

# COVER SHEET

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S.E.C. Registration Number

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

( Company's Full Name )

1 2 A D B A V E N U E , O R T I G A S C E N T E R ,  
M A N D A L U Y O N G C I T Y

( Business Address : No. Street City / Town / Provinces

ROBERTO E. LAPID  
Contact Person

840-7000 loc 45422  
Company Telephone Number

0 6 3 0  
Month Day  
Fiscal Year

SEC FORM 17-Q  
FORM TYPE

any day in April of every  
year as determined by the  
BOD  
Annual Meeting

n/a  
Secondary License Type, If Applicable

C F D  
Dept. Requiring this Doc

Amended Articles Number / Sec.

1,115  
Total No. of Stockholders

Total Amount of Borrowings  
Php29,035,079,365.50  
Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

\_\_\_\_\_  
LCU

Document I.D.

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Cashier

STAMPS

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES  
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended June 30, 2018
2. Commission identification number 097869
3. BIR Tax Identification No. 000-486-050-000
4. Exact name of issuer as specified in its charter BDO LEASING & FINANCE, INC.
5. Province, country or other jurisdiction of incorporation or organization Philippines
6. Industry Classification Code:  (SEC Use Only)
7. Address of issuer's principal office 39/F, BDO Corporate Center Ortigas, 12 ADB Ave, Ortigas Center, Mandaluyong City 1550  
Postal Code
8. Issuer's telephone number, including area code 632/ 635-6416, 635-5817, 840-7000
9. Former name, former address and former fiscal year, if changed since last report N/A
10. Securities registered pursuant to Sections 8 and 12 of the Code,  
or Sections 4 and 8 of the RSA N/A

<u>Title of each Class</u>	<u>Number of shares of common stock outstanding and amount of debt outstanding</u>
<u>Common Stock, P1.00 par value</u>	<u>2,162,475,312 / P 29,035,079,365.50</u>

11. Are any or all of the securities listed on a Stock Exchange?  
Yes [  ] No [  ]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

Philippine Stock Exchange, Inc.

Common stock

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 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 the registrant was required to file such reports)

Yes [ **X** ] No [ ]

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

Yes [ **X** ] No [ ]

## **PART I--FINANCIAL INFORMATION**

### **Item 1. FINANCIAL STATEMENTS**

The financial statements of BDO Leasing & Finance, Inc. and Subsidiary are prepared and presented in accordance with Philippine Financial Reporting Framework.

The accounting policies and methods of computation used in the audited financial statements as of and for the year ended December 31, 2017 were consistently applied in the interim financial reports.

#### ***Adoption of New Interpretations, Revisions and Amendments to PFRS***

There are new PFRS, revisions, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2017. Management has initially determined the following pronouncement, which the Company will apply in accordance with their transitional provisions, to be relevant to its financial statements.

**PFRS 9, *Financial Instruments*** (effective from January 1, 2018). PAS 39 will be replaced by PFRS 9 in its entirety which is being issued in phases. The main phases are (with a separate project dealing with derecognition):

- Phase 1: Classification and Measurement
- Phase 2: Impairment Methodology
- Phase 3: Hedge Accounting

To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning January 1, 2018. Other chapters dealing with impairment methodology and hedge accounting are still being developed. The Company does not expect to implement and adopt PFRS 9 until its effective date. In addition, management is currently assessing the impact of PFRS 9 on the financial statements of the Company and its plans to conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

**PAS 40 (Amendment), Investment Property** – Reclassification to and from investment property (effective from January 1, 2018). The amendment states that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendment provided a non-exhaustive list of examples constituting change in use. Management has assessed that this amendment has no significant impact on the Company's financial statements.

**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 similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized 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.

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

**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.

**PFRS 15, Revenue from Contract with Customers (effective from January 1, 2018).** This standard will replace PAS 18, Revenue, and PAS 11, Construction Contracts, the related Interpretations on revenue recognition: International Financial Reporting Interpretations Committee (IFRIC) 13, Customer Loyalty Programmes, IFRIC 15, Agreement for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers and Standing Interpretations Committee 31, Revenue – Barter Transactions Involving Advertising Services. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Management has assessed that this standard has no significant impact on the Company's financial statements.

**IFRIC 22, Foreign Currency Transactions and Advance Consideration - Interpretation on Foreign Currency Transactions and Advance Consideration (effective from January 1, 2018).** The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. Management has initially assessed that this amendment has no material impact on the Company's financial statements.

