

COVER SHEET

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

(Company's Full Name)

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

ELMER B. SERRANO Contact Person

687 1195 Company Telephone Number

1 2 3 1 Month Day Fiscal Year

SEC FORM 17-A FORM TYPE

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number Document I.D.

LCU

Cashier

STAMPS

Remarks = pls. Use black ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF THE CORPORATION CODE OF THE PHILIPPINES



1. For the fiscal year ended: **December 31, 2016**
2. SEC Identification Number: **97869**
3. BIR Tax Identification No.: **000-486-050-000**
4. Exact name of issuer as specified in its charter: **BDO LEASING AND FINANCE, INC.**
5. **Manila**  
Province, Country or other jurisdiction of incorporation or organization
6.  (SEC Use Only)  
Industry Classification Code:
7. **No. 12 ADB Avenue, Ortigas Avenue  
Ortigas Center, Mandaluyong City, Philippines**  
Address of principal office
8. **(632) 688-1288**  
Issuer's telephone number, including area code
9. **N/A**  
Former name, former address, and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Subscribed and Outstanding	
	No. of Shares	Amount in Pesos
Common	2,162,475,312	Php 2,162,475,312.00
<b>Total</b>	<b>2,162,475,312</b>	<b>Php 2,162,475,312.00</b>
	Authorized	Outstanding
Short Term Commercial Paper	Php 25,000,000,000.00	16,948,600,000.00
Long Term Commercial Paper	0.00	0.00
<b>Total</b>	<b>Php 25,000,000,000.00</b>	<b>16,948,600,000.00</b>

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

Yes [X] No [ ]

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

**The Philippine Stock Exchange, Inc.**

**Common Shares only**

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and

141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes []      No [  ]

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

Yes []      No [  ]

13. Aggregate market value of the voting stock held by non-affiliates: Php 980,537,936.40

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### **FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES**

## PART I - BUSINESS & GENERAL INFORMATION

### ITEM 1. BUSINESS

**BDO LEASING AND FINANCE, INC.** (the “**Company**” or the “**Parent Company**”) is a domestic corporation incorporated with the Philippine Securities and Exchange Commission (“**SEC**”) in 1981 under Republic Act No. 8556 (the “**Financing Company Act**”), and listed with The Philippine Stock Exchange, Inc. (“**PSE**”) on January 6, 1997. The Company is eighty-eight percent (88%)-owned by BDO Unibank, Inc. (“**BDO Unibank**”), a company incorporated and domiciled in the Philippines. The Company is the principal business unit of BDO Unibank engaged in leasing and financing.

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

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

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

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

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

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

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

#### Leasing Products:

*Finance Lease* – A source of medium-term financing for the acquisition of capital equipment and is ideal if the client plans to keep the asset up to the end of the term. With just capital outlay, the client can use the asset immediately.

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

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

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

arrangement simultaneously provides liquidity to the client and continued use of the asset.

#### Financing Products:

*Amortized Commercial Loan* - The Company provides financing to commercial clients through the mortgage of the latter's equipment or real property. The client is able to avail of longer amortization terms as compared to unsecured loans. An amortized commercial loan addresses the client's capital expenditure or permanent working capital need.

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

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

*Floor Stock Financing* - Ideal for transport vehicle and equipment dealers, Floor Stock Financing is a revolving short-term credit facility that finances the purchase of inventory assets – motor vehicles, trucks, and heavy equipment – from manufacturers. Floor Stock Financing will ensure that the client's inventory is in place when sales opportunities arise, without having to self-finance purchase.

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

As of December 31, 2016, the Company's leasing and financing products contributed 60.27% and 32.03% to its gross revenues, respectively, vis-a-vis 2016 projected ratios of 64.3 % and 26.8% respectively.

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

There were no publicly announced new products or services.

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

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

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

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

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

## ***Market Position***

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

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

The Company markets its products through its head office located at the 39/F BDO Corporate Center Ortigas, No.12 ADB Avenue, Ortigas Center, Mandaluyong City and its branch network nationwide. The Company has an extensive branch network in the leasing and financing industry, with five branches located in Cagayan de Oro City (Misamis Oriental), Cebu City (Cebu), Davao City (Davao), Iloilo City (Iloilo) and Angeles City (Pampanga).

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

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

## ***Competition***

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

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

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

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

## ***Sources and Availability of Raw Materials***

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


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

In the ordinary course of business, the Company and BDO Rental (collectively referred to as the “**Group**”) enter into transactions with BDO Unibank and other affiliates. Under the Group's policy, these transactions are made substantially on the same terms with other individuals and businesses of comparable risks.

The Group's and the Parent Company's related parties include BDO Unibank, affiliates, key management personnel and the retirement benefit fund discussed in detail under Item 12 on Certain Relationships and Related Transactions.

### ***Intellectual Property***

As of December 31, 2016, the Company has no existing or expiring patents, copyrights, licenses, franchises, concessions, and royalty agreements. As of even date, the Company is the licensee from BDO Unibank of the following registered trademark with the Philippine Intellectual Property Office:

<b>Trademarks</b>	<b>Validity of Registration</b>
	May 4, 2014 to May 4, 2024

### ***Governmental Regulation***

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

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

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

### ***Employees***

As of December 31, 2016, the Company had 208 employees – 23 senior officers, 85 junior officers and 100 rank & file employees. Of the total personnel, Executive Office is composed of two employees; 138 under the Marketing group; 54 under the Operations group (Comptrollership and Operations, HR & Admin); nine under Risk and Compliance; three under Treasury; and two under the Company's subsidiary, BDO Rental. In 2017, the Company anticipates two additional employees.

The Company believes that it has maintained good relationship with its employees. Rank & file employees receive benefits similar to those granted to the rank & file employees of BDO Unibank, under the terms of a Collective Bargaining Agreement (“**CBA**”) between BDO Unibank and NUBE-BDO, a legitimate labor organization duly registered with the Department of Labor and Employment. The CBA expires on October 31, 2020. Coverage of the CBA includes wage increases, allowances, bonuses, loans and other benefits.



## ***Risk Factors***

### **Portfolio Concentration Risks**

As of December 31, 2016, 67% of the Company's leasing and financing portfolio consisted of exposure in firms in the following sectors: transportation, construction, financial services and consumer products. The Company maintains a general policy of avoiding excessive exposure in any particular sector of the Philippine economy. The Company actively seeks to increase its exposure in industry sectors, which it believes possess attractive growth opportunities. Conversely, it actively seeks to reduce its exposure in industry sectors where growth potential is minimal. Although the Company's leasing and financing portfolio is composed of transactions with a wide variety of businesses, the results of operations and financial condition of the Company may be adversely affected by any downturn in these sectors as well as in the Philippine economy in general.

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

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

### **Risk Management**

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

### **Foreign Currency Sensitivity**

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

### **Interest Rate Risk**

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

### **Credit Risk**

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

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

### **Liquidity Risk**

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

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

The Company believes that it currently has adequate debt funding from banks, other financial institutions, and through the issuance of Commercial Papers ("**CPs**"). The Company has a license from the SEC to issue a total of ₱25 billion CPs.

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

### **Taxation**

#### **Relevant Tax Regulations**

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

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

- e) Under Republic Act 9504, corporate taxpayers have the option to claim itemized deduction or optional standard deduction (“**OSD**”) equivalent to 40% of gross sales. Once the option to use OSD is made, it shall be irrevocable for the taxable year for which the option was made.
- f) The amount of interest expense allowed as income tax deduction is reduced by an amount equal to 33% of the interest income subjected to final tax.
- g) In October 2012, the BIR prescribed the rules on deductibility of depreciation expenses as it relates to purchase of vehicles and others related thereto, and input taxes allowed therefor through RR No. 12-2012. Revenue Memorandum Circular No. 2-2013 was issued on December 28, 2012 clarifying certain provisions on the deductibility of depreciation expense as it relates to purchase of vehicles and others related thereto, and the allowed input taxes.
- h) RR No. 14-2012, effective November 2012, provides for the proper tax treatment of interest income earnings on financial instrument and other related transaction. Subsequently, the BIR issued Revenue Memorandum Circular (“**RMO**”) No. 27-2012 for the creation of alphanumeric tax code and RMO No. 84-2012 for the clarification on tax treatment of interest income earnings on loans that are not securitized, assigned or participated out.
- i) RR No. 18-2012 was issued for the Processing of Authority to Print Official Receipts, Sales Invoices, and Other Commercial Invoices using the On-line ATP System and providing for the Additional Requirements in the Printing thereof.
- j) RR No. 9-2013 was issued on May 10, 2013 amending certain provisions of RR No. 30-2002 relative to the payment of the amount offered as compromise settlement. Under Section 6 of the NIRC, the compromise offer shall be paid by the taxpayer upon filing of the application for compromise settlement. No application for compromise settlement shall be processed without the full settlement of the offered amount. In case of disapproval of the application for compromise settlement, the amount paid upon filing of the aforesaid application shall be deducted from the total outstanding liabilities.
- k) The BIR issued RR No. 10-2013 effective June 1, 2013, further amending pertinent provisions of RR No. 2-98, as last amended by RR No. 30-2003, which provides for the inclusion of Real Estate Service Practitioners (RESPs) (i.e. real estate consultants, real estate appraisers, and real estate brokers) who passed the licensure examination given by the Real Estate Service pursuant to RA 9646 “The Real Estate Service Act of the Philippines” among those professionals falling under Sec. 2.57.2 (A)(1) of RR No. 2-98, as amended, subject to the 10% and 15% creditable (expanded) withholding tax and to amend Section 2.57.2 (G) of RR 14-2002 to include real estate practitioners who did not pass or did not take up licensure examinations given by the Real Estate Service.
- l) RR No. 11-2013 prescribes the filing/submission of hard copy of the Certificate of Compensation Payment/Tax Withheld (BIR Form 2316) beginning 2013 and covering employees who are qualified for substituted filing, thereby amending RR No. 2-98 as last amended by RR No. 010-08. In cases covered by substituted filing, the employer shall furnish each employee with the original copy of BIR Form No. 2316 and file/submit to the BIR the duplicate copy not later than February 28 following the close of the calendar year.
- m) RR No. 12-2013, issued July 12, 2013, amends Section 2.58.5 of RR No. 2-98, as amended, relative to the requirements for deductibility of certain income payments. No deduction will be allowed notwithstanding payments of withholding tax at the time of audit investigation or reinvestigation / reconsideration in cases where no withholding of tax was made in accordance with Sections 57 and 58 of the NIRC..
- n) On September 17, 2013, the BIR issued RR No. 17-2013 that prescribes guidelines on the preservation of books of accounts and other accounting records. All taxpayers are required to

preserve their books of accounts, including subsidiary books of accounts and other accounting records, for a period of ten years reckoned from the day following the deadline from the date of the filing of the return, for taxable year when the last entry was made in the books of accounts.

- o) RR No. 18-2013, which was issued November 28, 2013, amends certain sections of RR No. 12-99 relative to the due process requirement in the issuance of Deficiency Tax Assessment. RR 18-2013 introduced the New Assessment Phase which removes requirement for issuance of informal conference, mandates the issuance of a Final Assessment Notice (“**FAN**”) 15 days from receipt of reply to the Preliminary Assessment Notice (“**PAN**”) and if the taxpayer fails to reply to the PAN within 15 days, the taxpayer shall be deemed in default and the FAN is issued right away. In the protest or administrative appeal, the regulations require the taxpayer to indicate whether a reinvestigation or reconsideration is sought, otherwise the protest/administrative appeal shall be void. Other changes imposed by RR 18-2013 relates to the imposition of 20% delinquency interest, in addition to the 20% deficiency interest.
- p) RR No. 1-2014 was issued on December 17, 2013 amending the provisions of RR No. 2-98, as further amended by RR No. 10-2008, specifically on the submission of alphabetical list of employees/payees of income payments. These regulations were issued for purposes of ensuring that information on all income payments paid by employers/payors, whether or not subject to the withholding tax except on cases prescribed under existing international agreements, treaties, laws and revenue regulations, regardless on the number of employees and/or payees, are monitored by and captured in the taxpayer database of the BIR, with the end in view of establishing simulation model, formulating analytical framework for policy analysis, and institutionalizing appropriate enforcement activities.
- q) On January 24, 2014, the BIR issued RR No. 2-2014 to prescribe new BIR forms that will be used for income tax returns filing covering and starting the taxable year ended December 31, 2013.
- r) On April 25, 2014, BIR issued RMC No. 46-2014 to clarify taxability of Financial Lease for the purpose of documentary stamp tax (“**DST**”).

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

Beginning January 1, 2003, the imposition of VAT on banks and financial institutions became effective pursuant to the provisions of Republic Act 9010. The Company became subject to VAT based on its gross receipts, in lieu of the GRT under Sections 121 and 122 of NIRC, which was imposed on banks, non-banks financial intermediaries and finance companies in prior years.

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

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

#### **Supplementary Information Required Under RR 15-2010 and 19-2011**

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

## **ITEM 2. PROPERTIES**

The Company leases its head office premises from BDO Unibank for a period of five years until September 30, 2021. Head office address is at the 39/F BDO Corporate Center Ortigas, 12 ADB Avenue, Ortigas Center, Mandaluyong City. In 2016 and 2015, the consolidated rent expense amounted to P19.6 million and P18.2 million, respectively. Cagayan de Oro, Davao, Iloilo, Pampanga, and Cebu branches lease their premises from BDO Unibank.

The details of the branches' office premises follow:

### **Cagayan**

- Operates at the 5<sup>th</sup> Floor BDO Regional Office, Lot 6 Blk, Limketkai Commercial Complex, Limketkai Avenue, Brgy. 31, Poblacion, Cagayan de Oro City for a period of five years and will expire on March 31, 2020. Monthly rental amounts to P34,926.50 with no escalation clause.

### **Iloilo**

- Operates at the 2<sup>nd</sup> Floor BDO Corporate Center, BDO Valeria Branch, Valeria St., Iloilo City for a period of five years and will expire on November 17, 2018. Monthly rental amounts to P11,500.00 with no escalation clause.

### **Davao**

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

### **Cebu**

- Operates the Mezzanine Floor BDO Bldg., Gorordo Avenue, Lahug, Cebu City for a period of five years and will expire on May 31, 2019. Monthly rental amounts to P46,122.00 with no escalation clause.

### **Pampanga**

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

The Company's facilities, office furniture, fixtures and equipment are in good condition. Distribution of office furniture, fixture and equipment are as follows: Head office – P30.7 million; Cebu – P0.7 million; Davao – P0.7 million; Cagayan – P1.0 million; Iloilo – P0.6 million; Pampanga – P1.6 million.

## **ITEM 3. LEGAL PROCEEDINGS**

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

## **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

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

## **PART II - OPERATIONAL AND FINANCIAL INFORMATION**

### **ITEM 5. MARKET FOR ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

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

Total treasury shares as of December 31, 2016 was 62,693,718 shares or a total value of P81,776,628.

#### **Dividends**

On February 24, 2016, the Board approved the declaration of cash dividends at P0.20 per share in favor of stockholders of record as of March 11, 2016 paid on March 30, 2016. Total dividends in 2016 amounted to P432.49 million.

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

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

#### **Market Information**

The principal market for the Company's common equity is the PSE.

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

<b>2017</b>	<b>High</b>	<b>Low</b>	<b>2016</b>	<b>High</b>	<b>Low</b>
1 <sup>st</sup> quarter	3.96	3.95	1 <sup>st</sup> quarter	2.85	2.84
			2 <sup>nd</sup> quarter	4.15	4.00
			3 <sup>rd</sup> quarter	3.85	3.77
			4 <sup>th</sup> quarter	3.79	3.79
<b>2015</b>	<b>High</b>	<b>Low</b>	<b>2014</b>	<b>High</b>	<b>Low</b>
1 <sup>st</sup> quarter	2.34	2.28	1 <sup>st</sup> quarter	2.00	2.00
2 <sup>nd</sup> quarter	2.54	2.51	2 <sup>nd</sup> quarter	2.11	2.11
3 <sup>rd</sup> quarter	2.47	2.47	3 <sup>rd</sup> quarter	2.20	2.15
4 <sup>th</sup> quarter	2.51	2.45	4 <sup>th</sup> quarter	2.15	2.15

As at March 31, 2017 and December 31, 2016, the closing price of the Company's share were at P3.96 and P3.79, respectively.

Total number of stockholders as of March 31, 2017 was one thousand one hundred thirty seven (1,137) and as of December 31, 2016 was one thousand one hundred thirty six (1,136). Common shares outstanding as of January 31, 2017 and December 31, 2016 totaled 2,162,475,312.

## Holders

The Company's common stockholders, with their respective shareholdings as of March 31, 2017 are as follows:

<b>Name</b>	<b>No. of Shares Held</b>	<b>% to Total</b>
BDO Unibank, Inc.*	1,914,711,807	88.542597%
Various Stockholders	<u>247,763,505</u>	<u>11.457403%</u>
	<b><u>2,162,475,312</u></b>	<b><u>100.00000%</u></b>

The top twenty (20) stockholders of the Company as of March 31, 2017 are as follows:

<b>Name of Stockholders</b>	<b>Securities</b>	<b>Shares Held</b>	<b>Total Outstanding</b>
BDO Unibank, Inc.*	Common	1,914,711,807	88.542597%
PCD Nominee Corporation(Filipino)	Common	245,183,447	11.338092%
Samuel Uy Chua	Common	21,000,000	0.971109%
Equitable Computer Services, Inc. A/C	Common	12,320,000	0.569717%
Marylen Castro Mateo	Common	3,795,000	0.175493%
Jesselen Castro Mateo	Common	3,795,000	0.175493%
Samuel Uy Chua	Common	3,011,150	0.139246%
Constantino Chua	Common	2,497,200	0.115479%
Equitable Computer Services, Inc.	Common	2,070,200	0.095733%
Victor Barranda	Common	1,157,475	0.053525%
Mercury Group of Companies, Inc.	Common	1,089,165	0.050367%
Constantino Chua &/or Willington Chua &/or George W. Chua	Common	1,020,000	0.047168%
Nardo R. Leviste	Common	759,000	0.035099%
Yok Bing S. Pua	Common	721,050	0.033344%
Oscar M. Lopez	Common	683,100	0.031589%
Willington/Constantino Chua/George W. Chua Chua	Common	584,430	0.027026%
Willington Chua	Common	508,530	0.023516%
Pablo Son Keng Go	Common	455,400	0.023516%
Wilson Go	Common	438,625	0.020283%
Lim Chin Ben	Common	425,040	0.019655%
Sysmart Corporation	Common	358,835	0.016594%

\* Record and beneficial (affiliate and majority stockholder)

The top twenty (20) stockholders of the Company as of December 31, 2016 are as follows:

<i>Name of Stockholders</i>	<i>Securities</i>	<i>Shares Held</i>	<i>Total Outstanding</i>
BDO Unibank, Inc. *	Common	1,914,711,807	88.542597%
PCD Nominee Corporation (Filipino)	Common	233,286,043	10.787917%
Samuel Uy Chua	Common	21,000,000	0.971109%
Equitable Computer Services, Inc A/C Cequit11	Common	12,320,000	0.569717%
Panfilo Castro Jr.	Common	6,140,000	0.283934%
Felly G. Castro	Common	5,100,480	0.235863%
Marylen Castro Mateo	Common	3,795,000	0.175493%
Jesselen Castro Versoza	Common	3,795,000	0.175493%
Samuel Uy Chua	Common	3,011,150	0.139246%
Constantino Chua	Common	2,497,200	0.115479%
Equitable Computer Services Inc.	Common	2,070,200	0.095733%
Victor Barranda	Common	1,157,475	0.053525%
Mercury Group of Companies	Common	1,089,165	0.050367%
Constantino Chua &/or Willington Chua &/or George W. Chua	Common	1,020,000	0.047168%
Nardo R. Leviste	Common	759,000	0.035099%
Oscar M. Lopez	Common	683,100	0.031589%
Willington / Constantino Chua / George W. Chua Chua	Common	584,430	0.027026%
Willington Chua	Common	508,530	0.023516%
Pablo Son Keng Po	Common	455,400	0.021059%
Wilson Go	Common	438,625	0.020283%

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

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

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

#### **2016 Compared to 2015**

Gross income for the year ended December 31, 2016 was P2.85 billion, an increase of P248.1 million, or 9.52% from P2.61 billion in 2015. Interest and discounts for the year ended December 31, 2016 were P1.76 billion, an increase of P189.1 million or 12% from P1.57 billion in 2015. Rent Income for the year ended December 31, 2016 were P890.2 million, an increase of P83.1 million or 10.30% from P807.1 million in 2015. The increase was due to higher operating lease income from its subsidiary, BDO Rental. The Company's leasing and financing portfolio as of December 31, 2016 was at P31.81 billion, a P3.95 billion increase, or 14.17% from P27.86 billion as of December 31, 2015 with leasing portfolio improving by 8.85% or an increase of P1.4 billion.

