemption of preferred shares	-	-	-	87.5	-	-
Net Cash From Financing Activities	ss 2,891.1	3,431.8	1,985.3	2,246.5	2,673.5	1,873.2
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	279.7	68.6	(18.3)	231.2	65.6	(22.8)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	138.0	69.4	87.7	129.1	63.5	86.3
CASH AND CASH EQUIVALENTS AT END OF YEAR	7 P 417.7	P 138.0	P 69.4	P 360.3	P 129.1	P 63.5

Supplemental Information on Non-cash Investing Activities:

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

See Notes to Financial Statements.

BDO LEASING AND FINANCE, INC. AND SUBSIDIARY
(A Subsidiary of BDO Unibank, Inc.)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
*(Amounts in Millions of Philippine Pesos, Except Per Share Data,
Exchange Rates and As Indicated)*

1. CORPORATE INFORMATION

1.01 Incorporation and Operations

BDO Leasing and Finance, Inc. (BDO Leasing or the Parent Company) is a domestic corporation incorporated in 1981. Its shares were listed in the Philippine Stock Exchange, Inc. (PSE) on January 6, 1997. The Parent Company operates as a leasing and financing entity which provides direct leases, sale and leaseback arrangements and real estate leases. Financing products include amortized commercial and consumer loans, installment paper purchases, floor stock financing, receivables discounting, and factoring.

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

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

The Parent Company's principal office is located at BDO Leasing Centre, Corinthian Gardens, Ortigas Avenue, Quezon City. As of December 31, 2014, BDO Leasing has six branches located in the cities of Makati, Cebu, Davao, Cagayan de Oro and Iloilo and in the province of Pampanga. The registered address of BDO Unibank is located at BDO Corporate Center, 7899 Makati Avenue, Makati City.

1.02 Approval of Financial Statements

The accompanying financial statements of BDO Leasing and Subsidiary (the Group) and of the Parent Company as of and for the year ended December 31, 2014 (including the comparative financial statements for December 31, 2013 and 2012) were authorized for issue by the Parent Company's Board of Directors (BOD) on February 25, 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.01 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) Presentation of Financial Statements

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

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

(c) Functional and Presentation Currency

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

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

2.02 Adoption of New and Amended PFRS

(a) Effective in 2014 that are Relevant to the Group

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

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

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

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

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

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

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

- (i) PAS 19 (Amendment), *Employee Benefits – Defined Benefit Plans – Employee Contributions* (effective from July 1, 2014). The amendment clarifies that if the amount of the contributions from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit.
- (ii) PAS 1 (Amendment), *Presentation of Financial Statements – Disclosure Initiative* (effective from January 1, 2016). The amendment encourages entities to apply professional judgment in presenting and disclosing information in the financial statements. Accordingly, it clarifies that materiality applies to the whole financial statements and an entity shall not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. Moreover, the amendment clarifies that an entity's share of other comprehensive income of associates and joint ventures accounted for using equity method should be presented based on whether or not such other comprehensive income item will subsequently be reclassified to profit or loss. It further clarifies that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the financial statements.
- (iii) PAS 16 (Amendment), *Property, Plant and Equipment*, and PAS 38 (Amendment), *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (effective from January 1, 2016). The amendment in PAS 16 clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. In addition, amendment to PAS 38 introduces a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is not appropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of an intangible asset are highly correlated. The amendment also provides guidance that the expected future reductions in the selling price of an item that was produced using the asset could indicate an expectation of technological or commercial obsolescence of an asset, which may reflect a reduction of the future economic benefits embodied in the asset.

- (iv) PAS 27 (Amendment), *Separate Financial Statements – Equity Method in Separate Financial Statements* (effective from January 1, 2016). This amendment introduces a third option which permits an entity to account for its investments in subsidiaries, joint ventures and associates under the equity method in its separate financial statements in addition to the current options of accounting those investments at cost or in accordance with PAS 39 or PFRS 9, *Financial Instruments*. As of the end of the reporting period, the Parent Company has no plan to change the accounting policy for its investments in its subsidiary.
- (v) PAS 28 (Amendment), *Investments in Associates and Joint Ventures – Investment Entities – Applying the Consolidation Exception* (effective from January 1, 2016). This amendment addresses the concerns that have arisen in the context of applying the consolidation exception for investment entities. This amendment permits a non-investment entity investor, when applying the equity method of accounting for an associate or joint venture that is an investment entity, to retain the fair value measurement applied by that investment entity associate or joint venture to its interests in subsidiaries.
- (vi) PFRS 10 (Amendment), *Consolidated Financial Statements* and PAS 28 (Amendment), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* (effective from January 1, 2016). The amendment to PFRS 10 requires full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendment has been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.
- (vii) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will eventually replace PAS 39 and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:
- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;
 - an expected loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,

- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

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

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

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

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

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

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

Annual Improvements to PFRS (2010-2012 Cycle)

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

Annual Improvements to PFRS (2011-2013 Cycle)