**Annual Improvements to PFRS 2014-2016 Cycle. Among the improvements, PAS 28 (Amendment), Investment in Associates – Clarification on Fair Value through Profit or Loss Classification (effective from January 1, 2018),** is relevant to the Company. The amendment clarifies that the option for venture capital organization, mutual funds and other similar entities to elect the FVTPL classification in measuring investments in associates and joint ventures shall be made at initial recognition, separately for each associate or joint venture. Management has initially assessed that this amendment has no material impact on the Company's financial statements.

**PAS 28 (Amendment), Investment in Associates – Long-term Interest in Associates and Joint Venture (effective from January 1, 2019).** The amendment clarifies that the scope exclusion in PFRS 9 (2014) applies only to ownership interests accounted for using the equity method. Thus, the amendment further clarifies that long term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9 (2014), which shall also include long term interests that, in substance, form part of the entity's net investment in an associate or joint venture. Management is currently assessing the impact of this new standard in its financial statements.

**IFRIC 23, Uncertainty over Income Tax Treatments (effective from January 1, 2019).** The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Company to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Company has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. Management is currently assessing the impact of this new standard in its financial statements.

**Annual Improvements to PFRS 2015-2017 Cycle.** Among the improvements, the following amendments are relevant to the Company but had no material impact on the Company's financial statements as these amendments merely clarify existing requirements:

•**PAS 12 (Amendments), Income Taxes – Tax Consequences of Dividends.** The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.

•**PAS 23 (Amendments), Borrowing Costs – Eligibility for Capitalization.** The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.

•**PFRS 3 (Amendments), Business Combinations and PFRS 11 (Amendments), Joint Arrangements – Re-measurement of Previously Held Interests in a Joint Operation.** The amendments clarify that previously held interest in a joint operation shall be re-measured when the Company obtains control of the business. On the other hand, previously held interests in a joint operation shall not be re-measured when the Company obtains joint control of the business.

**BDO LEASING & FINANCE, INC. AND SUBSIDIARY**  
**(A Subsidiary of BDO Unibank, Inc.)**  
**BALANCE SHEETS**  
**In Millions**

	June 30, 2018	(Audited) December 31, 2017	June 30, 2017
<b>ASSETS</b>			
Cash and Cash Equivalents	262.4	457.7	440.4
FVOCI Securities	4,372.4	4,642.0	4,877.7
<b>Loans &amp; Other Receivables - net</b>			
<b>Finance Lease Receivables</b>			
Finance lease receivables	14,708.5	13,951.7	13,363.2
Residual value of leased assets	6,302.7	5,974.4	5,842.9
Unearned lease income	(1,479.8)	(1,361.1)	(1,263.8)
	19,531.4	18,565.0	17,942.3
<b>Loans and Receivables Financed</b>			
Loans and receivables financed	14,079.0	16,022.9	15,540.3
Unearned finance income	(21.0)	(19.4)	(31.2)
Clients' Equity	(31.3)	(33.3)	(32.5)
	14,026.6	15,970.2	15,476.6
	33,558.0	34,535.2	33,418.9
<b>Other Receivables</b>			
Accounts Receivable	160.8	275.4	61.0
Sales Contract Receivable	28.1	32.2	19.9
Dividends Receivable	55.5	55.5	55.5
Accrued Interest Receivable	54.4	97.6	87.4
Accrued Rental Receivable	9.1	8.7	-
	307.8	469.4	223.8
Allowance for loan losses	(705.2)	(679.8)	(645.1)
	(705.2)	(679.8)	(645.1)
	33,160.7	34,324.7	32,997.6
Property, Plant and Equipment - net	2,185.2	2,256.6	2,182.0
Investment Properties - net	351.9	354.4	425.3
Other Assets - net	842.5	806.2	812.0
	41,175.2	42,841.6	41,735.0
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Bills Payable	29,104.5	30,478.3	30,189.3
Accounts Payable, Accrued Interest and Other Liabilities	609.1	932.4	523.8
Lease Deposits	6,326.0	5,988.6	5,866.9
	36,039.8	37,399.3	36,580.0
<b>Stockholders' Equity</b>			
Capital Stock	2,225.2	2,225.2	2,225.2
Additional Paid-in Capital	571.1	571.1	571.1
Retained Earnings	2,580.2	2,618.5	2,329.7
Unrealized gain/(loss) on FVOCI	(99.4)	169.0	153.6
OCI - Actuarial Gain/(Loss)	(59.7)	(59.7)	(42.8)
Treasury Stock	(81.8)	(81.8)	(81.8)
	5,135.6	5,442.3	5,155.0
	41,175.2	42,841.6	41,735.0