\* Record and beneficial (affiliate and majority stockholder)



Interest and financing charges for 2016 amounted to P673.5 million, consisting mainly of finance charges from borrowings of P668.4 million and interest expense on lease deposits of P3.2 million. The increase of P102.7 million in financing charges is attributed to the increase in Bills Payable from P23.89 billion last year to P27.27 billion this year. Interest expense on leased deposits in 2016 amounted to P3.2 million or a decrease of P3.2M from 2015's P6.4 million.

As of December 31, 2016, total provision for impairment losses amounted to P50.0 million, a decrease of P33.4 million from last year's P83.4 million. There were accounts written off in 2016 amounting P1.0 million.

Taxes and licenses amounted to P245.5 million for the year ended December 31, 2016, an increase of P46.9 million, or 23.62% from P198.6 million for the year ended December 31, 2015. The increase was mainly the result of higher DST in 2016 vis a vis 2015, by P24.0 million.

Salaries and employee benefits expense amounted to P220.7 in 2016 as compared to P187.9 million in 2015. Occupancy and equipment related expenses for the year ended December 31, 2016 amounted to P775.2 million, an increase of P72.8 million, or 10.36% from December 2015's P702.5 million. This was brought about by the improved operating lease business of BDO Rental.

Litigation/assets acquired expenses decreased by P0.2 or from P30.2 million in 2015 to P30.0 million in 2016.

Other expenses increased to P108.7 million in 2016 as compared to P107.4 million as of 2015.

The Company registered a net income of P570.0 million for the year ended December 31, 2016.

Total assets amounted to P38.9 billion in December 31, 2016, an increase of P4.3 billion from the P34.6 billion balance of December 2015. Available-for-sale financial assets of P3.52 billion is comprised of investments in various corporate fixed rate bonds and preferred shares listed in the PSE. Leasing and Financing portfolio increased by 14.17%, representing an increase of P3.95 billion from last year. Property and Equipment-net amounted to P2,381.2 million as of 2016, or an increase of P159.5 million over last year's P2,221.7 million. This is due to the increase in booked leases of BDO Rental. Investment properties-net increased to P426.5 million from 2015's P438.1 million. Other assets increase from P522.0 million in 2015 to P819.3 million in 2016 mainly due to the Joint Venture Agreement with Mitsubishi entered into by the Company. The joint venture company is named MMPC Auto Financial Services Corp.

Income tax payable, accounts payable, and other liabilities increased to P702.0 million from P422.7 million last year.

Lease deposits, amounting to P5.58 billion in 2016, increased by P598.2 million or 12% from last year's P4.98 billion. This was also due to the increased volume of lease transactions of the Company.

Stockholders' equity increased by P126.6 million or 2.42%, due to the Net Income for the year.

The Company's five key performance indicators are as follows:

	<u>December 2016</u>	<u>December 2015</u>
Current Ratio	0.41:1	0.46:1
Quick asset ratio	0.41:1	0.45:1
Debt to Equity Ratio	6.27:1	5.61:1
Net Profit Margin	19.97%	21.32%
Return on Equity	10.78%	10.89%

The Current Ratio (computed as current assets divided by current liabilities) and Quick Asset Ratio (quick asset divided by current liabilities) decrease from last year's 0.46:1. Debt to equity ratio, computed as total liabilities divided by total equity, increased from 5.61:1 in 2015 to 6.27:1 in 2016 because of more corporate and bank funding availed of to finance the increase in lease/loan portfolio during the year. Net Profit Margin which is computed as net income over gross revenue, declined slightly due to higher operating expenses. Return on Equity, which is net income over average equity, declined to 10.78% in 2016.

## **2015 Compared to 2014**

Gross income for the year ended December 31, 2015 was P2.61 billion, an increase of P332.6 million, or 14.63% from P2.27 billion in 2014. Interest and discounts for the year ended December 31, 2015 were P1.57 billion, an increase of P120.7 million or 8.32% from P1.45 billion in 2014. Rent Income for the year ended December 31, 2015 were P807.1 million, an increase of P194.0 million or 31.64% from P613.1 million in 2014. The increase was due to higher operating lease income from its subsidiary, BDO Rental. The Company's leasing and financing portfolio as of December 31, 2015 was at P27.9 billion, a P3.89 billion increase, or 16.21% from P24.0 billion as of December 31, 2014 with leasing portfolio improving by 17.44% or an increase of P2.4 billion.

Interest and financing charges for 2015 amounted to P570.8 million, consisting of finance charges from borrowings of P564.4 million and interest expense on lease deposits of P6.4 million. The increase of P102.9 million in financing charges is attributed to the increase in Bills Payable from P19.65 billion last year to P23.89 billion this year. Interest expense on leased deposits in 2015 amounted to P6.4 million or an increase of P3.1M from 2014's P3.2 million.

As of December 31, 2015, total provision for impairment losses amounted to P83.4 million, a decrease of P16.6 million from last year's P100.0 million. There were no accounts written off in 2015.

Taxes and licenses amounted to P198.6 million for the year ended December 31, 2015, an increase of P19.3 million, or 10.76% from P179.3 million for the year ended December 31, 2014. The increase was mainly the result of higher DST in 2015 vis a vis 2014, by P15.3 million.

Salaries and employee benefits expense amounted to P187.9 in 2015 as compared to P161.4 million in 2014. Occupancy and equipment related expenses for the year ended December 31, 2015 amounted to P702.5 million, an increase of P168.2 million, or 31.48% from December 2014's P534.3 million. This was brought about by the improved operating lease business of BDO Rental.

Litigation/assets acquired expenses increased by 21.29% or from P24.9 million in 2014 to P30.2 million in 2015.

Other expenses increased to P107.4 million in 2015 as compared to P91.7 million as of 2014.

The Company registered a net income of P555.6 million for the year ended December 31, 2015.

Total assets amounted to P34.5 billion in December 31, 2015, an increase of P5.27 billion from the P29.25 billion balance of December 2014. Available-for-sale financial assets of P3.54 billion is comprised of investments in various corporate fixed rate bonds and preferred shares listed in the PSE. Leasing and Financing portfolio increased by 16.21%, representing an increase of P3.89 billion from last year. Property and Equipment-net amounted to P2,221.7 million as of 2015, or an increase of P209.12 million over last year's P2,012.6 million. This is due to the increase in booked leases of BDO Rental. Investment properties-net increased to P438.1 million from 2014's P320.6 million due to purchase of land for Operating Lease. Other assets stood at P522.0 million in 2015, primarily consisting of deferred input VAT of P260.6 million, prepaid expenses P102.2 million; and intangible assets P50.9 million.

Income tax payable, deferred tax liabilities, accounts payable, and other liabilities increased to P422.7 million from P417.2 million last year.

Lease deposits, amounting to P4.98 billion in 2015, increased by P788.7 million or 18.80% from last year's P4.19 billion. This was also due to the increase volume of lease transactions of the Company.

Stockholders' equity increased by P236.9 million or 4.75%, due to the increase in Net Income year-on-year.

The Company's five key performance indicators are as follows:

	<u>December 2015</u>	<u>December 2014</u>
Current Ratio	0.46:1	0.41:1
Quick asset ratio	0.45:1	0.40:1
Debt to Equity Ratio	5.61:1	4.87:1
Net Profit Margin	21.32%	22.17%
Return on Equity	10.89%	10.33%

The Current Ratio (computed as current assets divided by current liabilities) and Quick Asset Ratio (quick asset divided by current liabilities) registered slight improvements from last year. Debt to equity ratio, computed as total liabilities divided by total equity, increased from 4.87:1 in 2014 to 5.61:1 in 2015 because of more corporate and bank funding availed of to finance the increase in lease/loan portfolio during the year. Net Profit Margin which is computed as net income over gross revenue, declined slightly due to higher operating expenses. However, Return on Equity, which is net income over average equity, improved to 10.89% in 2015.

### ***Policy on Revenue Recognition – Other Income***

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

### ***Key Variable and Other Qualitative and Quantitative Factors***

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

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

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

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

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

### ***Internal and External Sources of Liquidity***

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

### ***Material Commitments for Capital Expenditures***

There were no material commitments for capital expenditures.

### ***Projections***

Total Assets is projected to grow to P44.75 billion or 15% in 2017 with Net Loans and Other Receivables increasing from P31.4 billion in 2016 to P36.6 billion in 2017 or up to 17%. Total Revenue is estimated at P3.23 billion by year-end 2017 while Interest and Financing Charges and Operating Lease-related Depreciation total P858.1 million and P800.3 million, respectively.

Projected Net income for 2017 is P570 million.

Funding will be mainly sourced from the Commercial Papers, bank lines and collections. The Company secured an approval in 2016 for P25 Billion worth of CPs.

## **ITEM 7. FINANCIAL STATEMENTS**

The financial statements of the Company included in the 2016 Annual Report to Stockholders are incorporated herein by reference. The schedules listed in the accompanying Index to Supplementary Schedules are filed as part of this Form 17-A.

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

#### **(1) External Audit Fees and Services**

##### **(a) Audit and Audit-Related Fees**

The aggregate fees billed for each of the last two fiscal years for professional services rendered by the external auditor was P0.839 million for the year 2016 and P0.985 million for the year 2015. These fees cover services rendered by the external auditor for audit of the financial statements and other services in connection with statutory and regulatory filings for fiscal year 2016 and 2015.

##### **(b) Tax fees and other fees**

No other fees were paid to the auditing firm of Punongbayan & Araullo, CPAs ("**P&A**") for the last two fiscal years.

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

The Board Audit Committee has the responsibility to select and recommend to the Board the External Auditors. It reviews the audit coverage of the External Auditors and

deliberates on their audit report prior to endorsement to the Board for approval. It reports to the Board audit-related matters requiring the Board's action.

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

In 2016 and 2015, the auditing firm of P&A has been appointed as the Company's Independent Public Accountant. There was no event in the past where P&A and the Company had any disagreement with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope and procedures.

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

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

##### **1. Directors and Corporate Officers**

The Board is empowered to direct, manage and supervise, under its collective responsibility, the affairs of the Company. The members of the Board are elected annually by the stockholders to hold office for a term of one year, and shall serve until their respective successors have been elected and qualified.

The Board meets monthly to discuss the Company's operations and approve matters requiring its approval. Materials containing matters to be taken up during the Board meeting are distributed to the directors at least five days prior to the scheduled Board meeting.

Below is the list of the incumbent members of the Board and all persons nominated to be part of the Board, and the corporate officers and their business experience during the past five (5) years:

**TERESITA T. SY**  
**CHAIRPERSON**  
**FILIPINO, 66 YEARS OLD**

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

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

**ROBERTO E. LAPID**  
**VICE CHAIRMAN AND PRESIDENT**  
**FILIPINO, 60 YEARS OLD**

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

**NESTOR V. TAN**  
**DIRECTOR**  
**FILIPINO, 59 YEARS OLD**

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

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

**ANTONIO N. COTOCO**  
**DIRECTOR**  
**FILIPINO, 68 YEARS OLD**

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

**JECI A. LAPUS**  
**DIRECTOR**  
**FILIPINO, 63 YEARS OLD**

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

**LUIS S. REYES JR.**  
**DIRECTOR AND TREASURER**  
**FILIPINO, 59 YEARS OLD**

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

**EXEQUIEL P. VILLACORTA, JR.**  
**DIRECTOR**  
**FILIPINO, 71 YEARS OLD**

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

**WALTER C. WASSMER**  
**DIRECTOR**  
**FILIPINO, 59 YEARS OLD**

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

**JESSE H.T. ANDRES**  
**INDEPENDENT DIRECTOR**  
**FILIPINO, 52 YEARS OLD**

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

**MA. LEONORA V. DE JESUS**  
**INDEPENDENT DIRECTOR**  
**FILIPINO, 66 YEARS OLD**

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

**JESUS G. TIRONA**  
**INDEPENDENT DIRECTOR (until April 6, 2017)**  
**FILIPINO, 76 YEARS OLD**

Mr. Jesus G. Tirona was elected to the Board of Directors of BDO Leasing and Finance, Inc. (PLC) on July 30, 2007 and served as Independent Director until April 6, 2017. He is an Independent Director of BDO Capital & Investment Corporation and Armstrong Securities, Inc. Mr. Tirona was formerly Director of American Express Bank Philippines (A Savings Bank, Inc.), EBC Investments, Inc. (now BDO Strategic Holdings Inc.), and Banco De Oro Savings Bank, Inc. (formerly Citibank Savings, Inc.). He was also a former Trustee of the BDO Foundation, Inc., and President and CEO of LGU Guarantee Corporation (a private sector-led credit guarantee institution jointly owned by the BAP, the DBP, and the ADB mandated to provide credit-worthy LGUs and the utilities sector access to the capital markets through LGUGC-enhanced local debt instruments). He was also Managing Director and CEO of the Guarantee Fund for SMEs and the BAP Credit Guaranty Corporation — entities both promoting SME development. Mr. Tirona has extensive experience in



banking and finance, having built a career with Citibank as well as with other large domestic financial institutions. He is a scholar of the Asian Productivity Organization in Corporate Social Responsibility and is a Fellow of the Institute of Corporate Directors.

**VICENTE S. PÉREZ, JR.**  
**INDEPENDENT DIRECTOR**  
**FILIPINO, 58 YEARS OLD**

Mr. Vicente S. Pérez, Jr. was nominated as independent director of BDO Leasing and Finance, Inc. (PLC) for this year's annual stockholders' meeting. He is an Independent Director of BDO Capital & Investment Corporation and DoubleDragon Properties Corp. (PLC), and serves as an independent advisor to the Board of BDO Unibank (PLC). He is also a Non-Executive Director of Singapore Technologies Telemedia Pte Ltd. and STT Communications Ltd. Mr. Pérez is currently the Chairman, or President, of the Alternergy Group of Companies, Asian Conservation Holdings Ltd., SolarPacific Holdings Ltd., Solar Pacific Energy Corporation, Kirahon Solar Energy Corporation, SolarPacific CitySun Corporation, Meritt Advisory Partners, Inc., Merritss Partners Pte Ltd (Singapore), QBL ECO Corporation, Kadluan Management Corporation, Kadluan Properties, Inc., and Clean Climate Professionals, Inc. He is a member of the advisory boards of the Yale Center for Business & Environment, Coca Cola FEMSA Philippines, Geneva-based Pictet Clean Energy Fund, bio-energy company Roxas Holdings, Inc. and part of the National Council of the Bhutan Foundation. Mr. Pérez is Chairman of the National Advisory Council of WWF-Philippines and a member of the WWF-International Board, Foundation for Rural Electrification for Economic Development and Sikat Solar Challenge Foundation, Inc. In 2001, he briefly served as Undersecretary at the Department of Trade and Industry and as Managing Head of the Board of Investments. He served as the Secretary of the Department of Energy from 2001 to 2005. Mr. Pérez obtained his Masters in Business Administration from the Wharton Business School of the University of Pennsylvania in 1983 and a Bachelor's Degree in Business Economics from the University of the Philippines in 1979. He was a 2005 World Fellow at Yale University where he lectured an MBA class on renewable power at the Yale School of Management.

**JOSEPH JASON M. NATIVIDAD**  
**CORPORATE SECRETARY**  
**FILIPINO, 44 YEARS OLD**

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

**MA. CECILIA SALAZAR-SANTOS**  
**ASSISTANT CORPORATE SECRETARY**  
**FILIPINO, 51 YEARS OLD**

Atty. Ma. Cecilia Salazar-Santos was appointed as Assistant Corporate Secretary of BDO Leasing and Finance, Inc. (PLC) effective October 1, 2015. She is concurrently the First Vice President of BDO Unibank (PLC). She is also the Assistant Corporate Secretary of BDO Private Bank, Inc., BDO Rental, Inc., Equimark-NFC Development Corporation, and One Network Bank, Inc. (a Rural Bank). Further, she is the Corporate Secretary of BDO Nomura Securities, Inc.

(formerly PCIB Securities, Inc.), BDO Strategic Holdings, Inc., Ivory Homes, Inc., and Director and Corporate Secretary of PCI Insurance Brokers, Inc., PCI Travel Corporation, and The Executive Banclounge, Inc. Atty. Santos has been with BDO Unibank for more than 16 years, starting as Manager with BDO's Legal Department. She is currently assigned at the Legal Services Group as Team Head providing legal assistance to BDO's Support Groups and Subsidiaries and in managing BDO's Intellectual Property (BDO and BDO-related marks). She holds a Bachelor of Arts degree major in Economics from the University of Sto. Tomas and finished law at San Beda College of Law.

**PETER BLAIR S. AGUSTIN**  
**VICE PRESIDENT/CHIEF RISK AND COMPLIANCE OFFICER**  
**FILIPINO, 47 YEARS OLD**

Mr. Peter Blair S. Agustin is Vice President at BDO Unibank, Inc. (PLC) and was seconded to and appointed as Chief Risk and Compliance Officer of BDO Leasing and Finance Inc. (PLC) in February 2014. He joined BDO Unibank in November 2005 as Team Head of Remedial Management Unit. Mr. Agustin has 20 years of combined experience in the areas of risk management, corporate account management, credit review, remedial management and regulatory compliance at Asiatruster Development Bank, KPMG Philippines, PBCom and Solidbank Corporation. He was also a former senior technical and policy analyst at the Presidential Management Staff – Office of the President of the Philippines during the Aquino I and Ramos administrations. He began his banking career via the six-month Management Development Program of Solidbank Corporation in 1996. Mr. Agustin finished his Master's Degree in Business Administration from Ateneo Graduate School of Business in 1995 (Dean's Lister) and his Bachelor's degree in Economics from the University of Mindanao in 1989 (Summa Cum Laude and one of The Outstanding Students of the Philippines in 1989).

***Independent Directors***

The Company has three (3) independent directors namely: Atty. Jesse H.T. Andres, Dr. Ma. Leonora V. De Jesus, and Mr. Vicente Pérez, Jr.

***Executive Officers:***

The members of senior management, subject to control and supervision of the Board, collectively have direct charge of all business activities of the Company. They are responsible for the implementation of the policies set by the Board. The following is a list of the Company's key officers, and their business experiences during the past five years:

**GERARD M. AGUIRRE**  
**FIRST VICE-PRESIDENT**  
**FILIPINO, 61 YEARS OLD**

Mr. Gerard M. Aguirre was the First Vice President of BDO Leasing and Finance, Inc. (PLC) until January 17, 2017. He was responsible for the leasing and loan portfolio of BDO IBG International Desk accounts. He handled the BDOLF Team 9 – International Desks comprised of five personnel. He was formerly Director of BDO Rental, Inc., and was the Area Head of BDO (Formerly EPCIB) Combank North/Central Luzon before joining the company. Mr. Aguirre earned his BS Degree in Business Management from the Ateneo De Manila University.

**AGERICO MELECIO S. VERZOLA**  
**FIRST VICE PRESIDENT & MARKETING HEAD**  
**FILIPINO, 59 YEARS OLD**

Mr. Agerico Melecio S. Verzola was appointed as First Vice President & Marketing Head of BDO Leasing and Finance, Inc. (PLC) on October 1, 2014. He is a Director of BDO Rental, Inc. Mr. Verzola has been involved in Credit, Corporate Banking, Commercial Banking, Branch Banking and Branch Lending, and Investment Banking over the past 34 years. He graduated with a degree of AB Economics from the University of the Philippines School of Economics, Diliman, and finished a 6-month Advanced Senior Management Course at AIM.

**MA. THERESA M. SORIANO**  
**FIRST VICE PRESIDENT**  
**FILIPINO, 46 YEARS OLD**

Ms. Ma. Theresa M. Soriano is the current Head of Metro Manila Unit 2 of BDO Leasing and Finance, Inc. (PLC). She is with the Company for the last 23 years since its predecessor PCI Leasing and Finance Inc. where she rose from being an account officer to a team head. Ms. Soriano graduated with a degree in Economics and Management of Financial Institutions from the De La Salle University and finished her master's degree in Business Administration.

**MA. ROSARIO C. CRISOSTOMO**  
**FIRST VICE PRESIDENT**  
**FILIPINO, 48 YEARS OLD**

Ms. Ma. Rosario C. Crisostomo is currently the Head of Metro Manila Marketing Unit 1 of BDO Leasing and Finance, Inc. (PLC). She joined the Company as Account Officer in 1993 and has since been promoted to Team Head and her current position as Unit Head where she manages and oversees 3 marketing teams for Metro Manila. Ms. Crisostomo, a Certified Public Accountant, obtained her degree in Accountancy from the Polytechnic University of the Philippines.