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

Annual Improvements to PFRS (2012-2014 Cycle)

- (a) PFRS 5 (Amendment), *Non-current Assets Held for Sale and Discontinued Operations*. The amendment clarifies that when an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution (or vice-versa), the accounting guidance in paragraphs 27-29 of PFRS 5 does not apply. It also states that when an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that the distribution is no longer highly probable, it should cease held-for-distribution accounting and apply the guidance in paragraphs 27-29 of PFRS 5.
- (b) PFRS 7 (Amendment), *Financial Instruments – Disclosures*. The amendment provides additional guidance to help entities identify the circumstances under which a contract to “service” financial assets is considered to be a continuing involvement in those assets for the purposes of applying the disclosure requirements of PFRS 7. Such circumstances commonly arise when, for example, the servicing is dependent on the amount or timing of cash flows collected from the transferred asset or when a fixed fee is not paid in full due to non-performance of that asset.
- (c) PAS 19 (Amendment), *Employee Benefits*. The amendment clarifies that the currency and term of the high quality corporate bonds which were used to determine the discount rate for post-employment benefit obligations shall be made consistent with the currency and estimated term of the post-employment benefit obligations.

2.03 Basis of Consolidation and Investment in a Subsidiary

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

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

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

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

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

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

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

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

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

2.04 Segment Reporting

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

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

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

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

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

2.05 Financial Assets

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

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recognized at fair value and transaction costs are expensed in profit or loss. A more detailed description of the categories of financial instruments relevant to the Group is as follows:

(a) Loans and Receivables

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

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

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

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

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

(b) *AFS Financial Assets*

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

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

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

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

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

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

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

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

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

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.06 Property and Equipment

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

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

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

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

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

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

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

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

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

Assets held-for-sale (presented under Other Assets) include chattel or personal properties acquired through repossession or foreclosure that the Group intends to sell and will be disposed of within one year from the date of classification as held-for-sale. Starting 2014, for real and other properties acquired through foreclosure or repossession, the Group included in its criteria that there should be an existence of a buyer before a foreclosed or repossessed property can be classified as Non-current Asset Held for Sale [see Note 3.01(d)].

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

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

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

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

2.08 Investment Properties

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

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

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

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

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

2.09 Other Assets

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

2.10 Financial Liabilities

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

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

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

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

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

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

2.11 Offsetting Financial Instruments

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

2.12 Provisions and Contingencies

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

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

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

2.13 Residual Value of Leased Assets

The residual value of leased assets, which approximates the amount of lease deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the disposal of the leased asset at the end of the lease term. At the end of the lease term, the residual value of the leased asset is generally applied against the lease deposit of the lessee. The residual value of leased assets is presented as part of loans and other receivables account in the statement of financial position.

2.14 Equity

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

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

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

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

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

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

2.15 Revenue and Expense Recognition

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

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

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

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

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

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

- (b) *Rent* – Revenue from operating lease contracts is recognized in profit or loss on a straight-line basis over the lease term, or on another systematic basis which is more representative of the time pattern in which the use or benefit derived from the leased asset is diminished (see Note 2.16).
- (c) *Service fees* – Fees related to the administration and servicing a loan are recognized as revenue as the services are rendered. This account is included under Other Income.
- (d) *Dividends* – Revenue is recognized when the Group's right to receive payment is established.

Operating costs and expenses are recognized in profit or loss upon utilization of the assets or services or at the date they are incurred. All finance costs are reported in profit or loss on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.21).

2.16 Leases

The Group accounts for its leases as follows:

(a) *Group as a Lessor*

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

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

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

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

(b) *Group as a Lessee*

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

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

2.17 Foreign Currency Transactions and Translation

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

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

2.18 Impairment of Financial Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.19 Impairment of Non-financial Assets

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

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

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

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

2.20 Employee Benefits

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

(a) Post-employment Defined Benefit Plan

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

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

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

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

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

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

(c) *Termination Benefits*

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

(d) *Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of reporting period. They are included in the Account Payable and Other Liabilities account in the statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement. Starting 2014, compensated absences convertible to monetary consideration accruing to employees qualified under the retirement plan are now funded by the Group through its post-employment retirement fund. Accordingly, the related Accounts Payable and Other Liabilities account previously set-up for the compensated absences is reversed upon contribution to the retirement fund.

2.21 Borrowing Costs

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

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

2.22 Income Taxes

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

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

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

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

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

2.23 Earnings Per Share

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

2.24 Related Party Relationships and Transactions

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

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

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

2.25 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.01 Critical Management Judgments in Applying Accounting Policies

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

(a) *Distinguishing Operating and Finance Leases*

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

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

(b) *Impairment of AFS Financial Assets*

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows. No impairment loss was recognized in 2014 and 2013 for AFS financial assets.

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

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

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

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

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

Starting 2014, the Group provides additional criterion for booking real and chattel properties to Non-Current Asset Held for Sale (NCAHS) such that the real and chattel properties should have a ready buyer before it can be booked as NCAHS. Accounts with no ready buyers were classified as Investment Properties for real properties and as Repossessed chattels and other equipment under Other Assets account for other properties.