**BDO LEASING & FINANCE, INC. AND SUBSIDIARY**  
**(A Subsidiary of BDO Unibank, Inc.)**  
**STATEMENTS OF INCOME**  
**In Millions**

<b>For the six months ended</b>	<b>June 30,</b>	<b>June 30,</b>
	<b>2018</b>	<b>2017</b>
<b>INCOME</b>		
Interest and discounts	957.6	943.6
Rent	466.1	467.6
Service fees & other income	160.1	109.2
	<u>1,583.8</u>	<u>1,520.4</u>
<b>EXPENSES</b>		
Interest and financing charges	514.2	408.0
Occupancy and equipment-related expenses	24.2	25.0
Depreciation Expense - Operating Lease	427.2	398.1
Compensation and fringe benefits	116.8	101.6
Taxes and licenses	177.5	122.0
Provision for impairment and credit losses	29.2	25.0
Litigation/assets acquired expenses	7.3	12.2
Miscellaneous Expense	57.7	52.0
	<u>1,354.1</u>	<u>1,143.9</u>
<b>INCOME BEFORE INCOME TAX</b>	229.7	376.5
<b>PROVISION FOR INCOME TAX</b>	51.8	94.8
<b>NET INCOME</b>	<u>177.9</u>	<u>281.7</u>
<b>BASIC EARNINGS PER SHARE**</b>	<u>0.08</u>	<u>0.13</u>
<b>DILUTED EARNINGS PER SHARE**</b>	<u>0.08</u>	<u>0.13</u>

\*\* NET INCOME DIVIDED BY THE TOTAL NUMBER OF OUTSTANDING SHARES AS OF CUT-OFF DATE:

NET INCOME	177.9	281.7
DIVIDED BY OUTSTANDING SHARES	2,162.5	2,162.5
EPS(Basic and Diluted)	0.08	0.13



**BDO LEASING & FINANCE, INC. AND SUBSIDIARY**  
**(A Subsidiary of BDO Unibank, Inc.)**  
**STATEMENTS OF INCOME**  
**In Millions**

<b>For the three months ended</b>	<b>June 30,</b> <b>2018</b>	<b>June 30,</b> <b>2017</b>
<b>INCOME</b>		
Interest and discounts	474.3	473.7
Rent	231.6	230.6
Service fees & other income	95.1	62.1
	<u>801.0</u>	<u>766.4</u>
<b>EXPENSES</b>		
Interest and financing charges	264.4	217.0
Occupancy and equipment-related expenses	12.6	12.1
Depreciation Expense - Operating Lease	213.2	199.6
Compensation and fringe benefits	59.1	49.7
Taxes and licenses	90.5	58.3
Provision for impairment and credit losses	12.5	12.5
Litigation/assets acquired expenses	2.6	9.7
Miscellaneous Expense	29.8	28.6
	<u>684.7</u>	<u>587.5</u>
<b>INCOME BEFORE INCOME TAX</b>	116.3	178.9
<b>PROVISION FOR INCOME TAX</b>	28.1	41.2
<b>NET INCOME</b>	<u>88.2</u>	<u>137.7</u>
<b>BASIC EARNINGS PER SHARE**</b>	<u>0.04</u>	<u>0.06</u>
<b>DILUTED EARNINGS PER SHARE**</b>	<u>0.04</u>	<u>0.06</u>

\*\* NET INCOME DIVIDED BY THE TOTAL NUMBER OF OUTSTANDING SHARES AS CUT-OFF DATE:

NET INCOME	88.2	137.7
DIVIDED BY OUTSTANDING SHARES	2,162.5	2,162.5
EPS(Basic and Diluted)	0.04	0.06

**BDO LEASING & FINANCE, INC. AND SUBSIDIARY**  
**(A Subsidiary of BDO Unibank, Inc.)**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**In Millions**