***Board and Senior Management Performance***

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

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

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

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

### ***Significant Employee***

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

### ***Family Relationships***

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

### ***Involvement of Directors and Executive Officers in Certain Legal Proceedings***

To the Company's knowledge, none of the directors or executive officers is named or is involved during the last five years up to March 31, 2017 in any legal proceedings which will have any material effect on the Company, its operations, reputation, or financial condition.

To the Company's knowledge, none of its directors and senior executives have been subject of the following legal proceedings during the last five years:

1. bankruptcy petition by or against any business of which such director was a general partner or executive officer either at the time of bankruptcy or within two years prior to that time;
2. a conviction by final judgment, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign;
3. to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities;
4. being found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading, market or self-regulatory organization, to have violated the securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

## **ITEM 10. EXECUTIVE COMPENSATION**

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

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

## A. Executive Compensation Policy

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

### (1) President and four (4) most highly compensated executive officers

in million pesos	Year	Salary	Bonuses	Other Annual Compensation
President and four (4) most highly compensated executive officers	2017 (estimate)	20.25	10.88	n.a.
	2016	18.41	9.89	n.a.
	2015	20.17	9.73	n.a.
Year	Name		Position/Title	
2016	Roberto E. Lapid		President	
	Gerard M. Aguirre		First Vice President	
	Agerico Melecio S. Verzola		First Vice President	
	Ma. Theresa M. Soriano		First Vice President	
	Rosario C. Crisostomo		First Vice President	
2015	Roberto E. Lapid		President	
	Gerard M. Aguirre		First Vice President	
	Agerico Melecio S. Verzola		First Vice President	
	Rosalisa B. Kapuno		Vice President	
	Jennifer F. So		Vice President	

The above compensation includes the usual bonus paid to the Company's officers. Except for salaries, allowances, retirement benefits provided under the retirement plan of the Group, there is no stock option, stock warrant or other security compensation arrangement between the Company and its individual officers.

### (2) Compensation of directors and officers as a group

in million pesos	Year	Salary	Bonuses	Other Annual Compensation
All other officers and directors	2017 (estimate)	105.63	32.14	n.a.
	2016	96.03	29.22	n.a.
	2015	81.42	23.48	n.a.

## B. Compensation of Directors

Each director is entitled to receive *per diem* allowance for attending board and committee meetings. The Board approves all compensation and remuneration schemes for the senior officers of the Company. As provided by law, the total compensation of directors shall not exceed 10% of the net income before income tax of the Company during the preceding year.

There is no distinction on the fee for a committee chairman and member. The above table contains the details of the compensation of directors and officers of the Company. In view of possible security risks, the Company opted to disclose these on an aggregate basis as a group. Other than these fees, the non-executive directors do not receive any share options, profit sharing, bonus or other forms of emoluments.

The Company may grant to the directors any compensation other than *per diems* by the approval of the shareholders representing at least a majority of the outstanding capital stock.

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

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

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

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

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

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

As of March 31, 2017, the following are known to the Company to be directly or indirectly the record and/or beneficial owners of more than 5% of the Company's voting securities:

Title of class	Name and Address of Record Owner & Relationship with Issuer	Name of Beneficial Owner & Relationship with Record Owner	Citizenship	Number of Shares Held	Percentage
Common	BDO Unibank, Inc.* <b>(formerly Banco De Oro Unibank, Inc.)</b> BDO Corporate Center 7899 Makati Avenue, Makati City  <b>BDO Unibank, Inc. is the parent company of the Registrant</b>	Record and beneficial (affiliate and majority stockholder)	Filipino	1,914,711,807	88.54%
Common	PCD Nominee Corp. ("PCD") G/F Makati Stock Exchange Building, 6767 Ayala Avenue, Makati City  <b>PCD has no relationship with the Registrant except as stockholder.</b>  <b>PCD, being a nominee corporation, only holds legal title, not beneficial ownership of the</b>	Various shareholders  No stockholder owns more than 5% of the Company's voting securities through PCD	Filipino  Foreigner	245,183,447  266,729	11.34%  0.01%

	<i>lodged shares.</i>				
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\*The persons authorized to vote the shares of BDO Unibank are Ms. Teresita T. Sy and Mr. Nestor V. Tan.

### Security Ownership of Management

As of March 31, 2017, the total number of shares owned by the directors and management of the Company as a group is 107,375 Common Shares, which is equivalent to 0.0049651% of the total outstanding Common Shares of the Company. The Company's directors and officers own the following Common Shares:

Title of Class	Name of Beneficial Owner	Position	Citizenship	No. of Shares	Percentage
Common	<b>Teresita T. Sy</b> Chairperson	Chairperson	Filipino	100 (R)	0.0000046%
Common	<b>Roberto E. Lapid</b> Vice Chairman & President	Vice-Chairman & President	Filipino	100 (R)	0.0000046%
Common	<b>Jesse H.T. Andres</b>	Independent Director	Filipino	100 (R)	0.0000046%
Common	<b>Antonio N. Cotoco</b>	Director	Filipino	115 (R)	0.0000053%
Common	<b>Ma. Leonora V. De Jesus</b>	Independent Director	Filipino	100 (R)	0.0000046%
Common	<b>Jeci A. Lapus</b>	Director	Filipino	100 (R)	0.0000046%
Common	<b>Luis S. Reyes Jr.</b>	Director	Filipino	100 (R)	0.0000046%
Common	<b>Nestor V. Tan</b>	Director	Filipino	100 (R)	0.0000046%
Common	<b>Jesus G. Tirona</b>	Independent Director	Filipino	100 (R)	0.0000046%
Common	<b>Exequiel P. Villacorta, Jr.</b>	Director	Filipino	100 (R)	0.0000046%
Common	<b>Walter C. Wassmer</b>	Director	Filipino	100 (R)	0.0000046%
Common	<b>Rosario C. Crisostomo</b>	Vice President	Filipino	106,260 (R)	0.0049138%
	<b>Total</b>			<b>107,375</b>	<b>0.0049651%</b>

Directors and officers of the Company are required to report to the Company any acquisition or disposition of the Company's shares within three business days from the date of the transaction. As prescribed by the Disclosure Rules of the PSE, the Company shall disclose to the PSE any acquisition or disposition of its shares by its directors and officers within five trading days from the transaction.

### ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

- 1) The related parties of the Company and its subsidiary, BDO Rental include BDO Unibank, related parties under common ownership, key management personnel and the retirement benefit fund as described below.

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

Related Party Category	Notes	Amount of Transaction		
		2016	2015	2014
<b>Ultimate Parent Company (BDO Unibank)</b>				
Interest income on savings and demand deposits	(a) P	0.7 P	0.6 P	0.5

Interest expense on bills payable	(b)	<b>38.0</b>	99.7	94.6
Rent expense	(d)	<b>10.5</b>	9.8	10.5
Management fees	(e)	<b>2.4</b>	2.4	2.4
Employee stock option plan		<b>16.9</b>	-	-
<b>Subsidiary (BDO Rental)</b>				
Service fees	(c)	-	6.9	6.3
Rent income	(d)	<b>0.4</b>	0.4	0.4
Management fees	(e)	<b>0.4</b>	0.4	0.4
Dividend income	(j)	<b>60.0</b>	-	43.8
<b>Related Party under Common Ownership (BDO Capital and BDO Insurance)</b>				
Service and charges fees	(f), (l)	<b>5.5</b>	4.0	3.5
<b>Key management personnel</b>				
Short-term benefits	(g)	<b>50.4</b>	65.6	57.6
Loans to officers	(g)	<b>5.0</b>	3.5	0.3
<b>Outstanding Balance</b>				
<b>Related Party Category</b>	Notes	<b>2016</b>	<b>2015</b>	
<b>Ultimate Parent Company (BDO Unibank)</b>				
Savings and demand deposits	(a)	<b>P 365.2</b>	P	323.7
Bills payable	(b)	<b>2,575.8</b>		3,250.2
Employee stock option plan		<b>16.9</b>		-
<b>Subsidiary (BDO Rental)</b>				
Deposit for future stock subscription	(k)	-		46.9
Dividend receivable	(j)	<b>60.0</b>		-
Accounts receivable	(k)	<b>109.4</b>		-
<b>Related Party under Common Ownership (BDO Insurance)</b>				
Accounts receivable	(l)	<b>0.7</b>		-
<b>Key management personnel</b>				
Loans to officers	(g)	<b>10.0</b>		5.0
<b>Retirement benefit fund</b>				
Loans to officers and employees	(h)	-		1.1
Shares of stock	(i)	<b>1.0</b>		1.1

- a) The Group maintains savings and demand deposit accounts with BDO Unibank. As of December 31, 2016 and 2015, savings and demand deposit accounts maintained with BDO Unibank are included under Cash and Cash Equivalents account in the statements of financial position. Interest income earned on these deposits in 2016, 2015 and 2014 is included as part of Interest and Discounts under the Revenues account in the statements of income.
- b) The Group obtains short-term bills payable from BDO Unibank. The amount outstanding from borrowings as of December 31, 2016 and 2015 is presented under Bills Payable account in the statements of financial position. Interest expense incurred on these bills



payable in 2016, 2015 and 2014 is included as part of Interest and Financing Charges under Operating Costs and Expenses account in the statements of income.

- c) On January 4, 2010, the Parent Company and BDO Rental entered into a Service Agreement whereby BDO Rental will handle the collection of certain factored receivables of the Parent Company, for a fee as agreed by the Parent Company and the sellers of the factored receivables. Under the Service Agreement, BDO Rental shall perform the monitoring of the payment due dates of the factored receivables, remit to the Parent Company all collections made and send monthly statement of accounts to customers. The related expense charged to the Parent Company based on the Service Agreement is included in Other expenses under Operating Costs and Expenses in the Parent Company's statements of income. The Service Agreement was discontinued in 2016. There are no outstanding intercompany payable and receivable from this transaction as of December 31, 2016 and 2015.
- d) The Parent Company leases its head office premises and certain branch offices from BDO Unibank for terms ranging from three to five years, renewable for such period and under such terms and conditions as may be agreed upon between the Parent Company and BDO Unibank. Related rent expense incurred in 2016, 2015 and 2014 is presented as part of Occupancy and equipment-related expenses under Operating Costs and Expenses account in the statements of income. On the other hand, the Parent Company charges BDO Rental for the spaces that the latter occupies in the head office premises. Rent charged to BDO Rental in 2016, 2015 and 2014 is presented as part of Other Income in the statements of income. There are no outstanding receivable and payable on these transactions as of the end of 2016 and 2015.
- e) In 2013, the Parent Company entered into a service level agreement with BDO Unibank wherein BDO Unibank will charge the Parent Company for certain management services that the former provides to the latter. Management fees paid by the Parent Company to BDO Unibank is shown as part of Other Operating Costs and Expenses in the statements of income. Also, the Parent Company charges BDO Rental for the management services it renders to BDO Rental. This is presented as part of Other Income in the Parent Company's statements of income. There are no outstanding receivable and payable on these transactions as of the end of 2016 and 2015.
- f) The Parent Company engaged the services of BDO Capital and Investment Corporation ("**BDO Capital**"), a wholly owned subsidiary of BDO Unibank for underwriting services related to the Parent Company's issuance of short term commercial papers. Service and charges fees paid by the Parent Company to BDO Capital amounting to P4.0 both for 2016 and 2015 and P3.5 in 2014 is included as part of Other Operating Costs and Expenses in the statements of income. There are no outstanding payable related on this transaction as of the end of 2016, 2015 and 2014.
- g) Compensation of key management personnel (covering officer positions starting from Assistant Vice President and up) is included as part of Employee Benefits under Operating Costs and Expenses in the statements of comprehensive income of the Group and the Parent Company. Short-term employee benefits include salaries, paid annual leave and paid sick leave, profit sharing and bonuses, and non-monetary benefits. The Group also granted loans to officers which are secured by mortgage on the property, bear interest at 9.0% per annum and have terms ranging from 3 to 4 years.
- h) The Group maintains a retirement benefit fund with BDO Unibank covering all regular full-time employees. In the normal course of business, the retirement benefit fund grants salary and housing loans to certain officers and employees of the Parent Company, and members and beneficiaries of the fund who are also officers of the Parent Company. The housing loans are secured by the mortgage on the property and bear interest at 9.0% per

annum and have terms ranging from 13 to 20 years. The salary loans, on the other hand, are unsecured and bear interest ranging from 9.0% to 10.0% per annum and have terms ranging from 18 months to 3 years. There is no impairment loss recognized on these loans. There are no more loans granted to officers under the retirement fund in 2016.

- i) The retirement fund holds, as an investment, 519,915 shares and 442,750 shares of stock of the Parent Company in 2016 and 2015, respectively, which has a market value of P1.90 and P2.00 per share as of December 31, 2016 and 2015, respectively. The retirement fund does not hold any shares of stock of BDO Unibank.
  - j) In 2016 and 2014 (nil in 2015), BDO Rental declared cash dividends amounting to P60.0 and P43.8, respectively.
  - k) In 2015, BDO Rental received cash from the Parent Company as subscription payments for the increase in authorized capital stock, representing 25% of the total subscribed capital stock. BDO Rental cancelled its application for the increase in authorized capital stock with the SEC on December 20, 2016. This resulted in outstanding receivable by the Parent Company from BDO Rental in 2016.
  - l) In 2016, the Parent Company earned from BDO Insurance Brokers, Inc. ("**BDO Insurance**") service charges and fees for accounts referred and is included as part of Miscellaneous under Other Income account in the 2016 statement of income. This resulted to outstanding receivable of the Parent Company from BDO Insurance in 2016 which is recorded as part of Accounts receivables under Loans and Other Receivables account in the statements of financial position.
- 2) The Company, to finance its lending requirements, borrows funds from BDO Unibank at prevailing market rates. As of end of December 31, 2016, the Company has a total dollar borrowings amounting to USD 7,640,222.03. The Company's credit line with BDO Unibank stood at P7.00 billion for the years ended December 31, 2016, 2015 and 2014.
- 3) The Company and its two (2) branches maintain current and savings accounts with the Parent Company. Current accounts are non-interest earning while savings accounts earned interest of 0.25% per annum.
- 4) The Company, in need of IT services to operate its systems, entered into a Service Level Agreement ("**SLA**") with BDO Unibank, who has the IT facilities and technical competence to develop, maintain, and modify IT application software and to direct, supervise, and run the operating system software. IT is also included in the Company's approved SLA which it pays P0.200 million monthly inclusive of all services extended by BDO Unibank.
- BDO Unibank shall provide the Company with the following IT services:
- Business Continuity Center and telecommunications infrastructure maintenance which includes email and network connectivity of BDO Leasing - Head Office and its branches/marketing desks with BDO, internet connectivity, transmission line security and authentication (firewall encryption/ decryption facilities, etc.), training of BDO Leasing IT personnel; IT voice and data network design, planning, project management and project implementation assistance; server administration and maintenance; system/application development and maintenance; IT product evaluation and vendor selection.
- 5) Loans to officers NIL as of December 31, 2016.

## PART IV - EXHIBITS AND SCHEDULES

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

#### Reports on SEC Form 17-C

Below is a summary of the various disclosures reported by the Company under SEC Form 17-C for the year 2016.

<b>Date Reported</b>	<b>Items Reported</b>
<b><u>January 28, 2016</u></b>	<p><b><u>Press Release</u></b></p> <p><b>BDO Leasing signs JV agreement with Sojitz/MMPC/JACCS</b></p> <p>BDO Leasing and Finance, Inc. (BDOLF) has entered into a joint venture (JV) with Mitsubishi Motors Philippines Corporation (MMPC), Sojitz Corporation (SJC) and JACCS CO., LTD. (JACCS) to provide financing services to individual and corporate buyers of Mitsubishi Motors vehicles. BDOLF will own 40% of the JV company while Sojitz/MMPC/ JACCS will hold a 60% stake.</p> <p>The joint venture, to be named MMPC Auto Financial Services Corporation, is seen harnessing the complementary strengths of the JV partners to take advantage of the sustained growth in vehicle sales on the back of increasing consumer affluence and growing population. BDOLF will be leveraging on its Parent Company's wide distribution network and industry leadership, which are seen to complement MMPC's established presence in the automotive industry, while both SJC and JACCS will contribute their international perspective and knowledge base on consumer credit to the business.</p>
<b><u>February 4, 2016</u></b>	<p><b><u>Setting of the date of Annual Shareholder's Meeting</u></b></p> <p>The Board of Directors of BDO Leasing and Finance, Inc. ("BDOLF"), at its regular meeting held on February 3, 2016, approved the setting of the Annual Stockholders' Meeting ("ASM") of BDOLF on April 15, 2016, and fixing the record date on March 2, 2016. The ASM will be held at the Francisco Santiago Hall, Mezzanine Floor, South Tower, BDO Corporate Center, 7899 Makati Avenue, Makati City, at 10:00 in the morning.</p>
<b><u>February 24, 2016</u></b>	<p><b><u>Declaration of Cash Dividend</u></b></p> <p>The Board of Directors of BDO Leasing and Finance, Inc. (the "Corporation"), at its regular board meeting held on February 24, 2016, resolved to: Declare cash dividends in the amount of Php0.20 per share to be paid to all stockholders of record as of March 11, 2016, and payable on March 30, 2016.</p>
<b><u>February 24, 2016</u></b>	<p><b><u>Press Release</u></b></p> <p><b>BDO Leasing Profits up 10% to P556 million in 2015</b></p> <p>BDO Leasing and Finance, Inc. (BDO Leasing) posted a 10% increase in net income to P556 million in 2015.</p>

<b>Date Reported</b>	<b>Items Reported</b>
	<p>The company's strong performance was driven by the 16 per cent increase in net lease and loan portfolio to P27 billion as BDOLF strengthened its marketing efforts and leveraged on its Parent Company's extensive market reach. This resulted in gross revenues growing by 15% to P2.6 billion.</p> <p>Going forward, the Company will continue to intensify its provincial thrust and tap opportunities in growth areas. The Company also seeks to take advantage of the sustained growth in vehicle sales through its joint venture with Mitsubishi Motors Philippines (MMPC), Sojitz Corporation and JACCS Co. Ltd. These should enable BDO Leasing to maintain its position as one of the country's leading providers of leasing and financing services.</p> <p>The Company likewise declared cash dividends of P0.20 per common share, for a total dividend payout of P432 million. This represents a dividend payout ratio of 78%. The record and payment dates have been set for March 11 and March 30, 2016 respectively.</p>
<b><u>April 15, 2016</u></b>	<p><b><u>Press Release</u></b></p> <p><b>BDO Leasing Net Income at P556 million in 2015 1Q16 Profit up 11% to P144 million</b></p> <p>At its Annual Stockholders' Meeting today, Vice Chairman and President Roberto E. Lapid reported that BDO Leasing and Finance Inc. (BDO Leasing) posted a 10% increase in net income to P556 million in 2015 from P504 million in 2014. This was driven by the 17% rise in net lease and loan portfolio to P27 billion as the Company intensified its provincial expansion and continued to leverage on the Parent Company's wide market reach.</p> <p>BDO Leasing sustained its momentum in the first quarter of 2016. Net income went up by 11% year-on-year to P144 million on the continued expansion in its net lease and loan portfolio to almost P28 billion and a 16% jump in total revenues to P702 million.</p> <p>In the same meeting, Mr. Lapid likewise disclosed the company's full-year 2016 guidance of P575 million on increased business volumes as the Company continues to intensify its provincial thrust and tap opportunities in growth areas. It will also take advantage of the sustained growth in vehicle sales through MMPC Auto Financial Services Corp., its joint venture with Mitsubishi Motors Philippines (MMPC), Sojitz Corporation and JACCS Co. Ltd.</p>
<b><u>April 15, 2016</u></b>	<p><b><u>Results of the 2016 Annual Stockholders' Meeting</u></b></p> <p>The following are the results of the Annual Stockholders' Meeting of BDO Leasing and Finance, Inc. held today, April 15, 2016, at the Francisco Santiago Hall, Mezzanine Floor, BDO Corporate Center, 7899 Makati Avenue, Makati City:</p> <p>1. Board of Directors</p> <p>Elected directors of BDO Leasing for 2016-2017 are the following:</p>