(e) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.12 and disclosures on relevant provisions are presented in Note 23.

3.02 Key Sources of Estimation Uncertainty

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

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

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

The carrying amounts of property and equipment and investment properties are presented in Notes 10 and 11, respectively. Based on management's assessment as of December 31, 2014 and 2013, there is no change in estimated useful lives of property and equipment and investment properties during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(b) *Impairment of Loans and Other Receivables*

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

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

(c) *Impairment of Non-financial Assets*

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

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

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

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

The carrying values of the Group's financial instruments are disclosed in Note 6.

(e) *Fair Value Measurement for Investment Properties*

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

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

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

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management has assessed that some of the deferred tax assets recognized as at December 31, 2014 and 2013 may not be actually recoverable.

Accordingly, in 2014 and 2013, the Group partially derecognized its deferred tax asset arising from the setting up of general loan loss provision on loans and receivables. The carrying value of the remaining deferred tax assets (netted against deferred tax liabilities) as of the end of 2014 and 2013 is disclosed in Note 21.

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

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

The amounts of retirement benefit obligation and expense and an analysis of the movements in the estimated present value of retirement benefit obligation, as well as significant assumptions used in estimating such obligation are presented in Note 19.02.

4. SEGMENT REPORTING

4.01 *Business Segments*

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

The products under the leasing segment are the following:

- Operating leases; and,
- Finance leases.

The products under the financing segment are the following:

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

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

4.02 Segment Assets and Liabilities

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

4.03 Intersegment Transactions

Intersegment transactions in 2014 and 2013 pertain to service fees charged by BDO Rental to the Parent Company as well as dividends, rent income and management fee earned by the Parent Company from BDO Rental.

4.04 Analysis of Segment Information

Segment information can be analyzed as follows:

	<u>Leasing</u>	<u>Financing</u>	<u>Others</u>	<u>Eliminations</u>	<u>Group</u>
<u>For the year ended December 31, 2014</u>					
Statement of Income					
Segment revenues					
External	P 1,368.7	P 685.3	P 219.6	P -	P 2,273.6
Inter-segment	<u>-</u>	<u>-</u>	<u>50.9</u>	<u>(50.9)</u>	<u>-</u>
	<u>1,368.7</u>	<u>685.3</u>	<u>270.5</u>	<u>(50.9)</u>	<u>2,273.6</u>
Segment expenses					
External	938.9	470.0	150.6	-	1,559.5
Inter-segment	<u>-</u>	<u>-</u>	<u>7.1</u>	<u>(7.1)</u>	<u>-</u>
	<u>938.9</u>	<u>470.0</u>	<u>157.7</u>	<u>(7.1)</u>	<u>1,559.5</u>
Segment results	<u>P 429.8</u>	<u>P 215.3</u>	<u>P 112.8</u>	<u>(P 43.8)</u>	P 714.1
Tax expense					<u>(210.1)</u>
Net profit					<u>P 504.0</u>

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

Segment expenses are allocated on the basis of gross income.

Net segment assets are comprised of the following:

	<u>2014</u>	
	<u>Leasing</u>	<u>Financing</u>
Receivables	P 10,520.6	P 10,514.3
Residual value of leased assets	4,167.9	-
Unearned income	(1,118.1)	(75.4)
Client's equity	<u>-</u>	<u>(36.5)</u>
	13,570.4	10,402.4
Equipment under lease	<u>2,008.3</u>	<u>-</u>
	15,578.7	10,402.4
Allowance for impairment	<u>(246.9)</u>	<u>(246.8)</u>
	<u>P 15,331.8</u>	<u>P 10,155.6</u>
	<u>2013</u>	
	<u>Leasing</u>	<u>Financing</u>
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>
	<u>P 13,678.5</u>	<u>P 8,545.8</u>

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

5. RISK MANAGEMENT

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

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

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

5.01 Foreign Exchange Risk

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

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

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

At December 31, 2014 and 2013, the currency exchange rates used to translate U.S. dollar denominated financial assets and liabilities to the Philippine pesos is approximately P44.7 and P44.4, respectively.

The following table illustrates the sensitivity of the net result for the year and equity with regard to the Group's financial assets and financial liabilities and the U.S. dollar – Philippine peso exchange rate. It assumes a +/-27.8% change and +/-24.0% change of the Philippine peso/U.S. dollar exchange rate at December 31, 2014 and 2013, respectively. These percentages have been determined based on the average market volatility in exchange rates in the previous 12 months. The sensitivity analysis is based on the Group's foreign currency financial instruments held at the end of each reporting period.

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

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

5.02 Interest Rate Risk

At December 31, 2014 and 2013, the Group is exposed to changes in market interest rates through its bills payable and a portion of BDO Leasing's loans and other receivables, which are subject to periodic interest rate repricing. All other financial assets and liabilities have fixed rates.