<b>For the six months ended</b>	<b>June 30,</b>	<b>June 30,</b>
	<b>2018</b>	<b>2017</b>
<b>NET INCOME</b>	177.9	281.7
<b>OTHER COMPREHENSIVE INCOME</b>		
<b>Unrealized Fair Value Gain/(Loss) on FVOCI-net</b>	(268.4)	(43.7)
<b>TOTAL COMPREHENSIVE INCOME/(LOSS)</b>	(90.5)	238.0

**BDO LEASING & FINANCE, INC. AND SUBSIDIARY**  
**(A Subsidiary of BDO Unibank, Inc.)**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**In Millions**

<b>For the three months ended</b>	<b>June 30,</b>	<b>June 30,</b>
	<b>2018</b>	<b>2017</b>
<b>NET INCOME</b>	88.2	137.7
<b>OTHER COMPREHENSIVE INCOME</b>		
<b>Unrealized Fair Value Gain/(Loss) on FVOCI-I</b>	(182.9)	62.4
<b>TOTAL COMPREHENSIVE INCOME/(LOSS)</b>	(94.7)	200.1

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
**(A Subsidiary of BDO Unibank, Inc.)**  
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**In Millions**

	Capital Stock	Additional Paid- in Capital	Treasury Stock, at Cost	Retained Earnings	Unrealized Fair Value Gain(loss) on Available for Sale Financial Assets	OCI - Actuarial Gain/ (Loss)	Net Equity
Preferred - P100 par value Authorized and unissued - 200,000 shares			62,693,718 shares				
Common - P1 par value Authorized - 3,400,000,000 shares Issued - 2,225,169,030 shares							
Balance as of Jan 1, 2018	2,225.2	571.1	(81.8)	2,618.5	169	(59.7)	5,442.3
Total Comprehensive Income (loss)				177.9	(268.4)	-	(90.5)
Cash Dividends				(216.2)			(216.2)
<b>Balance as of June 30, 2018</b>	<b>2,225.2</b>	<b>571.1</b>	<b>(81.8)</b>	<b>2,580.2</b>	<b>(99.4)</b>	<b>(59.7)</b>	<b>5,135.6</b>
Balance as of Jan 1, 2017	2,225.2	571.1	(81.8)	2,480.5	197.3	(42.8)	5,349.5
Total Comprehensive Income (loss)				281.7	(43.7)		238.0
Cash Dividends				(432.5)			(432.5)
<b>Balance as of June 30, 2017</b>	<b>2,225.2</b>	<b>571.1</b>	<b>(81.8)</b>	<b>2,329.7</b>	<b>153.6</b>	<b>(42.8)</b>	<b>5,155.0</b>

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
**(A Subsidiary of BDO Unibank, Inc.)**  
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**In Millions**

For the three months ended

	Capital Stock	Additional Paid- in Capital	Treasury Stock, at Cost	Retained Earnings	Unrealized Fair Value Gain(loss) on Available for Sale Financial Assets	OCI - Actuarial Gain/(Loss)	Net Equity
Preferred - P100 par value			62,693,718 shares				
Authorized and unissued - 200,000 shares							
Common - P1 par value							
Authorized - 3,400,000,000 shares							
Issued - 2,225,169,030 shares							
Balance at the beginning of the quarter	2,225.2	571.1	(81.8)	2,492.0	83.5	(59.7)	5,230.3
Total Comprehensive Income (loss)				88.2	(182.9)		(94.7)
Cash Dividends				0.0			-
<b>Balance June 30, 2018</b>	<b>2,225.2</b>	<b>571.1</b>	<b>(81.8)</b>	<b>2,580.2</b>	<b>(99.4)</b>	<b>(59.7)</b>	<b>5,135.6</b>
Balance at the beginning of the quarter	2,225.2	571.1	(81.8)	2,192.0	91.2	(42.8)	4,954.9
Total Comprehensive Income (loss)				137.7	62.4		200.1
Cash Dividends				0.0			0.0
<b>Balance June 30, 2017</b>	<b>2,225.2</b>	<b>571.1</b>	<b>(81.8)</b>	<b>2,329.7</b>	<b>153.6</b>	<b>(42.8)</b>	<b>5,155.0</b>