Date Reported	Items Reported
	<p>Mr. Antonio N. Cotoco  Mr. Roberto E. Lapid  Mr. Jeci A. Lapus  Mr. Luis S. Reyes, Jr.  Ms. Teresita T. Sy  Mr. Nestor V. Tan  Mr. Exequiel P. Villacorta, Jr.  Mr. Walter C. Wassmer</p> <p>Independent Directors:</p> <p>Atty. Jesse H.T. Andres  Ms. Ma. Leonora V. De Jesus  Mr. Jesus G. Tirona</p> <p>II. External Auditor</p> <p>Punongbayan &amp; Araullo has been re-appointed as external auditor of BDO Leasing and Finance, Inc. for year 2016.</p>
<p><b><u>April 15, 2016</u></b></p>	<p><b><u>Results of the 2016 Organizational Meeting of the Board of Directors</u></b></p> <p>At the Organizational Board Meeting of BDO Leasing and Finance, Inc. held today, April 15, 2016, at the Directors' Lounge, 22nd Floor BDO Corporate Center, 7899 Makati Avenue, Makati City, the newly- elected members of the Board of Directors elected/appointed the following persons to the various positions set forth below:</p> <p><b>I. Appointment of Chairperson, Vice Chairman, and Corporate Officers</b></p> <p>Ms. Teresita T. Sy Chairperson  Mr. Roberto E. Lapid Vice Chairman &amp; President  Atty. Joseph Jason M. Natividad Corporate Secretary  Atty. Ma. Cecilia S. Santos Assistant Corporate Secretary  Mr. Luis S. Reyes, Jr. Treasurer  Mr. Peter Blair S. Agustin Chief Risk &amp; Compliance Officer</p> <p><b>II. Adviser to the Board</b></p> <p>Atty. Edmundo L. Tan</p> <p><b>III. Board Committees</b></p> <p><b>Executive Committee</b></p> <ol style="list-style-type: none"> <li>1. Mr. Nestor V. Tan Chairman</li> <li>2. Mr. Antonio N. Cotoco Vice Chairman</li> <li>3. Ms. Teresita T. Sy Member</li> <li>4. Mr. Roberto E. Lapid Member</li> <li>5. Mr. Walter C. Wassmer Member</li> </ol> <p><b>Board Audit Committee</b></p> <ol style="list-style-type: none"> <li>1. Ms. Ma. Leonora V. De Jesus Chairperson/Independent Director</li> <li>2. Atty. Jesse H.T. Andres Member/Independent Director</li> <li>3. Mr. Jesus G. Tirona Member/Independent Director</li> </ol>

Date Reported	Items Reported
	<p><b>Corporate Governance Committee</b></p> <ol style="list-style-type: none"> <li>1. Mr. Jesus G. Tirona Chairman/Independent Director</li> <li>2. Atty. Jesse H.T. Andres Member/Independent Director</li> <li>3. Ms. Ma. Leonora V. De Jesus Member/Independent Director</li> </ol> <p><b>Nomination Committee</b></p> <ol style="list-style-type: none"> <li>1. Atty. Jesse H.T. Andres Chairman/Independent Director</li> <li>2. Mr. Antonio N. Cotoco Member/Non-Executive Director</li> <li>3. Ms. Ma. Leonora V. De Jesus Member/Independent Director</li> </ol> <p><b>Risk Management Committee</b></p> <ol style="list-style-type: none"> <li>1. Nestor V. Tan Chairman/Executive Director</li> <li>2. Antonio N. Cotoco Member/Executive Director</li> <li>3. Jesse H.T. Andres Member/Independent Director</li> </ol> <p><b>Related Party Transactions Committee</b></p> <ol style="list-style-type: none"> <li>1. Jesse H.T. Andres Chairman/Independent Director</li> <li>2. Ma. Leonora V. De Jesus Member/Independent Director</li> <li>3. Jeci A. Lapus Member/Non-Executive Director</li> <li>4. Jesus G. Tirona Alternate Member/Independent Director</li> </ol> <p>Antonio N. Cotoco Adviser</p>
<p><b><u>June 1, 2016</u></b></p>	<p><b><u>SEC approval of the incorporation and registration of MMPC Auto Financial Services Corporation as a financing company</u></b></p> <p>Today, the Securities and Exchange Commission approved the incorporation and registration of MMPC Auto Financial Services Corporation (MAFSC) as a financing company. BDO Leasing and Finance, Inc. (BDOLF), a subsidiary of BDO Unibank, Inc., owns 40% equity interest in MAFSC. Please see attached Certificate of Incorporation and Certificate of Authority to Operate as a Financing Company issued in favor of MAFSC.</p> <p>MAFSC is a joint venture of BDOLF with Mitsubishi Motors Philippines Corporation, Sojitz Corporation and JACCS CO. LTD. to provide financing services to individual and corporate buyers of Mitsubishi Motors vehicles.</p>
<p><b><u>August 3, 2016</u></b></p>	<p><b><u>Press Release</u></b></p> <p><b><u>BDO Leasing Profits up 12.3% to P 282 million in 1H 2016</u></b></p> <p>BDO Leasing and Finance, Inc. (BDO Leasing) delivered a 12% increase in net income to P282 million in the first six months of 2016.</p> <p>The company grew its loan and lease portfolio by 13% to P28 billion, leading to a 14% growth in gross revenues to P1.4 billion. BDO Leasing continues to strengthen its presence in key areas and penetrate new markets by leveraging on its Parent Company's extensive market reach to gain access to middle-market and consumer lending accounts.</p> <p>The Company is set to launch in September this year the MMPC Auto Financial Services Corp., its joint venture with Mitsubishi Motors Philippines Corp., Sojitz Corp. and JACCS Co. Ltd., which will allow it to serve more clients by extending financing to</p>

<b>Date Reported</b>	<b>Items Reported</b>
	individual and corporate buyers of Mitsubishi Motors vehicles.
<p><b><u>September 1, 2016</u></b></p>	<p><b><u>Designation of First Vice President Agerico Melecio S. Verzola as Officer-in-Charge of BDO Leasing and Finance, Inc.</u></b></p> <p>The Board of Directors of BDO Leasing and Finance, Inc. ("BDOLF"), at its regular meeting held on August 31, 2016, confirmed the designation of First Vice President Agerico Melecio S. Verzola as Officer-in-Charge of BDOLF during the leave of Mr. Roberto E. Lapid. Mr. Verzola will oversee the operations of BDOLF, and sign and execute any all reports/documents required of BDOLF.</p>
<p><b><u>November 9, 2016</u></b></p>	<p><b><u>Press Release</u></b></p> <p><b>BDO Leasing posts P425 million income in 9M 2016</b></p> <p>BDO Leasing and Finance, Inc. (BDO Leasing) posted a 10 per cent hike in net income to P425 million in the first nine (9) months of the year vs. the P387 million in the comparable period last year. The increase was driven by the 12 per cent rise in gross income to P2.1 billion, as the company expanded its net lease and loan portfolio by 12 per cent to P30 billion.</p> <p>The company leveraged on its Parent Company's broad market reach, tapping more businesses in emerging provincial areas to sustain its growth momentum. To capture a bigger share of the growing auto loan business, the company recently established MMPC Auto Financial Services Corp. (MAFSC), a joint venture with Mitsubishi Motors Philippines Corp., Sojitz Corp. and JACCS Co. Ltd., to provide financing services to individuals and corporate buyers of Mitsubishi Motors vehicles.</p>

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### SIGNATURES

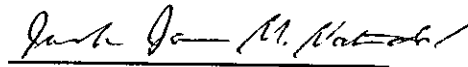
Pursuant to the requirements of Section 17 of the RSA and Section 141 of the Corporation Code, this is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of \_\_\_\_\_ on APR 11 2017 2017.

By:

  
ROBERTO E. LAPID  
PRESIDENT/ VICE CHAIRMAN

  
LUIS S. REYES JR.  
TREASURER

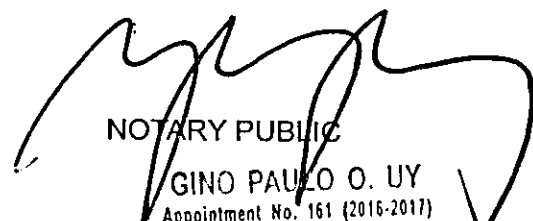
  
ROSALISA B. KAPUNO  
VICE PRESIDENT, COMPTROLLER

  
JOSEPH JASON M. NATIVIDAD  
CORPORATE SECRETARY

**SUBSCRIBED AND SWORN** to before me this \_\_\_\_\_ day of APR 11 2017 2017 affiant(s) exhibiting to me their Competent Evidence of Identity, as follows:

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

Doc. No. 090  
Page No. 19  
Book No. IV  
Series of 2017.

  
NOTARY PUBLIC  
GINO PAULO O. UY  
Appointment No. 161 (2016-2017)  
Notary Public for Pasig City  
Until December 31, 2017  
Attorney's Roll No. 61567  
33<sup>rd</sup> Floor The Orient Square Bldg.  
F Ortigas Jr. Road Ortigas Center Pasig City  
PTR No. 2514667; 01.04.17; Pasig City  
IBP No. 1057592; 01.05.17; RSM  
MCLE Compliance No. 0014105 Valid Until 04.14.2019



STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS

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

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


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

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

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

Signature:   
TERESITA T. SY  
Chairperson

Signature:   
ROBERTO E. LAPID  
Vice Chairman and President

Signature:   
ROSALISA B. KAPUNO  
Comptroller

Signed this 22<sup>nd</sup> day of February 2017.

BDO Leasing & Finance, Inc.  
39/F, BDO Corporate Center Ortigas  
12 ADB Avenue, Ortigas Center, Mandaluyong City, 1550  
Tel +63(2) 840 7000  
Tel +63(2) 688 1288  
Fax +63(2) 635 6453, 635 5811, 633 7736, 635 3898

**MANDALUYONG CITY**

SUBSCRIBED and SWORN to me before this \_\_\_\_\_ day of 23 FEB 2017, 2017 affiant exhibiting to me his/her Social Security Number, as follows:

**NAMES**

**SSS NUMBER**

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

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

JOC. NO. 519  
PAGE NO. 105  
BOOK NO. LXVI  
SERIES OF 209

  
**KIM BRIGUERA-DACARA**  
NOTARY PUBLIC FOR THE CITY OF MANDALUYONG  
APPOINTMENT NO. 0204  
UNTIL DECEMBER 31, 2017  
IBP LIFETIME ROLL NO. 1010007  
PTR NO. 3013082 1-3-2013 MANDALUYONG  
MCLE NO. V-0017260  
28TH FLR., BDO CORPORATE CENTER ORTIGAS  
18 ADB AVE., MANDALUYONG CITY

BDO Leasing & Finance, Inc.  
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**Grant Thornton**

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## Report of Independent Auditors

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6766 Ayala Avenue  
1200 Makati City  
Philippines

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F +63 2 886 5506  
grantthornton.com.ph

**The Board of Directors and the Stockholders**  
**BDO Leasing and Finance, Inc.**  
*(A Subsidiary of BDO Unibank, Inc.)*  
39<sup>th</sup> Floor BDO Corporate Center Ortigas  
ADB Avenue, Mandaluyong City

### Report on the Audit of the Financial Statements

#### Opinion

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

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

#### Basis for Opinion

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

Certified Public Accountants  
Punongbayan & Araullo (P&A) is the Philippine member firm of Grant Thornton International Ltd

ELMER B. TANAY

Offices in Cebu, Davao, Cavite

BOA/PRC Cert. of Reg. No. 0002  
SEC Accreditation No. 0002-FR-4

LARGE TAXPAYER ASSISTANCE DIVISION  
Date: APR 10 2017 15:05



**Key Audit Matters**

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

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

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

*Description of the Matter*

The net valuation of loans and other receivables is considered to be a matter of significance as it requires the application of judgment and use of subjective assumptions by management. Under the guidelines of Philippine Accounting Standard (PAS) 39, *Financial Instruments: Recognition and Measurement*, the Group evaluates the amount of allowance for impairment based on the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate. In addition, the Group considers the general and specific loan loss provisioning on loans and other receivables in accordance with the regulatory guidelines set out by the Bangko Sentral ng Pilipinas (BSP).

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

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

BUREAU OF INTERNAL REVENUE LARGE TAXPAYERS SERVICE LARGE TAXPAYERS ASSISTANCE DIVISION	
Date	APR 10 2017
ELMER B. TANAY	



*How the Matter was Addressed in the Audit*

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

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

***(b) Distinguishing Operating and Finance Lease Contracts***

*Description of the Matter*

The appropriate accounting treatment for lease contracts is considered as a key audit matter as it requires the application of judgment by the management. Critical judgment was exercised by management to distinguish each lease arrangement as either an operating or finance lease by looking at the transfer or retention of significant risks and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities as well as the related income or expenses.

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

- there is transfer of ownership by the end of the lease term;
- lessee has the option to purchase the asset;
- the lease term is for the major part of the economic life of the underlying asset even if title is not transferred;
- at the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset; and,
- the underlying asset is of such a specialized nature that only the lessee can use it without major modifications.

INTERNAL REVENUE  
LARGE TAXPAYERS SERVICE  
LARGE TAXPAYERS SERVICE  
 Date **APR 10 2017** SCES  
**ELMER B. TANAY**



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

*How the Matter was Addressed in the Audit*

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

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

*Description of the Matter*

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

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

*How the Matter was Addressed in the Audit*

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

DATE: APR 10 2017  
ELMER P. TANAY



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

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

#### *Description of the Matter*

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

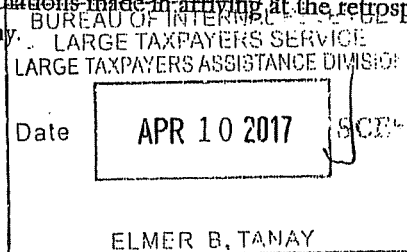
The change in its accounting policy required the Parent Company to restate its comparative financial statements for December 31, 2015 and the corresponding figures as of January 1, 2015 to reflect the retrospective effects of the use of equity method in measuring its investments in a subsidiary and an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

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

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

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

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





**Other Information**

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

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

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

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

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

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

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

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

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

ELMER B. TANAY  
CERTIFIED PUBLIC ACCOUNTANT  
LARGE TAXPAYERS SERVICE GROUP  
LARGE TAXPAYERS SERVICE GROUP  
Date APR 10 2017  
ELMER B. TANAY



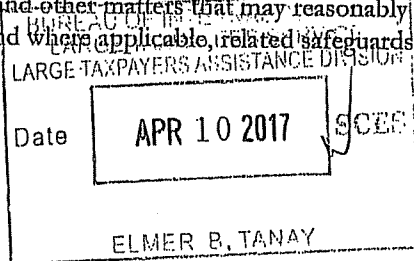


As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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





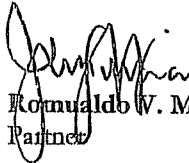
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on Other Legal and Regulatory Requirements**

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

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

**PUNONGBAYAN & ARAULLO**

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

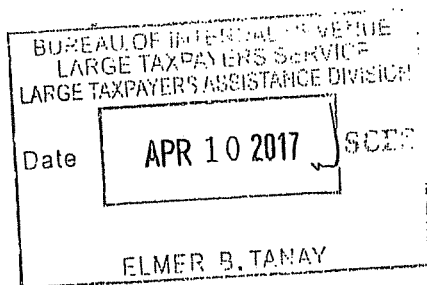
CPA Reg. No. 0095626  
TIN 906-174-059  
PTR No. 5908631, January 3, 2017, Makati City  
SEC Group A Accreditation  
Partner - No. 0628-AR-3 (until Nov. 29, 2019)  
Firm - No. 0002-FR-4 (until Apr. 30, 2018)  
BIR AN 08-002511-22-2016 (until Oct. 3, 2019)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until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

February 22, 2017  
BUREAU OF INTERNAL REVENUE  
LARGE TAXPAYERS SERVICE  
LARGE TAXPAYERS ASSISTANCE DIVISION  
Date **APR 10 2017** SCES  
ELMER B. TANAY

**DDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of DDO Unibank, Inc.)*  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2016 AND 2015**  
*(With Corresponding Figures as of January 1, 2015)*  
*(Amounts in Millions of Philippine Pesos)*

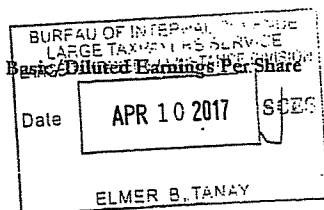
	Group			Parent Company		
	Notes	2016	2015	2016	December 31, 2015 (As Restated - see Note 2)	January 1, 2015 (As Restated - see Note 2)
<b>ASSETS</b>						
CASH AND CASH EQUIVALENTS	7 P	370.5	332.3	293.2	301.6	360.3
AVAILABLE-FOR-SALE FINANCIAL ASSETS	8	3,521.6	3,540.2	3,521.6	3,540.2	2,373.3
LOANS AND OTHER RECEIVABLES - Net	9	31,381.3	27,163.3	31,541.6	27,459.7	23,672.5
PROPERTY AND EQUIPMENT - Net	10	2,381.2	2,221.7	6.5	9.2	4.3
INVESTMENT PROPERTIES - Net	11	426.5	434.1	200.4	212.0	320.6
OTHER ASSETS - Net	12, 21	819.3	522.0	1,082.5	875.5	739.9
<b>TOTAL ASSETS</b>		<b>P 58,900.4</b>	<b>P 34,517.6</b>	<b>P 36,645.6</b>	<b>P 32,398.2</b>	<b>P 27,470.9</b>
<b>LIABILITIES AND EQUITY</b>						
BILLS PAYABLE	13 P	27,268.1	23,889.6	25,312.1	21,919.0	17,993.0
ACCOUNTS PAYABLE AND OTHER LIABILITIES	14	651.9	368.9	412.7	276.7	266.8
INCOME TAX PAYABLE		50.1	46.6	50.1	46.6	36.4
LEASE DEPOSITS	15	5,580.8	4,982.6	5,521.2	4,926.0	4,148.9
DEFERRED TAX LIABILITIES - Net	21	-	7.2	-	7.2	40.0
<b>Total Liabilities</b>		<b>33,550.9</b>	<b>29,294.9</b>	<b>31,296.1</b>	<b>27,175.5</b>	<b>22,485.1</b>
CAPITAL STOCK	16	2,225.2	2,225.3	2,225.2	2,225.2	2,225.2
ADDITIONAL PAID-IN CAPITAL		571.1	571.1	571.1	571.1	571.1
TREASURY SHARES	(	81.8)	81.8)	81.8)	81.8)	81.8)
RETAINED EARNINGS	2	2,480.5	2,343.0	2,480.5	2,343.0	2,165.8
NET ACCUMULATED ACTUARIAL LOSSES	2 (	42.8)	36.2)	42.8)	36.2)	35.1)
UNREALIZED FAIR VALUE GAINS ON AVAILABLE-FOR-SALE FINANCIAL ASSETS		197.3	201.4	197.3	201.4	140.6
<b>Total Equity</b>		<b>5,349.5</b>	<b>5,222.7</b>	<b>5,349.5</b>	<b>5,222.7</b>	<b>4,985.8</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>P 38,900.4</b>	<b>P 34,517.6</b>	<b>P 36,645.6</b>	<b>P 32,398.2</b>	<b>P 27,470.9</b>

*See Notes to Financial Statements.*



**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014**  
*(Amounts in Millions of Philippine Pesos, Except Per Share Data)*

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



*See Notes to Financial Statements.*

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014**  
*(Amounts in Millions of Philippine Pesos)*

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

*See Notes to Financial Statements.*

BUREAU OF INTERNAL REVENUE LARGE TAXPAYERS SERVICE LARGE TAXPAYERS ASSISTANCE DIVISION	
Date	APR 10 2017
	SCES
ELMER B. TANAY	

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014**  
*(Amounts in Millions of Philippine Pesos)*

		Group								
Note	Capital Stock	Additional Paid-in Capital	Treasury Shares, At Cost	Retained Earnings	Net Accumulated Losses	Unrealized Fair Value Gains on Available-for- Sale Financial Assets	Net Equity			
	P	2,225.2	P 571.1	(P 81.8)	P 2,343.0	(P 36.2)	P 201.4	P	5,222.7	
		-	-	-	570.0	( 6.6)	( 4.1)		559.3	
		-	-	-	( 432.5)	-	-		( 432.5)	
16										
	P	<u>2,225.2</u>	P <u>571.1</u>	(P <u>81.8</u> )	P <u>2,480.5</u>	(P <u>42.8</u> )	P <u>197.3</u>	P	<u>5,349.5</u>	
	P	2,225.2	P 571.1	(P 81.8)	P 2,165.8	(P 35.1)	P 140.6	P	4,985.8	
		-	-	-	555.6	( 1.1)	60.8		615.3	
		-	-	-	( 378.4)	-	-		( 378.4)	
16										
	P	<u>2,225.2</u>	P <u>571.1</u>	(P <u>81.8</u> )	P <u>2,343.0</u>	(P <u>36.2</u> )	P <u>201.4</u>	P	<u>5,222.7</u>	
	P	2,225.2	P 571.1	(P 81.8)	P 1,986.2	(P 41.9)	P 112.2	P	4,771.0	
		-	-	-	504.0	6.8	28.4		539.2	
		-	-	-	( 324.4)	-	-		( 324.4)	
16										
	P	<u>2,225.2</u>	P <u>571.1</u>	(P <u>81.8</u> )	P <u>2,165.8</u>	(P <u>35.1</u> )	P <u>140.6</u>	P	<u>4,985.8</u>	