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

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

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

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

	2013	
	Increase in Interest Rate	Decrease in Interest Rate
Loans and other receivables	+6.8%	-6.8%
Bills payable	+1.2%	-1.2%
<u>Group</u>		
Increase (decrease) in:		
Profit before tax	P 16.3	(P 16.3)
Equity	11.4	(11.4)
<u>Parent Company</u>		
Increase (decrease) in:		
Profit before tax	P 14.0	(P 14.0)
Equity	9.8	(9.8)

5.03 Credit Risk

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

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

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

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

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

Group

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

Parent Company

	2014			2013	
	<u>Cash and Cash Equivalents</u>	<u>Loans and Other Receivables</u>	<u>AFS Financial Assets</u>	<u>Cash and Cash Equivalents</u>	<u>Loans and Other Receivables</u>
Concentration by sector:					
Financial intermediaries	P 360.3	P 805.7	P -	P 129.1	P 834.7
Manufacturing	-	3,475.0	-	-	3,676.9
Transportation, communication and energy	-	4,611.2	-	-	4,307.6
Wholesale and retail trade and personal activities	-	2,576.7	-	-	2,336.6
Real estate, renting and business activities	-	6,225.8	246.0	-	5,657.7
Agriculture, fishing and forestry	-	108.1	-	-	94.4
Other community, social and personal activities	-	5,870.1	-	-	4,063.3
	<u>P 360.3</u>	<u>P 23,672.5</u>	<u>P 246.0</u>	<u>P 129.1</u>	<u>P 0,971.2</u>

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

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

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

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

(i) *Unclassified*

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

(ii) *Watchlisted*

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

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

(iii) *Adversely Classified*

a. *Loans Especially Mentioned (LEM)*

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

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

b. *Substandard*

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

c. *Doubtful*

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

d. *Loss*

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

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

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

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

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

The Group holds collateral against loans and other receivables in the form of mortgage interests over real and personal properties. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are periodically updated especially when a loan is individually assessed as impaired.

An estimate of the fair value of collateral and other security enhancements held against loans and other receivables that are not impaired as of December 31, 2014 and 2013 is shown below.

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

An estimate of the fair value of collateral and other security enhancements held against loans and other receivables that are impaired as of December 31, 2014 and 2013 is shown below.

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

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

The Group's manner of disposing the collateral for impaired loans and receivables is normally through sale of these assets after foreclosure proceedings have taken place. Aside from the foregoing, there are no other credit enhancements on the Group's financial assets held as of December 31, 2014 and 2013.

5.04 Liquidity Risk

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

The Group expects that its continued asset expansion will result in higher funding requirements in the future. Like most financing companies in the Philippines, the Group does not have a license to engage in quasi-banking function, and as such, it is precluded from engaging in deposit-taking activities. In addition, it is precluded under the General Banking Act from incurring borrowings from more than

19 lenders at any one time, which to some extent, restricts its access to the public debt markets.

The Group believes that it currently has adequate debt funding from banks, other financial institutions, and through the issuance of Short-Term Commercial Papers (STCPs). On December 12, 2013, the SEC granted the Group a license to issue P15.0 billion STCPs. In 2014, the Group obtained license from the SEC to issue additional P25.0 billion STCPs.

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

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

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

	One to Three Months	Three Months to One Year	One to Three Years	More than Three Years	Total
<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>
	<u>P 4,986.3</u>	<u>P 5,517.5</u>	<u>P 9,161.4</u>	<u>P 3,541.3</u>	<u>P 23,206.5</u>
Financial liabilities					
Bills payable	P 14,195.5	P 2,253.0	P -	P -	P 16,448.5
Accounts payable and other liabilities	196.4	2.6	-	-	199.0
Lease deposits	<u>568.6</u>	<u>525.1</u>	<u>1,977.2</u>	<u>746.2</u>	<u>3,817.1</u>
	<u>P 14,960.5</u>	<u>P 2,780.7</u>	<u>P 1,977.2</u>	<u>P 746.2</u>	<u>P 20,464.6</u>
<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>
	<u>P 4,973.6</u>	<u>P 5,517.5</u>	<u>P 9,161.4</u>	<u>P 3,541.3</u>	<u>P 23,193.8</u>
Financial liabilities					
Bills payable	P 13,970.9	P 1,546.5	P -	P -	P 15,517.4
Accounts payable and other liabilities	139.6	-	-	-	139.6
Lease deposits	<u>557.3</u>	<u>504.4</u>	<u>1,970.7</u>	<u>742.2</u>	<u>3,774.6</u>
	<u>P 14,667.8</u>	<u>P 2,050.9</u>	<u>P 1,970.7</u>	<u>P 742.2</u>	<u>P 19,431.6</u>

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

5.05 Price Risk

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

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

6. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

6.01 Carrying Amounts and Fair Values by Category

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

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

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

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

(i) *Cash and cash equivalents*

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

(ii) *AFS financial assets*

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

(iii) *Loans and other receivables*

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

(iv) *Bills payable*

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

(v) *Accounts payable and other liabilities*

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

(vi) *Lease deposits*

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

6.02 Fair Value Measurement and Disclosures

6.02.01 Fair Value Hierarchy

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

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

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

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

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

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

6.02.02 Financial Instrument Measured at Fair Value

The table below shows the fair value hierarchy of the Group and Parent Company's class of financial assets measured at fair value in the statements of financial position on a recurring basis as of December 31, 2014 and 2013.

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

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

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

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

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

Group

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

	<u>Notes</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2013</u>					
<i>Financial assets:</i>					
Cash and cash equivalents	7	P 138.0	P -	P -	P 138.0
Loans and other receivables	9	-	-	21,998.2	21,998.2
		<u>P 138.0</u>	<u>P -</u>	<u>P 21,998.2</u>	<u>P 22,136.2</u>
<i>Financial liabilities:</i>					
Bills payable	13	P -	P -	P 16,335.9	P 16,335.9
Accounts payable and other liabilities	14	-	-	199.0	199.0
Lease deposits	15	-	-	3,817.1	3,817.1
		<u>P -</u>	<u>P -</u>	<u>P 20,352.0</u>	<u>P 20,352.0</u>

Parent Company

December 31, 2014

<i>Financial assets:</i>					
Cash and cash equivalents	7	P 360.3	P -	P -	P 360.3
Loans and other receivables	9	-	-	23,406.6	23,406.6
		<u>P 360.3</u>	<u>P -</u>	<u>P 23,406.6</u>	<u>P 23,766.9</u>
<i>Financial liabilities:</i>					
Bills payable	13	P -	P -	P 17,955.0	P 17,955.0
Accounts payable and other liabilities	14	-	-	202.3	202.3
Lease deposits	15	-	-	4,148.9	4,148.9
		<u>P -</u>	<u>P -</u>	<u>P 22,306.2</u>	<u>P 22,306.2</u>

December 31, 2013

<i>Financial assets:</i>					
Cash and cash equivalents	7	P 129.1	P -	P -	P 129.1
Loans and other receivables	9	-	-	21,994.3	21,994.3
		<u>P 129.1</u>	<u>P -</u>	<u>P 21,994.3</u>	<u>P 22,123.4</u>
<i>Financial liabilities:</i>					
Bills payable	13	P -	P -	P 15,427.8	P 15,427.8
Accounts payable and other liabilities	14	-	-	139.6	139.6
Lease deposits	15	-	-	3,774.6	3,774.6
		<u>P -</u>	<u>P -</u>	<u>P 19,342.0</u>	<u>P 19,342.0</u>

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

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

(a) Financial instruments in Level 1

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

(b) Financial instruments in Level 2

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

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

(c) Financial instruments in Level 3

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

6.02.04 Fair Value Measurement for Non-Financial Assets

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

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

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

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

7. CASH AND CASH EQUIVALENTS

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

	<u>Group</u>		<u>Parent Company</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Cash on hand and in banks	P 393.8	P 119.6	P 336.3	P 110.8
Cash equivalents	<u>23.9</u>	<u>18.4</u>	<u>24.0</u>	<u>18.3</u>
	<u>P 417.7</u>	<u>P 138.0</u>	<u>P 360.3</u>	<u>P 129.1</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 average maturity of 30 to 90 days and annual interest rates ranging from 0.3% to 1.9% in 2014 and 0.3% to 1.5% in 2013.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

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

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

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

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

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

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

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

The Group and the Parent Company recognized fair value gains of P28.5 and P71.5 in 2014 and 2013, respectively, and fair value loss of P21.0 in 2012, recorded as part of items that will be reclassified subsequently to profit or loss in the statements of comprehensive income.

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

Certain AFS financial assets with face amount of P1,970.0 as of December 31, 2014 and 2013 were used as collateral to secure the payment of certain bills payable (see Note 13).

9. LOANS AND OTHER RECEIVABLES

This account consists of the following:

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

As of December 31, 2014 and 2013, 47.0% and 56.0%, respectively, of the total receivables from customers of the Group are subject to periodic interest repricing. Remaining receivables from customers earn annual fixed interest rates ranging from 4.3% to 28.0% in 2014 and 4.0% to 30.0% in 2013.

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

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

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

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

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

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

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

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

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

	<u>Group</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Finance lease receivables	P 761.1	P 661.6	P 494.2
Loans and receivable financed	686.9	634.8	776.4
Interest on defined benefit plan	2.3	0.9	-
Cash and cash equivalents	<u>0.6</u>	<u>0.5</u>	<u>0.6</u>
	<u>P 1,450.9</u>	<u>P 1,297.8</u>	<u>P 1,271.2</u>
	<u>Parent Company</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Finance lease receivables	P 761.1	P 661.6	P 494.2
Loans and receivables financed	686.9	634.8	777.0
Interest on defined benefit plan	2.3	0.9	-
Cash and cash equivalents	<u>0.4</u>	<u>0.4</u>	<u>0.6</u>
	<u>P 1,450.7</u>	<u>P 1,297.7</u>	<u>P 1,271.8</u>

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

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

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

Certain loans and receivables with carrying amount of P817.0 and P109.0 as of December 31, 2014 and 2013, respectively, were used as collateral to secure the payment of certain bills payable (see Note 13).

10. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of 2014 and 2013 are shown below.

	<u>Transportation and Other Equipment</u>	<u>Furniture, Fixtures and Others</u>	<u>Leasehold Improvements</u>	<u>Total</u>
<u>Group</u>				
December 31, 2014				
Cost	P 2,860.4	P 30.4	P 18.2	P 2,909.0
Accumulated depreciation and amortization	(852.1)	(26.9)	(17.4)	(896.4)
Net carrying amount	<u>P 2,008.3</u>	<u>P 3.5</u>	<u>P 0.8</u>	<u>P 2,012.6</u>
December 31, 2013				
Cost	P 2,028.8	P 30.6	P 26.2	P 2,085.6
Accumulated depreciation and amortization	(612.1)	(25.3)	(24.0)	(661.4)
Net carrying amount	<u>P 1,416.7</u>	<u>P 5.3</u>	<u>P 2.2</u>	<u>P 1,424.2</u>
January 1, 2013				
Cost	P 1,128.8	P 28.0	P 25.5	P 1,182.3
Accumulated depreciation and amortization	(496.1)	(22.2)	(20.3)	(538.6)
Net carrying amount	<u>P 632.7</u>	<u>P 5.8</u>	<u>P 5.2</u>	<u>P 643.7</u>
<u>Parent Company</u>				
December 31, 2014				
Cost	P -	P 30.4	P 18.2	P 48.6
Accumulated depreciation and amortization	-	(26.9)	(17.4)	(44.3)
Net carrying amount	<u>P -</u>	<u>P 3.5</u>	<u>P 0.8</u>	<u>P 4.3</u>
December 31, 2013				
Cost	P -	P 30.6	P 26.2	P 56.8
Accumulated depreciation and amortization	-	(25.3)	(24.0)	(49.3)
Net carrying amount	<u>P -</u>	<u>P 5.3</u>	<u>P 2.2</u>	<u>P 7.5</u>
January 1, 2013				
Cost	P -	P 28.0	P 25.5	P 53.5
Accumulated depreciation and amortization	-	(22.2)	(20.3)	(42.5)
Net carrying amount	<u>P -</u>	<u>P 5.8</u>	<u>P 5.2</u>	<u>P 11.0</u>

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

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

	<u>Transportation and Other Equipment</u>	<u>Furniture, Fixtures and Others</u>	<u>Leasehold Improve- ments</u>	<u>Total</u>
<u>Parent Company</u>				
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	<u>-</u>	<u>(3.3)</u>	<u>(3.7)</u>	<u>(7.0)</u>
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>

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

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

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

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

11. INVESTMENT PROPERTIES

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

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

	<u>Land</u>	<u>Building and Improvements</u>	<u>Total</u>
December 31, 2014			
Cost	P 358.0	P 82.3	P 440.3
Accumulated depreciation	-	(62.7)	(62.7)
Accumulated impairment	<u>(57.0)</u>	<u>-</u>	<u>(57.0)</u>
Net carrying amount	<u>P 301.0</u>	<u>P 19.6</u>	<u>P 320.6</u>

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

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

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

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

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

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

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

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

12. OTHER ASSETS

Other assets consist of the following:

	Note	Group		Parent Company	
		2014	2013	2014	2013
Deferred input VAT		P 235.4	P 163.1	P -	P -
Prepaid expenses		102.0	103.8	29.5	26.8
Advances to supplier		59.6	-	59.6	-
Retirement benefit asset	19	56.2	43.1	56.2	43.1
Non-current assets held-for-sale – net		11.8	237.4	11.8	237.4
Repossessed chattels and other equipment - net		-	2.8	-	2.8
Investment in a subsidiary		-	-	312.5	400.0
Miscellaneous - net		14.1	10.8	8.2	10.7
		<u>P 479.1</u>	<u>P 561.0</u>	<u>P 477.8</u>	<u>P 720.8</u>

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

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

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

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

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

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

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

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

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

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

13. **BILLS PAYABLE**

This account consists of:

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

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

Interest and financing charges consist of interest on:

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

14. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities consist of the following:

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

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

15. LEASE DEPOSITS

This account represents deposits on:

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

Interest expense on lease deposits accrued using the effective interest method in the Group's financial statements amounted to P3.3, P4.2 and P4.5 in 2014, 2013 and 2012 respectively, and P2.1, P2.5 and P2.9 in 2014, 2013 and 2012, respectively, in the Parent Company's financial statements (see Note 13). These are included as part of Interest and Financing Charges under Operating Costs and Expenses in the Group and Parent Company's statements of income.

16. EQUITY

16.01 Capital Management Objectives, Policies and Procedures

The Group's capital management objectives are:

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

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

The Group's capital and overall financing as of December 31, 2014 and 2013 are shown below.