BUREAU OF INTERNAL REVENUE  
 LARGE TAXPAYERS SERVICE  
 LARGE TAXPAYERS ASSISTANCE DIVISION  
 Date APR 10 2017  
 ELMER B. TANAY

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, 2016, 2015 AND 2014**  
*(Amounts in Millions of Philippine Pesos)*

Parent Company

Note	Capital Stock	Additional Paid-in Capital	Treasury Shares, At Cost	Retained Earnings	Net Accumulated Actuarial Losses	Unrealized Fair Value Gains on Available-for- Sale Financial Assets	Net Equity
Balance at January 1, 2016							
As previously reported	P 2,225.2	P 571.1	(P 81.8)	P 1,983.3	(P 36.2)	P 201.4	P 4,865.0
Effect of adoption of equity method of accounting	-	-	-	359.7	-	-	359.7
As restated	2,225.2	571.1	( 81.8)	2,343.0	( 36.2)	201.4	5,222.7
Total comprehensive income (loss)	-	-	-	570.0	( 6.6)	( 4.1)	559.3
Cash dividends	-	-	-	( 432.5)	-	-	( 432.5)
Balance at December 31, 2016	<u>P 2,225.2</u>	<u>P 571.1</u>	<u>(P 81.8)</u>	<u>P 2,480.5</u>	<u>(P 42.8)</u>	<u>P 197.3</u>	<u>P 5,349.5</u>
Balance at January 1, 2015							
As previously reported	P 2,225.2	P 571.1	(P 81.8)	P 1,903.7	(P 35.1)	P 140.6	P 4,723.7
Effect of adoption of equity method of accounting	-	-	-	262.1	-	-	262.1
As restated	2,225.2	571.1	( 81.8)	2,165.8	( 35.1)	140.6	4,985.8
Total comprehensive income (loss)	-	-	-	555.6	( 1.1)	60.8	615.3
Cash dividends	-	-	-	( 378.4)	-	-	( 378.4)
Balance at December 31, 2015	<u>P 2,225.2</u>	<u>P 571.1</u>	<u>(P 81.8)</u>	<u>P 2,343.0</u>	<u>(P 36.2)</u>	<u>P 201.4</u>	<u>P 5,222.7</u>
Balance at January 1, 2014							
As previously reported	P 2,225.2	P 571.1	(P 81.8)	P 1,751.8	(P 41.9)	P 112.2	P 4,536.6
Effect of adoption of equity method of accounting	-	-	-	234.4	-	-	234.4
As restated	2,225.2	571.1	( 81.8)	1,986.2	( 41.9)	112.2	4,771.0
Total comprehensive income (loss)	-	-	-	504.0	6.8	28.4	539.2
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 2,165.8</u>	<u>(P 35.1)</u>	<u>P 140.6</u>	<u>P 4,985.8</u>

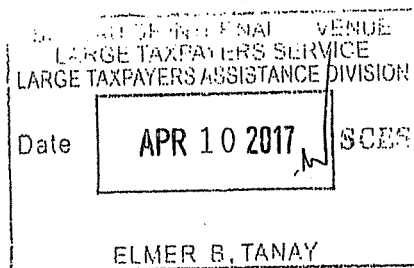
3. As restated  
 INTERNAL REVENUE  
 SERVICE  
 LARGE TAXPAYERS ASSISTANCE DIVISION  
 Date APR 10 2017  
 ELMER B. TANAY

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, 2016, 2015 AND 2014**  
*(Amounts in Millions of Philippine Pesos)*

	Group			Parent Company			
				2015		2014	
	Notes	2016	2015	2014	2016	(As Restated - see Note 2)	(As Restated - see Note 2)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Profit before tax		P 750.7	P 725.4	P 714.1	P 715.8	P 690.2	P 683.5
Adjustments for:							
Interest received		1,763.0	1,591.5	1,424.4	1,762.7	1,591.4	1,425.4
Interest and discounts	9	( 1,760.7 )	( 1,571.6 )	( 1,456.9 )	( 1,760.4 )	( 1,571.4 )	( 1,450.7 )
Depreciation and amortization	10, 11, 12	738.0	669.8	500.0	22.9	22.4	23.1
Interest and financing charges paid		( 674.8 )	( 555.0 )	( 472.7 )	( 619.0 )	( 503.3 )	( 435.1 )
Interest and financing charges	13	673.5	570.8	467.9	617.7	519.1	431.1
Dividend income	8, 17	( 150.3 )	( 154.3 )	( 155.2 )	( 150.3 )	( 154.3 )	( 155.2 )
Impairment and credit losses	9, 11, 12	50.0	83.4	100.0	50.0	83.3	100.0
Gain on sale of property and equipment and investment properties	17	( 20.2 )	( 16.9 )	( 25.7 )	( 9.5 )	( 6.4 )	( 19.4 )
Equity share in net earnings of a subsidiary and an associate	12	19.9	-	-	( 81.3 )	( 97.6 )	( 70.9 )
Day-one gain - net		( 2.5 )	( 10.4 )	( 1.1 )	( 0.1 )	( 0.6 )	( 0.1 )
Gain on sale of available-for-sale (AFS) financial assets	6	( 1.5 )	( 4.6 )	-	( 1.5 )	( 4.6 )	-
Reversal of impairment losses	11	-	( 3.0 )	-	-	( 3.0 )	-
Operating profit before changes in operating assets and liabilities		1,385.1	1,317.1	1,106.1	547.0	565.2	531.7
Increase in loans and other receivables		( 3,951.2 )	( 3,925.7 )	( 2,775.3 )	( 3,879.2 )	( 3,924.4 )	( 2,776.9 )
Increase in other assets		( 354.8 )	( 113.0 )	( 179.2 )	( 74.6 )	( 39.1 )	( 70.3 )
Increase in accounts payable and other liabilities		280.5	28.2	82.8	136.0	14.8	69.7
Increase in lease deposits		599.9	802.2	374.7	594.6	772.9	372.3
Cash used in operations		( 2,940.5 )	( 1,891.2 )	( 1,391.2 )	( 2,676.2 )	( 2,610.6 )	( 1,873.5 )
Cash paid for income taxes		( 159.2 )	( 127.3 )	( 117.4 )	( 159.2 )	( 127.3 )	( 117.4 )
Net Cash Used in Operating Activities		( 2,199.7 )	( 2,018.5 )	( 1,508.6 )	( 2,835.4 )	( 2,737.9 )	( 1,990.9 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Acquisition of property and equipment	10	( 937.0 )	( 922.0 )	( 1,173.3 )	( 2.0 )	( 14.7 )	( 1.8 )
Receipt of cash dividends	8	126.6	154.6	180.9	126.6	183.0	195.4
Proceeds from disposal of property and equipment and investment properties	10, 11	82.4	187.1	130.5	20.6	128.3	37.0
Proceeds from disposal of AFS financial assets	8	15.4	49.5	-	15.4	48.5	-
Acquisition of AFS financial assets	8	-	( 1,137.2 )	( 256.0 )	-	( 1,137.2 )	( 250.0 )
Addition in investment properties	11	-	( 277.3 )	( 5.0 )	-	( 1.2 )	( 5.0 )
Acquisition of equity investments	12	-	-	-	( 300.0 )	( 46.9 )	-
Net Cash Used in Investing Activities		( 712.6 )	( 1,896.9 )	( 1,102.8 )	( 335.7 )	( 840.2 )	( 24.4 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>							
Net arrangements of bills payable	13	3,383.0	4,208.4	3,215.5	3,395.2	3,897.8	2,483.4 <sup>a</sup>
Payments of cash dividends	16	( 432.5 )	( 378.4 )	( 324.4 )	( 432.5 )	( 378.4 )	( 324.4 )
Redemption of preferred shares		-	-	-	-	-	87.5
Net Cash From Financing Activities		2,950.5	3,830.0	2,891.1	2,962.7	3,519.4	2,246.5
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		38.2	( 85.4 )	279.7	( 8.4 )	( 58.7 )	231.2
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		332.3	417.7	138.0	301.6	360.3	129.1
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	7	P 370.5	P 332.3	P 417.7	P 293.2	P 301.6	P 360.3

*See Notes to Financial Statements.*





**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016, 2015 AND 2014**  
*(Amounts in Millions of Philippine Pesos, Except Per Share Data,  
Exchange Rates and As Indicated)*

**1. CORPORATE INFORMATION**

***1.01 Incorporation and Operations***

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

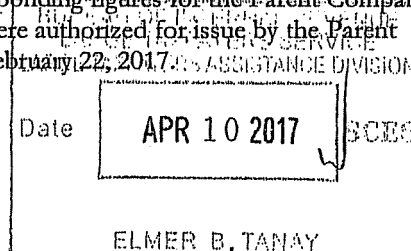
The Parent Company is a subsidiary of BDO Unibank, Inc. (BDO Unibank or Ultimate Parent Company), a universal bank incorporated and doing business in the Philippines. BDO Unibank offers a wide range of banking services such as traditional loan and deposit products, as well as treasury, remittance, trade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

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

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

***1.02 Approval of Financial Statements***

The accompanying financial statements of BDO Leasing and Subsidiary (the Group) and of the Parent Company as of and for the year ended December 31, 2016 (including the comparative financial statements as of December 31, 2015 and for the years ended December 31, 2015 and 2014 and the corresponding figures for the Parent Company's financial statements as of January 1, 2015) were authorized for issue by the Parent Company's Board of Directors (BOD) on February 22, 2017.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

	<u>December 31, 2015</u>		
	<u>As Previously Reported</u>	<u>Effect of Adoption of Equity Method</u>	<u>As Restated</u>
<i>Changes in statement of financial position</i>			
Assets –			
Other Assets	P 515.8	<u>P 359.7</u>	P 875.5
Equity –			
Retained earnings	P 1,983.3	<u>P 359.7</u>	P 2,343.0
<i>Changes in statement of income and other comprehensive income</i>			
Revenues –			
Other income	P 186.8	<u>P 97.6</u>	P 284.4
Net impact on net profit		<u>P 97.6</u>	
	<u>January 1, 2015</u>		
	<u>As Previously Reported</u>	<u>Effects of Adoption of Equity Method</u>	<u>As Restated</u>
<i>Changes in statement of financial position</i>			
Assets –			
Other Assets	P 477.8	<u>P 262.1</u>	P 739.9
Equity –			
Retained earnings	P 1,903.7	<u>P 262.1</u>	P 2,165.8
<i>Changes in statement of income and other comprehensive income</i>			
Revenues –			
Other income	P 240.5	<u>P 27.7</u>	P 268.2
Net impact on net profit		<u>P 27.7</u>	

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

(c) *Functional and Presentation Currency*

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

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

**2.02 Adoption of New and Amended PFRS**

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

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

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

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

- (i) PAS 1 (Amendments), *Presentation of Financial Statements – Disclosure Initiative*. The amendments encourage entities to apply professional judgment in presenting and disclosing information in the financial statements. Accordingly, they clarify that materiality applies to the whole financial statements and an entity shall not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. Moreover, the amendments clarify that an entity's share in other comprehensive income of associates and joint ventures accounted for using equity method should be presented based on whether or not such other comprehensive income item will subsequently be reclassified to profit or loss. They further clarify that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the financial statements.
- (ii) PAS 16 (Amendments), *Property, Plant and Equipment*, and PAS 38 (Amendments), *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization*. The amendments in PAS 16 clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. In addition, amendments to PAS 38 introduce a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is not appropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of an intangible asset are highly correlated. The amendments also provide guidance that the expected future reductions in the selling price of an item that was produced using the asset could indicate an expectation of technological or commercial obsolescence of an asset, which may reflect a reduction of the future economic benefits embodied in the asset.
- (iii) PAS 16 (Amendments), *Property, Plant and Equipment*, and PAS 41 (Amendments), *Agriculture – Bearer Plants*. The amendments define a bearer plant as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales. On this basis, bearer plant is now included within the scope of PAS 16 rather than PAS 41, allowing such assets to be accounted for as property, plant and equipment and to be measured after initial recognition at cost or revaluation basis in accordance with PAS 16. The amendments further clarify that produce growing on bearer plants remains within the scope of PAS 41.

- (iv) PAS 27 (Amendments), *Separate Financial Statements – Equity Method in Separate Financial Statements*. These amendments introduce a third option which permits an entity to account for its investments in subsidiaries, joint ventures and associates under the equity method in its separate financial statements in addition to the current options of accounting those investments at cost or in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*, or PFRS 9, *Financial Instruments*.
- (v) PFRS 10 (Amendments), *Consolidated Financial Statements*, PFRS 12 (Amendments), *Disclosure of Interests in Other Entities*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Investment Entities – Applying the Consolidation Exception*. These amendments address the concerns that have arisen in the context of applying the consolidation exception for investment entities. They clarify which subsidiaries of an investment entity are consolidated in accordance with paragraph 32 of PFRS 10 and clarify whether the exemption to present consolidated financial statements, set out in paragraph 4 of PFRS 10, is available to a parent entity that is a subsidiary of an investment entity. These amendments also permit a non-investment entity investor, when applying the equity method of accounting for an associate or joint venture that is an investment entity, to retain the fair value measurement applied by that investment entity associate or joint venture to its interests in subsidiaries.
- (vi) Annual Improvements to PFRS (2012-2014 Cycle). Among the improvements, the following amendments are relevant to the Group but had no material impact on the Group's financial statements as these amendments merely clarify the existing requirements:
- PAS 19 (Amendments), *Employee Benefits – Discount Rate: Regional Market Issue*. The amendments clarify that the currency and term of the high quality corporate bonds which were used to determine the discount rate for post-employment benefit obligations shall be made consistent with the currency and estimated term of the post-employment benefit obligations.
  - PFRS 5 (Amendments), *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*. The amendments clarify that when an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution (or vice-versa), the accounting guidance in paragraphs 27-29 of PFRS 5 does not apply. They also state that when an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that the distribution is no longer highly probable, it should cease held-for-distribution accounting and apply the guidance in paragraphs 27-29 of PFRS 5.

- PFRS 7 (Amendments), *Financial Instruments: Disclosures – Servicing Contracts*. The amendments provide additional guidance to help entities identify the circumstances under which a contract to “service” financial assets is considered to be a continuing involvement in those assets for the purposes of applying the disclosure requirements of PFRS 7. Such circumstances commonly arise when, for example, the servicing is dependent on the amount or timing of cash flows collected from the transferred asset or when a fixed fee is not paid in full due to non-performance of that asset.
- PFRS 7 (Amendments), *Financial Instruments: Disclosures – Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*. These amendments clarify that the additional disclosure required by the recent amendments to PFRS 7 related to offsetting financial assets and financial liabilities is not specifically required for all interim periods. However, the additional disclosure is required to be given in condensed interim financial statements that are prepared in accordance with PAS 34, *Interim Financial Reporting*, when its inclusion would be necessary in order to meet the general principles of PAS 34.

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

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

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

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

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

- (i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative* (effective from January 1, 2017). The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). They require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, they suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: (a) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and, (b) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.
- (ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses* (effective from January 1, 2017). The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference.
- (iii) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will replace PAS 39 and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:
- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;
  - an expected loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,
  - a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.



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

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

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

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

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

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

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

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

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

- (v) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale or contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

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

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

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

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

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

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

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

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

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

*(b) Investment in an Associate*

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

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

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

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

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

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

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

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

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

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

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

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

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

## **2.05 Financial Assets**

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

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

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

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

#### *(i) Loans and Receivables*

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

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

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

(ii) *AFS Financial Assets*

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

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

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

(b) *Impairment of Financial Assets*

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

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

(i) *Assets carried at amortized cost.*

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

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

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

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

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

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

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

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment is recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed. The amount of the reversal is recognized in profit or loss.

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

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

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



(ii) *Assets carried at fair value with changes charged to other comprehensive income.*

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

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

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

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

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

(d) *Derecognition of Financial Assets*

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

## ***2.06 Property and Equipment***

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

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.18).

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

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

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

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

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

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

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

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

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

### ***2.08 Investment Properties***

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

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

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

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

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

### ***2.09 Other Assets***

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

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

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

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

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

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

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

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

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

### ***2.11 Offsetting Financial Instruments***

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

### ***2.12 Provisions and Contingencies***

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

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

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

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

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

## **2.14 Equity**

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

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

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

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

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

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

## **2.15 Revenue and Expense Recognition**

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

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

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

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

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

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

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

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

## **2.16 Leases**

The Group accounts for its leases as follows:

### *(a) Group as a Lessor*

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

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

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

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

(b) *Group as a Lessee*

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

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

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

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

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

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

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

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



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

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

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

### ***2.19 Employee Benefits***

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

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

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

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

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

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

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

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

(c) *Termination Benefits*

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

(d) *Compensated Absences*

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

(e) *Employee Stock Option Plan*

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

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

**2.20 *Borrowing Costs***

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

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

**2.21 *Income Taxes***

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

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

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

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

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

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

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

## ***2.22 Earnings Per Share***

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

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

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

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

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

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

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

## **3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

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

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

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

#### ***(a) Distinguishing Operating and Finance Leases***

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

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

(b) *Impairment of AFS Financial Assets*

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

No impairment loss was recognized in 2016, 2015 and 2014 for AFS financial assets.

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

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

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

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

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

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

(e) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.12 and disclosures on relevant provisions are presented in Note 24.

**3.02 Key Sources of Estimation Uncertainty**

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

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

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

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

(b) *Impairment of Loans and Other Receivables*

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

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

(c) *Impairment of Non-Financial Assets*

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

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

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

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

The carrying values of the Group's financial instruments are disclosed in Notes 6 and 8.

(e) *Fair Value Measurement for Investment Properties*

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

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

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

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



Accordingly, in 2014, the Group fully derecognized its deferred tax asset arising from the setting up of general loan loss provision on loans and receivables. The carrying value of the remaining deferred tax assets (netted against deferred tax liabilities) as of the end of 2016 and 2015 is disclosed in Note 21.

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

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

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

#### 4. **SEGMENT REPORTING**

##### ***4.01 Business Segments***

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

The products under the leasing segment are the following:

- Operating leases; and,
- Finance leases.

The products under the financing segment are the following:

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

The Group's products and services are marketed in the Metro Manila head office and in its five branches (see Note 1).

#### 4.02 Segment Assets and Liabilities

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

#### 4.03 Intersegment Transactions

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

#### 4.04 Analysis of Segment Information

Segment information can be analyzed as follows:

	<u>Leasing</u>	<u>Financing</u>	<u>Others</u>	<u>Eliminations</u>	<u>Group</u>
<b>For the year ended December 31, 2016</b>					
<b>Statement of Income</b>					
Segment revenues					
External	P 1,720.3	P 914.3	P 219.7	P -	P 2,854.3
Inter-segment	<u>-</u>	<u>-</u>	<u>60.7</u>	<u>(60.7)</u>	<u>-</u>
	<u>1,720.3</u>	<u>914.3</u>	<u>280.4</u>	<u>(60.7)</u>	<u>2,854.3</u>
Segment expenses					
External	1,267.8	673.9	161.9		2,103.6
Inter-segment	<u>-</u>	<u>-</u>	<u>0.7</u>	<u>(0.7)</u>	<u>-</u>
	<u>1,267.8</u>	<u>673.8</u>	<u>162.6</u>	<u>(0.7)</u>	<u>2,103.6</u>
Segment results	<u>P 452.5</u>	<u>P 240.5</u>	<u>P 117.80</u>	<u>P 60.0</u>	750.7
Tax expense					(180.7)
Net profit					<b><u>P 570.0</u></b>
<b>December 31, 2016</b>					
<b>Statement of Financial Position</b>					
Segment assets	P 19,430.1	P 14,130.8	P -	P -	P 33,560.9
Unallocated assets					<u>5,339.5</u>
Total assets					<b><u>P 38,900.4</u></b>
Segment liabilities	P 17,798.5	P 15,050.3	P -	P -	P 32,848.8
Unallocated liabilities					<u>702.1</u>
Total liabilities					<b><u>P 33,550.9</u></b>
Other segment information:					
Capital expenditures	<u>P 935.0</u>	<u>P -</u>	<u>P 2.0</u>	<u>P -</u>	<u>P 937.0</u>
Depreciation and amortization	<u>P 715.1</u>	<u>P -</u>	<u>P 22.9</u>	<u>P -</u>	<u>P 738.0</u>
Impairment losses	<u>P -</u>	<u>P -</u>	<u>P 50.0</u>	<u>P -</u>	<u>P 50.0</u>

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

Segment expenses are allocated on the basis of gross income.

Net segment assets are comprised of the following:

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

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

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

## 5. RISK MANAGEMENT

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

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

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

### *5.01 Foreign Exchange Risk*

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

The Group's foreign-currency denominated financial assets and financial liabilities translated into Philippine pesos at the closing rate at December 31, 2016 and 2015 are as follows:

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

At December 31, 2016 and 2015, the currency exchange rates used to translate U.S. dollar denominated financial assets and financial liabilities to the Philippine pesos is approximately P49.8 and P47.1, respectively.