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

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

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

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

As of December 31, 2014 and 2013, the Group is in compliance with this minimum paid-up capital requirement.

16.02 Preferred Shares

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

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

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

16.03 Common Shares

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

16.04 Retained Earnings

On February 26, 2014, the BOD approved the declaration of cash dividends at P0.15 per share amounting to P324.4. The dividends were declared in favor of stockholders of record as of March 13, 2014 and were paid on March 31, 2014.

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

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

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

16.05 Track Record of Registration of Securities

On January 6, 1997, the Parent Company was listed with the PSE with 106,100,000 new additional common shares and 15,120,000 existing common shares with par value of P1 per share. The listing was approved by the SEC in May 1996. As of December 31, 2014 and 2013, the Parent Company's number of shares registered totaled 3,400,000,000 with par value of P1.00 per share and closed at a price of P2.00 both in 2014 and 2013. The total number of stockholders is 1,167 and 1,117 as of December 31, 2014 and 2013, respectively.

17. OTHER INCOME

This account is composed of the following:

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

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

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

18. LEASES

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

In the ordinary course of business, the Group enters into various operating leases with lease terms ranging from 12 to 60 months. Operating lease income, presented under Rent account in the Group statements of income for the years ended December 31, 2014, 2013 and 2012, amounted to P613.1, P380.8 and P229.8, respectively.

Future minimum rental receivables under operating leases follow:

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

19. EMPLOYEE BENEFITS

19.01 Employee Benefits Expense

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

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

19.02 Post-employment Benefits

(a) Characteristics of the Defined Benefit Plan

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

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

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

Actuarial valuations are made annually to update the post-employment benefit costs and the related amount of contributions. All amounts presented below and in the succeeding pages are based on the actuarial valuation report obtained from an independent actuary in 2014 and 2013.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(c) *Risks Associated with the Retirement Plan*

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

(i) *Investment and Interest Risk*

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

(ii) *Longevity and Salary Risks*

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

(d) *Other Information*

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

(i) *Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the retirement benefit obligation as of December 31, 2014 and 2013:

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

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

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

(ii) *Asset-liability matching strategy*

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

(iii) *Funding Arrangements and Expected Contributions.*

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

The Parent Company expects to make contribution of P17.1 to the plan during the next financial year.

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

Within one year	P	6.3
More than one year to five years		52.4
More than five years to ten years		<u>142.1</u>
	P	<u>200.7</u>

20. RELATED PARTY TRANSACTIONS

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

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

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

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

- (a) The Group maintains savings and demand deposit accounts with BDO Unibank. As of December 31, 2014 and 2013, savings and demand deposit accounts maintained with BDO Unibank are included under Cash and Cash Equivalents account in the statements of financial position (see Note 7). Interest income earned on these deposits in 2014, 2013 and 2012 is included under Interest and Discounts under the Revenues account in the statements of income.
- (b) The Group obtains short-term, unsecured bills payable from BDO Unibank. The amount outstanding from borrowings as of December 31, 2014 and 2013 is presented under Bills Payable account in the statements of financial position (see Note 13). Interest expense incurred on these bills payable in 2014, 2013 and 2012 is included under Interest and financing charges account as part of Operating Costs and Expenses account in the statements of income. Also, the Parent Company grants short-term, unsecured loans to BDO Rental. There is no outstanding balance arising from this transaction as of December 31, 2014 and 2013. Total interest income earned by the Parent Company on these loans in 2014, 2013 and 2012 is included under Interest and Discounts as part of Revenues in the statements of income.
- (c) On January 4, 2010, the Parent Company and BDO Rental entered into a Service Agreement whereby BDO Rental will handle the collection of certain factored receivables of the Parent Company, for a fee as agreed by the Parent Company and the sellers of the factored receivables. Under the Service Agreement, BDO Rental shall perform the monitoring of the payment due dates of the factored receivables, remit to the Parent Company all collections made and send monthly statement of accounts to customers. The related expense charged to the Parent Company based on the Service Agreement is included under Other Operating Costs and Expenses in the Parent Company's statements of income. There are no outstanding intercompany payable and receivable from this transaction as of December 31, 2014 and 2013.