The following table illustrates the sensitivity of the net result for the year and equity with regard to the Group's financial assets and financial liabilities and the U.S. dollar – Philippine peso exchange rate. It assumes a +/-15.1% change and +/-11.0% change of the Philippine peso/U.S. dollar exchange rate at December 31, 2016 and 2015, respectively. These percentages have been determined based on the average market volatility in exchange rates in the previous 12 months at a 99% confidence level. The sensitivity analysis is based on the Group's foreign currency financial instruments held at the end of each reporting period.

	<u>2016</u>		<u>2015</u>	
	<u>Depreciation of Peso</u>	<u>Appreciation of Peso</u>	<u>Depreciation of Peso</u>	<u>Appreciation of Peso</u>
Profit before tax	<b>P 0.8</b>	<b>(P 0.8)</b>	P 1.1	(P 1.1)
Equity	<b>0.6</b>	<b>( 0.6)</b>	0.8	( 0.8)

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

### ***5.02 Interest Rate Risk***

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

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

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

The table below and in the succeeding page illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates for bills payable of +/-0.3% at December 31, 2016 and +/-0.3% at December 31, 2015 and variable rate loans and other receivables of +/-0.8% at December 31, 2016 and +/-0.8% at December 31, 2015. These changes are considered to be reasonably possible based on observation of current market conditions for the past 12 months at a 99% confidence level. The calculations are based on the Group's and Parent Company's financial instruments held at the end of each reporting period. All other variables are held constant.

	<u>2016</u>	
	<u>Increase in Interest Rate</u>	<u>Decrease in Interest Rate</u>
Loans and other receivables	+0.8%	-0.8%
Bills payable	+0.3%	-0.3%
 <b><u>Group/Parent Company</u></b>		
Increase (decrease) in:		
Profit before tax	P 0.9	(P 0.9)
Equity	0.6	( 0.6)
	 <u>2015</u>	
	<u>Increase in Interest Rate</u>	<u>Decrease in Interest Rate</u>
Loans and other receivables	+0.8%	-0.8%
Bills payable	+0.3%	-0.3%
 <b><u>Group</u></b>		
Increase (decrease) in:		
Profit before tax	P 0.8	(P 0.8)
Equity	0.6	( 0.6)

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

### 5.03 Credit Risk

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

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

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

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

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

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

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

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

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

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

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

(i) *Unclassified*

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



(ii) *Watchlisted*

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

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

(iii) *Adversely Classified*

a. *Loans Especially Mentioned (LEM)*

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

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

b. *Substandard*

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

c. *Doubtful*

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

d. *Loss*

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

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

The following table shows the exposure to credit risk as of December 31, 2016 and 2015 for each internal risk grade and the related allowance for impairment for loans and other receivables:

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

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

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

An estimate of the fair value of collateral and other security enhancements held against loans and other receivables that are not impaired as of December 31, 2016 and 2015 is shown below.

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

An estimate of the fair value of collateral and other security enhancements held against loans and other receivables that are impaired as of December 31, 2016 and 2015 is shown below.

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

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

The Group's manner of disposing the collateral for impaired loans and receivables is normally through sale of these assets after foreclosure proceedings have taken place. Aside from the foregoing, there are no other credit enhancements on the Group's financial assets held as of December 31, 2016 and 2015.

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

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

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

The Group believes that it currently has adequate debt funding from banks, other financial institutions, and through the issuance of Short-Term Commercial Papers (STCPs). On December 8, 2012, the Group obtained its first license from the SEC to issue P15.0 billion STCPs. Also, in 2014, the Group was granted a license from SEC to issue additional P10.0 billion STCPs, thereby increasing the total STCP fund sourcing to P25.0 billion. The P25.0 billion STCP licenses have been renewed in 2015 and 2016.

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

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

	<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>
<b><u>2016</u></b>					
<b><u>Group</u></b>					
Financial assets					
Cash and cash equivalents	P 370.5	P -	P -	P -	P 370.5
Available-for-sale financial assets	2,106.5	250.0	-	1,165.1	3,521.6
Loans and other receivables	<u>3,960.0</u>	<u>7,544.8</u>	<u>12,883.6</u>	<u>6,992.9</u>	<u>31,381.3</u>
	<b><u>P 6,437.0</u></b>	<b><u>P 7,794.8</u></b>	<b><u>P 12,883.6</u></b>	<b><u>P 8,158.0</u></b>	<b><u>P 35,273.4</u></b>
Financial liabilities					
Bills payable	P 25,147.1	P 1,618.2	P 502.8	P -	P 27,268.1
Accounts payable and other liabilities	572.4	-	-	-	572.4
Lease deposits	<u>484.7</u>	<u>936.4</u>	<u>2,912.3</u>	<u>1,247.4</u>	<u>5,580.8</u>
	<b><u>P 26,204.4</u></b>	<b><u>P 2,554.6</u></b>	<b><u>P 3,415.1</u></b>	<b><u>P 1,247.4</u></b>	<b><u>P 33,421.3</u></b>
<b><u>Parent Company</u></b>					
Financial assets					
Cash and cash equivalents	P 293.2	P -	P -	P -	P 293.2
Available-for-sale financial assets	2,106.5	250.0	-	1,165.1	3,521.6
Loans and other receivables	<u>4,120.3</u>	<u>7,544.8</u>	<u>12,883.6</u>	<u>6,992.9</u>	<u>31,541.6</u>
	<b><u>P 6,520.0</u></b>	<b><u>P 7,794.8</u></b>	<b><u>P 12,883.6</u></b>	<b><u>P 8,158.0</u></b>	<b><u>P 35,356.4</u></b>
Financial liabilities					
Bills payable	P 23,204.2	P 1,605.1	P 502.8	P -	P 25,312.1
Accounts payable and other liabilities	335.9	-	-	-	335.9
Lease deposits	<u>476.0</u>	<u>926.9</u>	<u>2,889.0</u>	<u>1,229.3</u>	<u>5,521.2</u>
	<b><u>P 24,016.1</u></b>	<b><u>P 2,532.0</u></b>	<b><u>P 3,391.8</u></b>	<b><u>P 1,229.3</u></b>	<b><u>P 31,169.2</u></b>
<b><u>2015</u></b>					
<b><u>Group</u></b>					
Financial assets					
Cash and cash equivalents	P 332.3	P -	P -	P -	P 332.3
Available-for-sale financial assets	2,161.6	-	248.8	1,129.8	3,540.2
Loans and other receivables	<u>4,310.6</u>	<u>6,727.8</u>	<u>11,848.2</u>	<u>4,576.7</u>	<u>27,463.3</u>
	<b><u>P 6,804.5</u></b>	<b><u>P 6,727.8</u></b>	<b><u>P 12,097.0</u></b>	<b><u>P 5,706.5</u></b>	<b><u>P 31,335.8</u></b>

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

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

### **5.05 Price Risk**

The Group is exposed to the changes in the market values of AFS financial assets held as of December 31, 2016 and 2015. The Group manages its risk by identifying, analyzing and measuring relevant or likely market price risks. To manage its price risk arising from its AFS financial assets, the Group does not concentrate its investment in any single counterparty.

If the prices of AFS financial assets changed by +/-4.0% both in 2016 and 2015, then other comprehensive income would have increased/decreased by P132.9 in 2016 and by P141.7 in 2015. The analysis is based on the assumption on the change of the correlated equity indices, with all other variables held constant.

## 6. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 6.01 Carrying Amounts and Fair Values by Category

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

	2016			
	Group		Parent	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	P 370.5	P 370.5	P 293.2	P 293.2
Loans and other receivables	<u>31,381.3</u>	<u>31,349.0</u>	<u>31,541.6</u>	<u>31,509.3</u>
	31,751.8	31,719.5	31,834.8	31,802.5
AFS financial assets	<u>3,521.6</u>	<u>3,521.6</u>	<u>3,521.6</u>	<u>3,521.6</u>
	<u><b>P 35,273.4</b></u>	<u><b>P 35,241.1</b></u>	<u><b>P 35,356.4</b></u>	<u><b>P 35,324.1</b></u>
Financial Liabilities				
At amortized cost:				
Bills payable	P 27,268.1	P 27,149.9	P 25,312.1	P 25,203.9
Accounts payable and other liabilities	572.4	572.4	335.9	335.9
Lease deposits	<u>5,580.8</u>	<u>5,580.8</u>	<u>5,521.2</u>	<u>5,521.2</u>
	<u><b>P 33,421.3</b></u>	<u><b>P 33,303.1</b></u>	<u><b>P 31,169.2</b></u>	<u><b>P 31,061.0</b></u>
2015				
	Group		Parent	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	P 332.3	P 332.3	P 301.6	P 301.6
Loans and other receivables	<u>27,463.3</u>	<u>27,421.1</u>	<u>27,459.7</u>	<u>27,417.5</u>
	27,795.6	27,753.4	27,761.3	27,719.1
AFS financial assets	<u>3,540.2</u>	<u>3,540.2</u>	<u>3,540.2</u>	<u>3,540.2</u>
	<u><b>P 31,335.8</b></u>	<u><b>P 31,293.6</b></u>	<u><b>P 31,301.5</b></u>	<u><b>P 31,259.3</b></u>
Financial Liabilities				
At amortized cost:				
Bills payable	P 23,889.6	P 23,779.7	P 21,919.0	P 21,818.4
Accounts payable and other liabilities	280.6	280.6	189.3	189.3
Lease deposits	<u>4,982.6</u>	<u>4,982.6</u>	<u>4,926.0</u>	<u>4,926.0</u>
	<u><b>P 29,152.8</b></u>	<u><b>P 29,042.9</b></u>	<u><b>P 27,034.3</b></u>	<u><b>P 26,933.7</b></u>

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

*(i) Cash and cash equivalents*

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

*(ii) AFS financial assets*

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

*(iii) Loans and other receivables*

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

*(iv) Bills payable*

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

*(v) Accounts payable and other liabilities*

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

*(vi) Lease deposits*

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

## **6.02 Fair Value Measurement and Disclosures**

### **6.02.01 Fair Value Hierarchy**

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

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

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

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

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

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

#### ***6.02.02 Financial Instrument Measured at Fair Value***

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

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



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

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

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

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

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

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

	<u>Notes</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>Group</u></b>					
<b><u>December 31, 2015</u></b>					
<i>Financial liabilities:</i>					
Bills payable	13	P -	P -	P 23,779.7	P 23,779.7
Accounts payable and other liabilities	14	-	-	280.6	280.6
Lease deposits	15	-	-	4,982.6	4,982.6
		<u>P -</u>	<u>P -</u>	<u>P 29,042.9</u>	<u>P 29,042.9</u>
<b><u>Parent Company</u></b>					
<b><u>December 31, 2016</u></b>					
<i>Financial assets:</i>					
Cash and cash equivalents	7	P 293.2	P -	P -	P 293.2
Loans and other receivables	9	-	-	31,509.3	31,509.3
		<u>P 293.2</u>	<u>P -</u>	<u>P 31,509.3</u>	<u>P 31,802.5</u>
<i>Financial liabilities:</i>					
Bills payable	13	P -	P -	P 25,203.9	P 25,203.9
Accounts payable and other liabilities	14	-	-	335.9	335.9
Lease deposits	15	-	-	5,521.2	5,521.2
		<u>P -</u>	<u>P -</u>	<u>P 31,061.0</u>	<u>P 31,061.0</u>
<b><u>December 31, 2015</u></b>					
<i>Financial assets:</i>					
Cash and cash equivalents	7	P 301.6	P -	P -	P 301.6
Loans and other receivables	9	-	-	27,417.5	27,417.5
		<u>P 301.6</u>	<u>P -</u>	<u>P 27,417.5</u>	<u>P 27,719.1</u>
<i>Financial liabilities:</i>					
Bills payable	13	P -	P -	P 21,818.4	P 21,818.4
Accounts payable and other liabilities	14	-	-	189.3	189.3
Lease deposits	15	-	-	4,926.0	4,926.0
		<u>P -</u>	<u>P -</u>	<u>P 26,933.7</u>	<u>P 26,933.7</u>

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

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

(a) Financial instruments in Level 1

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

(b) Financial instruments in Level 2

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

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

(c) Financial instruments in Level 3

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

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

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>Group</u></b>				
<b><u>2016</u></b>				
Land	P -	P -	P 688.3	P 688.3
Building and improvements	<u>-</u>	<u>-</u>	<u>46.6</u>	<u>46.6</u>
	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P 734.9</u></b>	<b><u>P 734.9</u></b>
<b><u>2015</u></b>				
Land	P -	P -	P 652.7	P 652.7
Building and improvements	<u>-</u>	<u>-</u>	<u>69.4</u>	<u>69.4</u>
	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P 722.1</u></b>	<b><u>P 722.1</u></b>
<b><u>Parent Company</u></b>				
<b><u>2016</u></b>				
Land	P -	P -	P 462.2	P 462.2
Building and improvements	<u>-</u>	<u>-</u>	<u>46.6</u>	<u>46.6</u>
	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P 508.8</u></b>	<b><u>P 508.8</u></b>
<b><u>2015</u></b>				
Land	P -	P -	P 450.2	P 450.2
Building and improvements	<u>-</u>	<u>-</u>	<u>69.4</u>	<u>69.4</u>
	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P 519.6</u></b>	<b><u>P 519.6</u></b>

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

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

(a) *Fair Value Measurement for Land*

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

(b) *Fair Value Measurement for Buildings and Improvements*

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

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

## 7. CASH AND CASH EQUIVALENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 9. LOANS AND OTHER RECEIVABLES

This account consists of the following:

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

As of December 31, 2016 and 2015, 70.8% and 62.3%, respectively, of the total receivables from customers of the Group are subject to periodic interest repricing. Remaining receivables from customers earn annual fixed interest rates ranging from 4.0% to 19.6% in 2016 and 2015.

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

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

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

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



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

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

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

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

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

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

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

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

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

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

## 10. PROPERTY AND EQUIPMENT

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

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

	<u>Transportation and Other Equipment</u>	<u>Furniture, Fixtures and Others</u>	<u>Leasehold Improvements</u>	<u>Total</u>
<b><u>Parent Company</u></b>				
December 31, 2015				
Cost	P -	P 36.5	P 20.0	P 56.5
Accumulated depreciation and amortization	<u>-</u>	<u>( 28.8)</u>	<u>( 18.5)</u>	<u>( 47.3)</u>
Net carrying amount	<u>P -</u>	<u>P 7.7</u>	<u>P 1.5</u>	<u>P 9.2</u>
December 31, 2014				
Cost	P -	P 30.4	P 18.2	P 48.6
Accumulated depreciation and amortization	<u>-</u>	<u>( 26.9)</u>	<u>( 17.4)</u>	<u>( 44.3)</u>
Net carrying amount	<u>P -</u>	<u>P 3.5</u>	<u>P 0.8</u>	<u>P 4.3</u>

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

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

	<u>Transportation and Other Equipment</u>	<u>Furniture, Fixtures and Others</u>	<u>Leasehold Improvements</u>	<u>Total</u>
<b><u>Parent Company</u></b>				
Balance at January 1, 2016, net of accumulated depreciation and amortization	P -	P 7.7	P 1.5	P 9.2
Additions	-	2.0	-	2.0
Depreciation and amortization charges for the year	<u>-</u>	<u>( 4.2)</u>	<u>( 0.7)</u>	<u>( 4.9)</u>
Balance at December 31, 2016, net of accumulated depreciation and amortization	<u><b>P -</b></u>	<u><b>P 5.5</b></u>	<u><b>P 0.8</b></u>	<u><b>P 6.3</b></u>
Balance at January 1, 2015, net of accumulated depreciation and amortization	P -	P 3.5	P 0.8	P 4.3
Additions	-	12.9	1.8	14.7
Disposals	-	( 4.2)	-	( 4.2)
Depreciation and amortization charges for the year	<u>-</u>	<u>( 4.5)</u>	<u>( 1.1)</u>	<u>( 5.6)</u>
Balance at December 31, 2015, net of accumulated depreciation and amortization	<u><b>P -</b></u>	<u><b>P 7.7</b></u>	<u><b>P 1.5</b></u>	<u><b>P 9.2</b></u>

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

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

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

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

## 11. INVESTMENT PROPERTIES

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

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

	<u>Land</u>	<u>Building and Improvements</u>	<u>Total</u>
<b><u>Group</u></b>			
December 31, 2016			
Cost	P 462.5	P 63.5	P 526.0
Accumulated depreciation	-	( 54.4)	( 54.4)
Accumulated impairment	( 44.5)	( 0.6)	( 45.1)
Net carrying amount	<b><u>P 418.0</u></b>	<b><u>P 8.5</u></b>	<b><u>P 426.5</u></b>
December 31, 2015			
Cost	P 467.6	P 78.5	P 546.1
Accumulated depreciation	-	( 63.2)	( 63.2)
Accumulated impairment	( 44.8)	-	( 44.8)
Net carrying amount	<b><u>P 422.8</u></b>	<b><u>P 15.3</u></b>	<b><u>P 438.1</u></b>
December 31, 2014			
Cost	P 358.0	P 82.3	P 440.3
Accumulated depreciation	-	( 62.7)	( 62.7)
Accumulated impairment	( 57.0)	-	( 57.0)
Net carrying amount	<b><u>P 301.0</u></b>	<b><u>P 19.6</u></b>	<b><u>P 320.6</u></b>
<b><u>Parent Company</u></b>			
December 31, 2016			
Cost	P 236.4	P 63.5	P 299.9
Accumulated depreciation	-	( 54.4)	( 54.4)
Accumulated impairment	( 44.5)	( 0.6)	( 45.1)
Net carrying amount	<b><u>P 191.9</u></b>	<b><u>P 8.5</u></b>	<b><u>P 200.4</u></b>
December 31, 2015			
Cost	P 241.5	P 78.5	P 320.0
Accumulated depreciation	-	( 63.2)	( 63.2)
Accumulated impairment	( 44.8)	-	( 44.8)
Net carrying amount	<b><u>P 196.7</u></b>	<b><u>P 15.3</u></b>	<b><u>P 212.0</u></b>
December 31, 2014			
Cost	P 358.0	P 82.3	P 440.3
Accumulated depreciation	-	( 62.7)	( 62.7)
Accumulated impairment	( 57.0)	-	( 57.0)
Net carrying amount	<b><u>P 301.0</u></b>	<b><u>P 19.6</u></b>	<b><u>P 320.6</u></b>

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

	<u>Land</u>	<u>Building and Improvements</u>	<u>Total</u>
<b><u>Group</u></b>			
Balance at January 1, 2016, net of accumulated depreciation and impairment	P 422.8	P 15.3	P 438.1
Additions	2.9	0.8	3.7
Disposals	( 8.0)	( 3.1)	( 11.1)
Reclassifications	0.3	( 0.6)	( 0.3)
Depreciation and amortization charges for the year	<u>-</u>	<u>( 3.9)</u>	<u>( 3.9)</u>
Balance at December 31, 2016, net of accumulated depreciation and impairment	<b><u>P 418.0</u></b>	<b><u>P 8.5</u></b>	<b><u>P 426.5</u></b>
Balance at January 1, 2015, net of accumulated depreciation and impairment	P 301.0	P 19.6	P 320.6
Additions	227.3	-	227.3
Disposals	( 117.5)	( 0.2)	( 117.7)
Reclassifications	9.0	-	9.0
Reversal of impairment losses	3.0	-	3.0
Depreciation and amortization charges for the year	<u>-</u>	<u>( 4.1)</u>	<u>( 4.1)</u>
Balance at December 31, 2015, net of accumulated depreciation and impairment	<b><u>P 422.8</u></b>	<b><u>P 15.3</u></b>	<b><u>P 438.1</u></b>
<b><u>Parent Company</u></b>			
Balance at January 1, 2016, net of accumulated depreciation and impairment	P 196.7	P 15.3	P 212.0
Additions	2.9	0.8	3.7
Reclassifications	0.3	( 0.6)	( 0.3)
Disposals	( 8.0)	( 3.1)	( 11.1)
Depreciation and amortization charges for the year	<u>-</u>	<u>( 3.9)</u>	<u>( 3.9)</u>
Balance at December 31, 2016, net of accumulated depreciation and impairment	<b><u>P 191.9</u></b>	<b><u>P 8.5</u></b>	<b><u>P 200.4</u></b>
Balance at January 1, 2015, net of accumulated depreciation and impairment	P 301.0	P 19.6	P 320.6
Additions	1.2	-	1.2
Reclassifications	9.0	-	9.0
Disposals	( 117.5)	( 0.2)	( 117.7)
Reversal of impairment losses	3.0	-	3.0
Depreciation and amortization charges for the year	<u>-</u>	<u>( 4.1)</u>	<u>( 4.1)</u>
Balance at December 31, 2015, net of accumulated depreciation and impairment	<b><u>P 196.7</u></b>	<b><u>P 15.3</u></b>	<b><u>P 212.0</u></b>

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

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

Fair values have been determined based on valuations made by independent and/or in-house appraisers, which are the market value for land and building and related improvements and reproduction cost for certain building and improvements. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made. In addition, there are certain significant assumptions that are considered in the valuation of these properties, based on the following: (a) extent, character and utility of the properties; (b) sales or listing of prices for similar properties; (c) highest and best use of the property; and (d) accumulated depreciation for depreciable properties. Internal appraisals were made for all properties with book value of P5 or less, while external appraisals were made for all properties with book value exceeding P5.0.

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

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

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

## 12. OTHER ASSETS

Other assets consist of the following:

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

(a) Equity investments consist of the following:

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

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

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



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

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

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

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

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

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

- (b) Deferred input VAT pertains to the VAT due or paid by the Group on purchases of capital assets for lease in the ordinary course of business wherein the application against the output VAT is amortized over the useful life of the asset or 60 months, whichever is shorter.
- (c) Prepaid expenses of the Group include creditable withholding taxes of BDO Rental amounting to P76.5 and P72.8 as of December 31, 2016 and 2015, respectively.

- (d) In 2014, the Parent Company made advances to supplier as payments for the new leasing system of the Parent Company. In 2015, these were reclassified to intangible asset upon actual use of the system. The Parent Company recognized amortization expense on intangible assets amounting to P13.5 in 2016 and P12.7 in 2015 included as part of Occupancy and Equipment-related Expenses account in the statement of income.
- (e) Repossessed chattels and other equipment of the Group include certain transportation equipment returned to BDO Rental which were reclassified from property and equipment to other assets at year-end. As of December 31, 2016 and 2015, the Parent Company had no remaining repossessed chattels and other equipment.

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

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

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

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

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

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

### 13. BILLS PAYABLE

This account consists of:

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

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

Interest and financing charges consist of interest on:

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

#### 14. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities consist of the following:

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

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

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

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

#### 15. LEASE DEPOSITS

This account represents deposits on:

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

Interest expense on lease deposits accrued using the effective interest method in the Group's financial statements amounted to P3.3, P6.4 and P3.3 in 2016, 2015 and 2014 respectively, and P0.8, P4.8 and P2.1 in 2016, 2015 and 2014, respectively, in the Parent Company's financial statements (see Note 13). These are included as part of Interest and Financing Charges under Operating Costs and Expenses in the Group and Parent Company's statements of income.

## 16. EQUITY

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

The Group's capital management objectives are:

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

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

The Group's capital and overall financing as of December 31, 2016 and 2015 are shown below.

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

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

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

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

None of these authorized preferred shares have been issued as of December 31, 2016 and 2015.

### ***16.03 Common Shares***

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

### ***16.04 Retained Earnings***

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

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

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

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

### ***16.05 Track Record of Registration of Securities***

On January 6, 1997, the Parent Company was listed with the PSE with 106,100,000 additional common shares and 15,120,000 existing common shares with par value of P1.00 per share. The listing was approved by the SEC in May 1996. As of December 31, 2016 and 2015, the Parent Company's number of shares registered totaled 3,400,000,000 with par value of P1.00 per share and closed at a price of P3.79 in 2016 and 2.45 in 2015. The total number of stockholders is 1,136 and 1,152 as of December 31, 2016 and 2015, respectively.

## 17. OTHER INCOME

This account is composed of the following:

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

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

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

## 18. LEASES

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

In the ordinary course of business, the Group enters into various operating leases with lease terms ranging from 12 months to 15 years. Operating lease income, presented under Rent account in the Group's statements of income for the years ended December 31, 2016, 2015 and 2014, amounted to P890.2, P807.1 and P613.1, respectively.

Future minimum rental receivables under operating leases follow:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Within one year	<b>P 804.5</b>	P 209.1	P 97.7
After one year but not more than five years	<b>883.5</b>	1,354.7	1,421.8
More than five years	<u><b>100.3</b></u>	<u>112.8</u>	<u>-</u>
	<u><b>P 1,788.3</b></u>	<u>P 1,676.6</u>	<u>P 1,519.5</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>2016</u>	<u>2015</u>	<u>2014</u>
Salaries and wages	<b>P 122.1</b>	P 108.0	P 99.6
Bonuses	<b>43.9</b>	38.8	33.5
Employee stock option plan	<b>16.9</b>	-	-
Retirement – defined benefit plan	<b>14.1</b>	14.1	15.3
Social security costs	<b>3.9</b>	3.5	3.5
Other benefits	<u><b>19.8</b></u>	<u>23.5</u>	<u>9.5</u>
	<u><b>P 220.7</b></u>	<u>P 187.9</u>	<u>P 161.4</u>

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

### *19.02 Post-employment Benefits*

#### *(a) Characteristics of the Defined Benefit Plan*

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

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



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

Actuarial valuations are made annually to update the post-employment benefit costs and the related amount of contributions. All amounts presented below and in the succeeding pages are based on the actuarial valuation report obtained from an independent actuary in 2016 and 2015.

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

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

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

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

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

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

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

	<u>2016</u>		<u>2015</u>
Cash and cash equivalents	<b>P 30.8</b>	P	50.0
Unit investment trust funds	<b>49.6</b>		26.0
Equity instruments	<b>6.1</b>		4.6
Real estate	<b>2.7</b>		2.8
Loans	<b><u>2.2</u></b>		<u>3.1</u>
	<b><u>91.4</u></b>		<u>86.5</u>
Debt instruments:			
Government bonds	<b>107.6</b>		98.5
Other bonds	<b><u>48.2</u></b>		<u>46.7</u>
	<b><u>155.8</u></b>		<u>145.2</u>
Others	<b><u>16.8</u></b>		<u>13.7</u>
	<b><u>P 264.0</u></b>	P	<u>245.4</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 P11.2 in 2016, P3.6 in 2015 and P12.2 in 2014.

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

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

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

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

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

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

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

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

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

*(c) Risks Associated with the Retirement Plan*

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

*(i) Investment and Interest Risk*

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

(ii) *Longevity and Salary Risks*

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

(d) *Other Information*

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

(i) *Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the retirement benefit obligation as of December 31, 2016 and 2015:

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

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

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

(ii) *Asset-liability matching strategy*

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

(iii) *Funding Arrangements and Expected Contributions.*

The plan is currently overfunded by P51.8 as of December 31, 2016 based on the latest actuarial valuation.

The Parent Company expects to make contribution of P12.2 to the plan during the next financial year.

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

Within one year	P	60.5
More than one year to five years		32.3
More than five years to ten years		<u>98.2</u>
	P	<u>191.0</u>

## 20. RELATED PARTY TRANSACTIONS

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

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

<u>Related Party Category</u>	<u>Notes</u>	<u>Amount of Transaction</u>		
		<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Ultimate Parent Company (BDO Unibank)</b>				
Interest income on savings and demand deposits	(a)	P 0.7	P 0.6	P 0.5
Interest expense on bills payable	(b)	38.0	99.7	94.6
Rent expense	(d)	10.5	9.8	10.5
Management fees	(e)	2.4	2.4	2.4
Employee stock option plan	2.19, 19	16.9	-	-
<b>Subsidiary (BDO Rental)</b>				
Service fees	(c)	-	6.9	6.3
Rent income	(d)	0.4	0.4	0.4
Management fees	(e)	0.4	0.4	0.4
Dividend income	(j)	60.0	-	43.8

<u>Related Party Category</u>	<u>Notes</u>	<u>Amount of Transaction</u>		
		<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Related Party under Common Ownership (BDO Capital and BDO Insurance)</b>				
Service and charges fees	(f), (l)	5.5	4.0	3.5
<b>Key management personnel</b>				
Short-term benefits	(g)	50.4	65.6	57.6
Loans to officers	(g)	5.0	3.5	0.3
		<u>Outstanding Balance</u>		
<u>Related Party Category</u>	<u>Notes</u>	<u>2016</u>	<u>2015</u>	
<b>Ultimate Parent Company (BDO Unibank)</b>				
Savings and demand deposits	(a)	P 365.2	P	323.7
Bills payable	(b)	2,575.8		3,250.2
Employee stock option plan	2.19, 19	16.9		-
<b>Subsidiary (BDO Rental)</b>				
Deposit for future stock subscription	(k)	-		46.9
Dividend receivable	(j)	60.0		-
Accounts receivable	(k)	109.4		-
<b>Related Party under Common Ownership (BDO Insurance)</b>				
Accounts receivable	(l)	0.7		-
<b>Key management personnel</b>				
Loans to officers	(g)	10.0		5.0
<b>Retirement benefit fund</b>				
Loans to officers and employees	(h)	-		1.1
Shares of stock	(i)	1.0		1.1

(a) The Group maintains savings and demand deposit accounts with BDO Unibank. As of December 31, 2016 and 2015, savings and demand deposit accounts maintained with BDO Unibank are included under Cash and Cash Equivalents account in the statements of financial position (see Note 7). Interest income earned on these deposits in 2016, 2015 and 2014 is included as part of Interest and Discounts under the Revenues account in the statements of income.

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

- (c) On January 4, 2010, the Parent Company and BDO Rental entered into a Service Agreement whereby BDO Rental will handle the collection of certain factored receivables of the Parent Company, for a fee as agreed by the Parent Company and the sellers of the factored receivables. Under the Service Agreement, BDO Rental shall perform the monitoring of the payment due dates of the factored receivables, remit to the Parent Company all collections made and send monthly statement of accounts to customers. The related expense charged to the Parent Company based on the Service Agreement is included in Other expenses under Operating Costs and Expenses in the Parent Company's statements of income. The Service Agreement was discontinued in 2016. There are no outstanding intercompany payable and receivable from this transaction as of December 31, 2016 and 2015.
- (d) The Parent Company leases its head office premises and certain branch offices from BDO Unibank for terms ranging from three to five years, renewable for such period and under such terms and conditions as may be agreed upon with the Parent Company and BDO Unibank. Related rent expense incurred in 2016, 2015 and 2014 is presented as part of Occupancy and equipment-related expenses under Operating Costs and Expenses account in the statements of income. On the other hand, the Parent Company charges BDO Rental for the spaces that the latter occupies in the head office premises. Rent charged to BDO Rental in 2016, 2015 and 2014 is presented as part of Other Income in the statements of income. There is no outstanding receivable and payable on these transactions as of the end of 2016 and 2015.
- (e) In 2013, the Parent Company entered into a service level agreement with BDO Unibank wherein BDO Unibank will charge the Parent Company for certain management services that the former provides to the latter. Management fees paid by the Parent Company to BDO Unibank is shown as part of Other Operating Costs and Expenses in the statements of income. Also, the Parent Company charges BDO Rental for the management services it renders to BDO Rental. This is presented as part of Other Income in the Parent Company's statements of income. There are no outstanding receivable and payable on these transactions as of the end of 2016 and 2015.
- (f) The Parent Company engaged the services of BDO Capital and Investment Corporation (BDO Capital), a wholly owned subsidiary of BDO Unibank for underwriting services related to the Parent Company's issuance of short term commercial papers. Service and charges fees paid by the Parent Company to BDO Capital amounting to P4.0 both for 2016 and 2015 and P3.5 in 2014 is included as part of Other Operating Costs and Expenses in the statements of income. There are no outstanding payable related on this transaction as of the end of 2016, 2015 and 2014.
- (g) Compensation of key management personnel (covering officer positions starting from Assistant Vice President and up) is included as part of Employee Benefits under Operating Costs and Expenses in the statements of comprehensive income of the Group and Parent Company. Short-term employee benefits include salaries, paid annual leave and paid sick leave, profit sharing and bonuses, and non-monetary benefits. The Group also granted loans to officers which are secured by mortgage on the property, bear interest at 9.0% per annum and have terms ranging from 3 to 4 years.

- (h) The Group maintains a retirement benefit fund with BDO Unibank covering all regular full-time employees. In the normal course of business, the retirement benefit fund grants salary and housing loans to certain officers and employees of the Parent Company, and members and beneficiaries of the fund who are also officers of the Parent Company. The housing loans are secured by the mortgage on the property and bear interest at 9.0% per annum and have terms ranging from 13 to 20 years. The salary loans, on the other hand, are unsecured and bear interest ranging from 9.0% to 10.0% per annum and have terms ranging from 18 months to 3 years. There is no impairment loss recognized on these loans. There are no loans granted under the retirement fund in 2016.
- (i) The retirement fund holds, as an investment, 519,915 shares and 442,750 shares of stock of the Parent Company in 2016 and 2015, respectively, which has a market value of P1.90 and P2.00 per share as of December 31, 2016 and 2015, respectively. The retirement fund does not hold any shares of stock of BDO Unibank.
- (j) In 2016 and 2014 (nil in 2015), BDO Rental declared cash dividends amounting to P60.0 and P43.8, respectively.
- (k) In 2015, BDO Rental received cash from the Parent Company as subscription payments for the increase in authorized capital stock, representing 25% of the total subscribed capital stock. BDO Rental cancelled its application for the increase in authorized capital stock with the SEC on December 20, 2016. This resulted in the recognition of outstanding receivable by the Parent Company from BDO Rental in 2016 [see Note 12(a)].
- (l) In 2016, the Parent Company earned from BDO Insurance Brokers, Inc. (BDO Insurance) service charges and fees for accounts referred and is included as part of Miscellaneous under Other Income account in the 2016 statement of income (see Note 17). This resulted for outstanding receivable of the Parent Company from BDO Insurance in 2016 which is recorded as part of Accounts receivable under Loans and Other Receivables account in the statements of financial position (see Note 9).

## 21. TAXES

### *21.01 Taxes and Licenses*

This account is composed of the following:

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



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

### 21.02 Current and Deferred Taxes

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b><u>Group</u></b>			
<i>Reported in statements of income</i>			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	P 207.1	P 190.8	P 182.0
Final tax at 20%	<u>19.0</u>	<u>11.8</u>	<u>6.3</u>
	226.1	202.6	188.3
Deferred tax expense (income) relating to origination and reversal of temporary differences	( <u>45.4</u> )	( <u>32.8</u> )	<u>21.8</u>
	<u>P 180.7</u>	<u>P 169.8</u>	<u>P 210.1</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 0.5)	P 2.9
AFS financial assets	( <u>0.6</u> )	<u>0.5</u>	<u>0.1</u>
	<u>(P 3.5)</u>	<u>P -</u>	<u>P 3.0</u>

### **Parent Company**

<i>Reported in statements of income</i>			
Current tax expense:			
RCIT at 30%	P 172.2	P 155.7	P 151.4
Final tax at 20%	<u>19.0</u>	<u>11.7</u>	<u>6.3</u>
	191.2	167.4	157.7
Deferred tax expense (income) relating to origination and reversal of temporary differences	( <u>45.4</u> )	( <u>32.8</u> )	<u>21.8</u>
	<u>P 145.8</u>	<u>P 134.6</u>	<u>P 179.5</u>

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b><u>Parent Company</u></b>			
<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 0.5)	P 2.9
AFS financial assets	( 0.6)	0.5	0.1
	<u>(P 3.5)</u>	<u>P -</u>	<u>P 3.0</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>2016</u>	<u>2015</u>	<u>2014</u>
<b><u>Group</u></b>			
Tax on pretax profit	P 225.2	P 217.6	P 214.2
Adjustment for income subjected to lower tax rates	( 9.5)	( 6.0)	( 3.2)
Tax effects of:			
Non-taxable income	( 47.5)	( 53.1)	( 48.2)
Non-deductible expense	35.9	39.8	39.0
Reversal of deferred tax asset (liability)	( 33.5)	( 36.4)	4.0
Non-deductible interest expense	<u>10.1</u>	<u>7.9</u>	<u>4.3</u>
	<u>P 180.7</u>	<u>P 169.8</u>	<u>P 210.1</u>
	<u>2016</u>	2015 (As Restated – see Note 2)	2014 (As Restated – see Note 2)

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

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

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

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

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

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

**Group/Parent Company**

*In other comprehensive income:*

Deferred tax expense (income) on:			
Net actuarial losses	(P 2.9)	(P 0.5)	P 2.9
Unrealized fair value gains on AFS financial assets	( 0.6)	0.5	0.1
Net deferred tax expense (income)	<u>(P 3.5)</u>	<u>P -</u>	<u>P 3.0</u>

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

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

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

**22. EARNINGS PER SHARE**

Basic earnings per share were computed as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b><u>Group</u></b>			
Net profit	P 570.0	P 555.6	P 504.0
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 0.26</u>	<u>P 0.26</u>	<u>P 0.23</u>
	<u>2016</u>	2015 (As Restated – see Note 2)	2014 (As Restated – see Note 2)
<b><u>Parent Company</u></b>			
Net profit	P 570.0	P 555.6	P 504.0
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 0.26</u>	<u>P 0.26</u>	<u>P 0.23</u>

\* net of treasury shares

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

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

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

**24. CONTINGENT LIABILITIES AND COMMITMENTS**

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

The Group leases the head office and certain branch offices from BDO Unibank. Total lease payments presented as part of Occupancy and equipment-related expenses under Operating Costs and Expenses in the statements of income amounted to P19.6 in 2016, P18.2 in 2015 and P16.5 in 2014.

Future minimum lease payments under these operating leases follow:

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

#### ***24.02 Others***

In addition to those already mentioned in the preceding notes, in the ordinary course of business, the Group incurs contingent liabilities and commitments arising from normal business transactions which are not reflected in the accompanying financial statements. As of December 31, 2016, management does not anticipate significant losses from these contingencies and commitments that would adversely affect the Group's financial position and results of operations.



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## Report of Independent Auditors to Accompany Supplementary Information Required by the Securities and Exchange Commission Filed Separately from the Basic Financial Statements

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### The Board of Directors and the Stockholders BDO Leasing and Finance, Inc.