- (d) The Parent Company leases its head office premises and certain branch offices from BDO Unibank for terms ranging from one to five years, renewable for such period and under such terms and conditions as may be agreed upon with the Parent Company and BDO Unibank. Related rent expense incurred in 2014, 2013 and 2012 is presented as part of Occupancy and equipment-related expenses under Operating Costs and Expenses account in the statements of income. On the other hand, the Parent Company charges BDO Rental for the spaces that the latter occupies in the head office premises. Rent changed to BDO Rental in 2014 and 2013 is presented as part of Other Income in the statements of income. There are no outstanding receivable and payable on these transactions as of the end of 2014 and 2013.
- (e) In 2013, the Parent Company entered into a service level agreement with BDO Unibank wherein BDO Unibank will charge the Parent Company for certain management services that the former provides to the latter. Management fees paid by the Parent Company to BDO Unibank is shown as part of Other Operating Costs and Expenses in the statements of income. Also, the Parent Company charges BDO Rental for the management services it renders to BDO Rental. This is presented as part of Other Income in the statements of income of the Parent Company. There are no outstanding receivable and payable on these transactions as of the end of 2014 and 2013.
- (f) The Parent Company engaged the services of BDO Capital and Investment Corporation (BDO Capital), a wholly owned subsidiary of BDO Unibank for underwriting services related to the Parent Company's issuance of bills payable in 2012. Service and charges fees paid by the Parent Company to BDO Capital related to this transaction is included as part of Other Operating Costs and Expenses in the statements of income. There are no outstanding payable related on this transaction as of the end of 2014 and 2013.
- (g) Compensation of key management personnel (covering officer positions starting from Assistant Vice President and up) is included as part of Employee Benefits under Operating Costs and Expenses in the statements of comprehensive income of the Group and Parent Company. Short-term employee benefits include salaries, paid annual leave and paid sick leave, profit sharing and bonuses, and non-monetary benefits. The Group also incurred post-employment benefit expense related to key management personnel included as part of Employee Benefits under Operating Costs and Expenses. The Group also granted cash advances to an officer.
- (h) The Group maintains a retirement benefit fund with BDO Unibank covering all regular full-time employees. In the normal course of business, the retirement benefit fund grants salary and housing loans to certain officers and employees of the Parent Company, and members and beneficiaries of the fund who are also officers of the Parent Company. The housing loans are secured by the mortgage on the property and bear interest at 9.0% per annum and have terms ranging from 13 to 20 years. The salary loans on the other hand, are unsecured and bear interest ranging from 9.0% to 10.0% per annum and have terms ranging from 18 months to 3 years. There is no impairment loss recognized on this loan.

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

21. TAXES

21.01 Taxes and Licenses

This account is composed of the following:

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

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

21.02 Current and Deferred Taxes

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

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

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

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

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

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

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

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

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

	<u>Group</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
<i>In profit or loss:</i>			
Deferred tax assets:			
Allowance for impairment on:			
Loans and discounts	P 25.1	P 2.4	(P 4.9)
Investment properties and non-current assets held-for-sale	20.1	(0.4)	(14.1)
Accounts receivable	-	0.1	1.0
Retirement benefit obligation	1.1	(1.7)	3.3
Net operating loss carryover	-	-	7.2
Other	3.8	(3.2)	-
	<u>50.1</u>	(2.8)	(7.5)
Total deferred tax assets <i>(balance carried forward)</i>			
Deferred tax liabilities:			
Lease income differential	(27.8)	-	(43.1)
Others	(0.5)	1.9	0.6
	<u>(28.3)</u>	(1.9)	(42.5)
Net deferred tax expense (income)	<u>P 21.8</u>	<u>(P 4.7)</u>	<u>(P 50.0)</u>
	<u>Parent Company</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
<i>In profit or loss:</i>			
Deferred tax assets:			
Allowance for impairment on:			
Loans and discounts	P 25.1	P 2.4	(P 4.9)
Investment properties and non-current assets held-for-sale	20.1	(0.4)	(14.1)
Accounts receivable	-	0.1	1.0
Retirement benefit obligation	1.1	(1.7)	3.3
Other	3.8	(3.1)	-
	<u>50.1</u>	(2.7)	(14.7)
Total deferred tax assets <i>(balance carried forward)</i>			
Deferred tax liabilities:			
Lease income differential	(27.8)	-	(43.1)
Others	(0.5)	1.9	0.5
	<u>(28.3)</u>	(1.9)	(42.6)
Net deferred tax expense (income)	<u>P 21.8</u>	<u>(P 4.6)</u>	<u>(P 57.3)</u>

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

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

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

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

22. EARNINGS PER SHARE

Basic earnings per share were computed as follows:

	<u>Group</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net profit	P 504.0	P 420.3	P 410.7
Divided by the weighted average number of outstanding common shares – net*	<u>2,162.0</u>	<u>2,162.0</u>	<u>2,162.0</u>
Basic earnings per share	<u>P 0.23</u>	<u>P 0.19</u>	<u>P 0.19</u>

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

* net of treasury shares

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

23. **CONTINGENT LIABILITIES AND COMMITMENTS**

23.01 Operating Lease Commitments – Group as Lessee

The Group leases the head office and certain branch offices from BDO Unibank. Total lease payments presented as part of Occupancy and equipment-related expenses under Operating Costs and Expenses in the statements of income amounted to P10.5 in 2014, P11.2 in 2013 and P11.0 in 2012.

Future minimum lease payments under these operating leases follow:

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

23.02 Others

In addition to those already mentioned in the preceding notes, in the ordinary course of business, the Group incurs contingent liabilities and commitments arising from normal business transactions which are not reflected in the accompanying financial statements. As of December 31, 2014, management does not anticipate significant losses from these contingencies and commitments that would adversely affect the Group's financial position and results of operations.