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

39<sup>th</sup> Floor BDO Corporate Center Ortigas,  
12 ADB Avenue, Ortigas Center,  
Mandaluyong City

We have audited the financial statements of BDO Leasing and Finance, Inc. and subsidiary (the Group) and of BDO Leasing and Finance, Inc. (the Parent Company) for the year ended December 31, 2016, on which we have rendered the attached report dated February 22, 2017. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The applicable supplementary schedules (see table of contents) to the Group and the Parent Company as of December 31, 2016 and for the year then ended, in compliance with the requirements of the Securities Regulation Code Rule 68, are presented for purposes of additional analysis and are not required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of management. The information in such supplementary schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### PUNONGBAYAN & ARAULLO

By:   
Romualdo V. Murcia III  
Partner

CPA Reg. No. 0095626

TIN 906-174-059

PTR No. 5908631, January 3, 2017, Makati City

SEC Group A Accreditation

Partner - No. 0628-AR-3 (until Nov. 29, 2019)

Firm - No. 0002-FR-4 (until Apr. 30, 2018)

BIR AN 08-002511-22-2016 (until Oct. 3, 2019)

Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

#### Certified Public Accountants

Punongbayan & Araullo (P&A) is the Philippine member firm of Grant Thornton International Ltd

Offices in Cebu, Davao, Cavite

February 22, 2017

BOA/PRC Cert. of Reg. No. 0002  
SEC Accreditation No. 0002-FR-4

**BDO LEASING AND FINANCE, INC.**  
**SEC Supplementary Schedules**  
**December 31, 2016**

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	Schedule of Philippine Financial Reporting Standards and Interpretations Adopted by the Securities and Exchange Commission and the Financial Reporting Standards Council as of December 31, 2016	<u>11 - 14</u>
	Financial Ratios	<u>15 - 16</u>
	Organizational Chart	<u>17</u>
	Use of Proceeds	<u>18</u>



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

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

**Schedule A - Financial Assets**

**December 31, 2016**

*(Amount in Philippine Pesos)*

<i>Name of issuing entity and association of each issue <sup>(i)</sup></i>	<i>Number of shares or principal amount of bonds or notes</i>	<i>Amount shown on the balance sheet <sup>(ii)</sup></i>	<i>Valued based on the market quotation at balance sheet date <sup>(iii)</sup></i>	<i>Income received and accrued</i>
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***Available-for-sale securities***

Century Properties Group Inc.	250,000,000	P	250,000,000	P	249,993,700	P	15,000,000
8990 Holdings Inc.	937,220,000		937,220,000		966,227,709		58,182,618
Sta. Lucia Land Inc.	200,000,000		200,000,000		198,833,520		13,430,000
San Miguel Corporation (Series "2-B")	8,461,600		634,620,000		676,928,000		48,389,775
San Miguel Corporation (Series "2-C")	7,966,600		597,495,000		640,514,640		47,799,600
First Gen Corporation	6,800,000		680,000,000		775,200,000		54,111,111
Valley Golf Country Club	1		25,000		190,000		-
Tagaytay Splendido	1		800,000		80,000		-
<b>Total AFS Financial Assets</b>		<b>P</b>	<b>3,300,160,000</b>	<b>P</b>	<b>3,507,967,569</b>	<b>P</b>	<b>236,913,104</b>

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

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

**Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)**

December 31, 2016

*(Amount in Philippine Pesos)*

<i>Name and designation of debtor <sup>(1)</sup></i>	<i>Balance at beginning of period</i>	<i>Additions</i>	<i>Amounts collected <sup>(2)</sup></i>	<i>Amounts written off <sup>(3)</sup></i>	<i>Current</i>	<i>Not current</i>	<i>Balance at end of period</i>
<b>Amounts Due from Related Parties:</b>							
I.V. Loecin Condominium Corporation	P 1,734,000	P -	P 1,733,833	P -	P 167	P -	P 167
L.V. Loecin Condominium Corporation	3,835,892	-	2,707,692	-	1,128,200	-	1,128,200
Westech Wipi Manufacturing Corporation	2,690,413	-	2,690,413	-	-	-	-
Bautista, Sps. Arnold S. and Venus T.	2,276,467	-	287,034	-	1,989,433	-	1,989,433
	<u>10,536,772</u>	<u>-</u>	<u>7,418,972</u>	<u>-</u>	<u>3,117,801</u>	<u>-</u>	<u>3,117,801</u>
<b>Loans to Officers and Employees:</b>							
Lapid, Roberto Estrera	882,057		675,319		206,738		206,738
Kapuno, Rosalisa Bantog	1,212,072.51		383,567		828,505		828,505
Verzola, Sps. Agerico Melecio S. Serietta P.	1,164,074.22		538,923		625,151		625,151
Natividad, Joseph Jason Martinez	1,711,816.80		342,363.36		1,369,453		1,369,453
Agustin, Peter Blair Sarion		686,197	164,006.66		522,191		522,191
So, Jennifer Facunda		393,794	145,082.00		248,712		248,712
Gulane, Jennifer T.		765,414	133,947.52		631,467		631,467
Tabanao, Dean Arvin D.		1,390,412	150,628.01		1,239,784		1,239,784
Paguio, Rommel I.		561,137	78,884.37		482,253		482,253
Calamiong, Sheryl G.		756,098	56,707.38		699,391		699,391
Reyes, Luis Jr.		1,530,203	191,275.38		1,338,928		1,338,928
Handig, Joeven Y.		1,158,579	19,775.97		1,138,803		1,138,803
Lapid, Roberto Estrera		681,745	14,203		667,542		667,542
	<u>4,970,021</u>	<u>7,923,581</u>	<u>2,894,683</u>	<u>-</u>	<u>9,998,918</u>	<u>-</u>	<u>9,998,918</u>
<b>Loans to Directors ( not officer or employee )</b>							
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	<u>P 15,506,792.8</u>	<u>P 7,923,580.7</u>	<u>P 10,313,654.9</u>	<u>P -</u>	<u>P 13,116,718.7</u>	<u>P -</u>	<u>P 13,116,718.7</u>

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

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

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

**December 31, 2016**

*(Amount in Philippine Pesos)*

Name and Designation of debtor	Balance at beginning of period	Additions	Deductions		Current	Non-current	Balance at end of period
			Amounts collected (i)	Amounts written off (ii)			
BDO Rental, Inc.	P -	P 169,375,000	P -	P -	P -	P -	P 169,375,000
	<u>P -</u>	<u>P 169,375,000</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P 169,375,000</u>

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**Schedule D - Intangible Assets - Other Assets**  
**December 31, 2016**  
*(Amount in Philippine Pesos)*

<i>Description <sup>(i)</sup></i>	<i>Beginning balance</i>		<i>Additions at Cost <sup>(ii)</sup></i>		<i>Charged to cost and expenses</i>		<i>Charged to other accounts</i>		<i>Other changes additions (deductions) <sup>(iii)</sup></i>		<i>Ending balance</i>	
Computer Software	P	50,905,367	P	5,342,274	( P	13,464,089)	P	-	P	-	P	42,783,552
	P	50,905,367	P	5,342,274	( P	13,464,089)	P	-	P	-	P	42,783,552

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**Schedule E - Long-Term Debt**  
**December 31, 2016**  
*(Amount in Philippine Pesos)*

<i>Title of issue and type of obligation <sup>(i)</sup></i>	<i>Amount authorized by indenture</i>	<i>Amount shown under caption "Current portion of long-term debt" in related balance sheet <sup>(ii)</sup></i>	<i>Amount shown under caption "Long-Term Debt" in related balance sheet <sup>(iii)</sup></i>	<i>Interest Rate</i>	<i>Maturity Date</i>
Bills Payable - Others					
Development Bank of the Philippines (DBP)	P 386,250,000	P 386,250,000	P -	3.250%	July 22, 2017
Development Bank of the Philippines (DBP)	502,617,000	251,308,500	251,308,500	3.200%	December 27, 2018
	888,867,000	637,558,500	251,308,500		
<b>Total Bills Payable - Others</b>	<b>P 888,867,000</b>	<b>P 637,558,500</b>	<b>P 251,308,500</b>		

<sup>(i)</sup> Include in the column each type of obligation authorized (i.e., loans, bonds, warrants, etc.)

<sup>(ii)</sup> This column is to be totalled to correspond to the related balance sheet caption.

<sup>(iii)</sup> Include in this column details as to interest rates, amounts or number of periodic installments, and maturity date.

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

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

**Schedule F - Indebtedness to Related Parties (Long-term Loans from Related Companies)**

**December 31, 2016**

*(Amount in Philippine Pesos)*

<i>Name of related party <sup>(1)</sup></i>	<i>Balance at beginning of period</i>	<i>Balance at end of period <sup>(2)</sup></i>
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- nothing to report -

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

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

**Schedule G - Guarantees of Securities of Other Issuers <sup>(1)</sup>**

**December 31, 2016**

**(Amount in Philippine Pesos)**

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

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

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

Schedule H - Capital Stock <sup>(1)</sup>

December 31, 2016

(Amount in Philippine Pesos)

<i>Title of Issue <sup>(2)</sup></i>	<i>Number of shares authorized</i>	<i>Number of shares issued and outstanding as shown under the related balance sheet caption</i>	<i>Number of shares reserved for options, warrants, conversion and other rights</i>	<i>Number of shares held by</i>		
				<i>Related parties <sup>(3)</sup></i>	<i>Directors, officers and employees</i>	<i>Others</i>
Preferred Shares	200,000	-	-	-	-	-
Common shares	3,400,000,000	2,162,475,312		1,914,711,807	107,375	247,656,130
BDO Unibank Inc. (including a subsidiary)				1,914,711,807		
*Determination of number of shares and outstanding						
Number of shares issued		2,225,169,030				
Less shares held in treasury		<u>62,693,718</u>				
		<u>2,162,475,312</u>				



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

**Reconciliation of Retained Earnings Available for Dividend Declaration**  
**December 31, 2016**  
*(Amounts in Millions)*

<b>Unappropriated Retained Earnings at Beginning of Year, as restated</b>	P	2,343.0
<b>Prior Year's Outstanding Reconciling Items , net of tax</b>		
Effect of adoption of equity method of accounting	(	359.7)
Deferred tax income	(	<u>88.6)</u>
<b>Unappropriated Retained Earnings Available for Dividend declaration at beginning of Year, as Adjusted</b>		1,894.7
<b>Net Profit Per Audited Financial Statements</b>		570.0
<b>Non -actual/unrealized income, net of tax</b>		
Equity in net income of a subsidiary	( P	81.3)
Deferred tax income	(	11.9)
Unrealized foreign exchange gain	(	<u>0.2)</u> (
		93.4)
<b>Other Transaction During the Year</b>		
Dividend declared	(	<u>432.5)</u>
<b>Unappropriated Retained Earnings Available for Dividend Declaration at End of Year</b>	<b>P</b>	<b><u>1,938.7</u></b>

## BDO LEASING AND FINANCE, INC.

Schedule of Philippine Financial Reporting Standards and Interpretations  
Adopted by the Securities and Exchange Commission and the  
Financial Reporting Standards Council as of December 31, 2016

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable	
Framework for the Preparation and Presentation of Financial Statements		✓			
Conceptual Framework Phase A: Objectives and Qualitative Characteristics		✓			
Practice Statement Management Commentary			✓		
<i>Philippine Financial Reporting Standards (PFRS)</i>					
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓			
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	✓			
	Amendments to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	✓			
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters	✓			
	Amendments to PFRS 1: Government Loans	✓			
PFRS 2	Share-based Payment			✓	
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓	
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓	
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions* (effective January 1, 2018)			✓	
PFRS 3 (Revised)	Business Combinations	✓			
PFRS 4	Insurance Contracts			✓	
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓	
	Amendments to PFRS 4: Applying PFRS 9, <i>Financial Instruments</i> , with PFRS 4, <i>Insurance Contracts</i> * (effective January 1, 2018)			✓	
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓			
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓	
PFRS 7	Financial Instruments: Disclosures	✓			
	Amendments to PFRS 7: Transition	✓			
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓			
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓			
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓			
	Amendments to PFRS 7: Disclosures – Transfers of Financial Assets	✓			
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓			
Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures* (effective when PFRS 9 is first applied)				✓	
PFRS 8	Operating Segments	✓			
PFRS 9	Financial Instruments (2014)* (effective January 1, 2018)			✓	
PFRS 10	Consolidated Financial Statements	✓			
	Amendments to PFRS 10: Transition Guidance	✓			
	Amendments to PFRS 10: Investment Entities	✓			
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective date deferred indefinitely)				✓
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception	✓			
PFRS 11	Joint Arrangements			✓	
	Amendments to PFRS 11: Transition Guidance			✓	
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓	
PFRS 12	Disclosure of Interests in Other Entities	✓			
	Amendments to PFRS 12: Transition Guidance	✓			
	Amendments to PFRS 12: Investment Entities	✓			
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception				✓
PFRS 13	Fair Value Measurement	✓			
PFRS 14	Regulatory Deferral Accounts			✓	
PFRS 16	Leases* (effective January 1, 2019)			✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
<i>Philippine Accounting Standards (PAS)</i>				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative* (effective January 1, 2017)			✓
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events After the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendments to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses* (effective January 1, 2017)			✓
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Bearer Plants	✓		
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans - Employee Contributions	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendments: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		
PAS 27 (Revised)	Separate Financial Statements	✓		
	Amendments to PAS 27: Investment Entities	✓		
	Amendments to PAS 27: Equity Method in Separate Financial Statements	✓		
PAS 28 (Revised)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective date deferred indefinitely)			✓
	Amendments to PAS 28: Investment Entities - Applying the Consolidation Exception	✓		
PAS 29	Financial Reporting in Hyperinflationary Economies	✓		
PAS 32	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings Per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
	Amendment to PAS 36: Recoverable Amount Disclosures for Non-financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted <sup>1</sup>	Not Adopted	Not Applicable
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives	✓		
	Amendments to PAS 39: Eligible Hedged Items	✓		
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	✓		
PAS 40	Investment Property	✓		
PAS 41	Agriculture			✓
	Amendments to PAS 41: Bearer Plants			✓
<b>Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)</b>				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives**	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives**	✓		
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes	✓		
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement and their Interaction**	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners**	✓		
IFRIC 18	Transfers of Assets from Customers**	✓		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments**	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies	✓		
<b>Philippine Interpretations - Standing Interpretations Committee (SIC)</b>				
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders**	✓		
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services**	✓		
SIC-32	Intangible Assets - Web Site Costs**	✓		

\* These standards will be effective for periods subsequent to 2016 and are not early adopted by the Company.

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

**BDO Leasing and Finance, Inc. and Subsidiary**  
**Financial Ratios**  
**December 31, 2016 and 2015**  
*(Amounts in Millions of Philippine Pesos)*

	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<b>I. Current/liquidity ratios</b>				
Current ratio				
<u>Total current assets</u>	11,936.3	11,216.4	0.41	0.46
Total current liabilities	28,888.6	24,602.8		
Quick ratio				
<u>Quick assets</u>	11,719.2	10,988.4	0.41	0.45
Total current liabilities	28,888.6	24,602.8		
<b>II. Solvency ratios; debt-to-equity ratios</b>				
Solvency ratio				
<u>(After tax net profit + Depreciation)</u>	1,289.3	1,207.4	0.04	0.04
Total liabilities	33,551.1	29,294.9		

	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Debt-to-equity ratio				
<u>Total liabilities</u>	<u>33,551.1</u>	<u>29,294.9</u>	6.27	5.61
Total equity	5,349.5	5,222.7		
<b>III. Asset-to-equity ratio</b>				
Asset-to-equity ratio				
<u>Total assets</u>	<u>38,900.4</u>	<u>34,517.6</u>	7.27	6.61
Total equity	5,349.5	5,222.7		
<b>IV. Interest coverage ratio</b>				
Interest coverage ratio				
<u>Earnings before interest and taxes</u>	<u>1,422.3</u>	<u>1,296.2</u>	2.11	2.27
Interest expense	673.5	570.8		
<b>V. Profitability ratios</b>				
Net profit margin				
<u>Net Profit</u>	<u>570.0</u>	<u>555.6</u>	19.97%	21.32%
Interest income + Other operating income	2,854.3	2,606.2		

	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Return on equity				
<u>Net profit</u>	<u>570.0</u>	<u>555.6</u>	10.78%	10.89%
Average equity	5,286.1	5,104.3		

Return on assets				
<u>Net profit</u>	<u>570.0</u>	<u>555.6</u>	1.55%	1.74%
Average assets	36,709.0	31,883.8		

## VI. Others

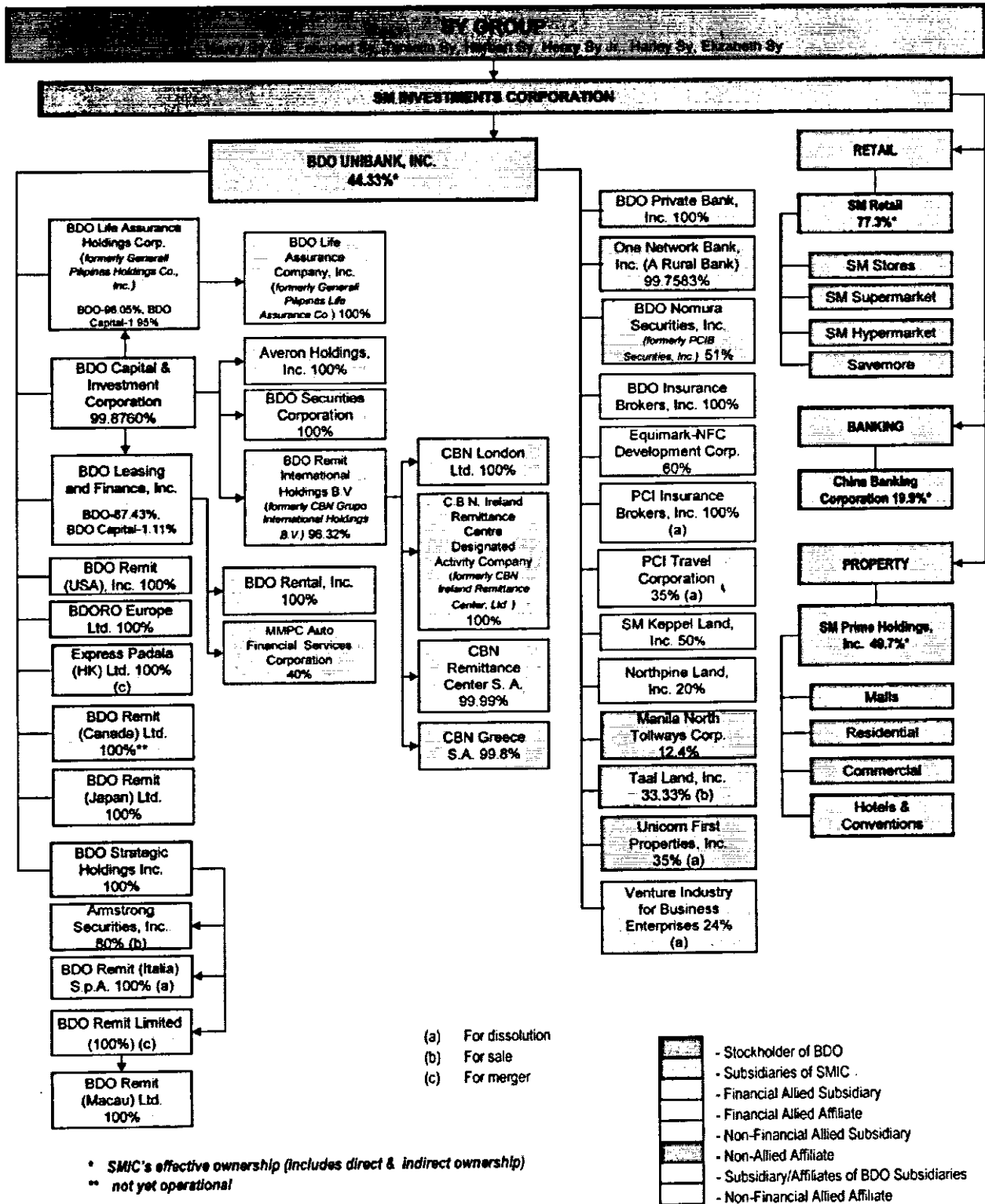
Total real estate investments to Assets				
<u>Total investment properties</u>	<u>426.5</u>	<u>438.1</u>	1.10%	1.27%
Total assets	38,900.4	34,517.6		

Loans to Assets				
<u>Total loans and other receivables</u>	<u>31,381.3</u>	<u>27,463.3</u>	80.67%	79.56%
Total assets	38,900.4	34,517.6		

	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
DOSRI to Net worth				
Receivables from Directors, Officers, Stakeholders and Related Interests	<u>13.1</u>	<u>114.6</u>	0.24%	2.19%
Total equity	5,349.5	5,222.7		
Amount of receivable from a single corporation to Total receivables				
Loan to a single corporation	<u>1,300.0</u>	<u>1,300.0</u>	4.14%	4.73%
Total loans and other receivables	31,381.3	27,463.3		



**BDO Unibank, Inc. Group Map**  
As of 31 December 2016



*Appendix V*

**BDO LEASING AND FINANCE INC**  
**USE OF PROCEEDS**  
**DECEMBER 31, 2016**  
*(Amounts in Philippine Pesos)*

Gross/ Net Proceeds as disclosed in Final Prospectus	
Existing Commercial Paper Placements	15,565,500,000.00
Payment of Maturing Obligation	8,483,000,000.00
For Relending	933,751,250.00
Issuance and Distribution Expense	17,748,750.00
	<u>25,000,000,000.00</u>
Actual Proceeds - December 31, 2016	
Gross Proceeds	561,000,000.00
Net Proceeds	559,831,807.84
Expenditures	
Rollover	559,831,807.84
Relending	
PN Payment	0.00
	<u>0.00</u>
Balance - December 31, 2016	24,439,000,000.00

**CERTIFICATE ON THE COMPILATION SERVICES FOR THE PREPARATION OF THE  
FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS**

I hereby certify that I am the Certified Public Accountant (CPA) who performed the compilation services related to the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework and reports as required by accounting and auditing standards for BDO Leasing and Finance Inc. for the period ending December 31, 2016.

In discharging this responsibility, I hereby declare that;

X I, am the Vice President-Comptroller of BDO Leasing and Finance Inc.

\_\_\_\_\_ I, am the (position) of (name of organization/person) and was contracted to perform this service.

Furthermore, in my compilation services for the preparation of the Financial Statements and Notes to the Financial Statements, I was not assisted by or did not avail of the services of Punongbayan & Araullo who is the external auditor who rendered the audit opinion for the said Financial Statements and Notes to the Financial Statements.

I hereby declare, under penalties of perjury and violation of Republic Act No. 9298, that my statements are true and correct.

SIGNATURE OVER PRINTED NAME: Rosalisa B. Kapuno 


PROFESSIONAL IDENTIFICATION CARD NO.: 00558959

VALID UNTIL: December 14, 2019

ACCREDITATION NUMBER: 2223

VALID UNTIL: December 14, 2019

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SERIES OF 2017

  
**KIM BRINDERA-DACARA**  
NOTARY PUBLIC FOR THE CITY OF MANDALUYONG  
APPOINTMENT EXPIRES  
UNTIL DECEMBER 31, 2017  
NOTARY PUBLIC  
JRF LIFETIME ROLL NO. 1010007  
STR NO. 3515082 1-3-2017 MANDALUYONG  
MCLE NO. V-0017260  
29TH FLR., BDO CORPORATE CENTER ORTIGAS  
12 ADB AVE., MANDALUYONG CITY

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