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE PERIODS INDICATED**

	<u>June 2018</u>	<u>June 2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax	P 229,682,326	P 376,493,806
Adjustments for:		
Interest received	964,996,783	945,266,869
Interest and discounts	( 957,564,922 )	( 943,601,718 )
Depreciation and amortization	437,170,144	408,817,886
Interest and financing charges paid	( 493,081,742 )	( 399,356,728 )
Interest and financing charges	514,163,880	409,742,887
Dividend income	( 114,692,788 )	( 100,465,696 )
Impairment and credit losses	29,166,667	25,000,000
Gain on sale of property and equipment and investment properties	( 9,517,554 )	( 3,442,213 )
Equity share in net earnings of a subsidiary and an associate	17,073,804	15,265,436
Day-one gain - net	( 1,394,749 )	( 802,247 )
Operating profit before changes in operating assets and liabilities	616,001,848	732,918,282
Increase in loans and other receivables	1,239,058,479	( 1,544,473,672 )
Increase in other assets	( 83,217,701 )	( 11,919,297 )
Increase in accounts payable and other liabilities	( 304,537,789 )	( 184,299,330 )
Increase in lease deposits	339,560,940	286,966,958
Cash used in operations	1,806,865,778	( 720,807,059 )
Cash paid for income taxes	( 46,446,645 )	( 91,345,682 )
 Net Cash Used in Operating Activities	 <u>1,760,419,133</u>	 <u>( 812,152,741 )</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	( 328,529,347 )	( 243,038,336 )
Proceeds from disposal of property and equipment and investment properties	( 18,365,982 )	45,060,425
Acquisition of AFS financial assets	-	( 1,400,000,000 )
 Net Cash Used in Investing Activities	 <u>( 346,895,329 )</u>	 <u>( 1,597,977,912 )</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net availments of bills payable	( 1,392,571,875 )	2,912,622,483
Payments of cash dividends	( 216,247,531 )	( 432,495,062 )
 Net Cash From Financing Activities	 <u>( 1,608,819,406 )</u>	 <u>2,480,127,421</u>
 <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	  <u>( 195,295,602 )</u>	  <u>69,996,768</u>
 <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	  <u>457,651,034</u>	  <u>370,475,033</u>
 <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	  <u><u>P 262,355,432</u></u>	  <u><u>P 440,471,800</u></u>

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED**

	<u>June 2018</u>	<u>June 2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax	P 116,296,531	P 178,818,976
Adjustments for:		
Interest received	499,793,091	450,658,371
Interest and discounts	( 474,434,568 )	( 473,700,141 )
Depreciation and amortization	218,168,270	205,083,295
Interest and financing charges paid	( 263,190,269 )	( 206,756,474 )
Interest and financing charges	265,495,807	215,549,319
Dividend income	( 57,346,394 )	( 57,346,394 )
Impairment and credit losses	12,500,000	12,500,000
Gain on sale of property and equipment and investment properties	( 7,646,527 )	( 1,693,278 )
Equity share in net earnings of a subsidiary and an associate	8,651,058	7,563,376
Day-one gain - net	( 1,713,297 )	424,273
Operating profit before changes in operating assets and liabilities	316,573,704	331,101,325
Increase in loans and other receivables	1,104,251,269	( 637,478,758 )
Increase in other assets	( 15,704,254 )	14,133,963
Increase in accounts payable and other liabilities	( 74,476,813 )	63,990,997
Increase in lease deposits	175,520,068	127,130,326
Cash used in operations	1,506,163,972	( 101,122,147 )
Cash paid for income taxes	( 17,095,072 )	( 53,601,801 )
Net Cash Used in Operating Activities	<u>1,489,068,900</u>	<u>( 154,723,948 )</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	( 190,639,019 )	( 117,534,823 )
Proceeds from disposal of property and equipment and investment properties	( 11,209,169 )	24,929,022
Acquisition of AFS financial assets	-	-
Net Cash Used in Investing Activities	<u>( 201,848,188 )</u>	<u>( 92,605,801 )</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net availments of bills payable	( 1,312,756,771 )	311,872,381
Payments of cash dividends	-	-
Net Cash From Financing Activities	<u>( 1,312,756,771 )</u>	<u>311,872,381</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>( 25,536,059 )</b>	<b>64,542,633</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>287,891,491</u>	<u>375,929,167</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>P 262,355,432</u>	<u>P 440,471,800</u>
	-	-

## **Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **June 2018 Compared to June 2017**

The company registered P177.9 million in net income for the semester ending June 2018, lower by 37% compared to last year. This resulted from a contraction in interest margins due to rising rates, and a substantial increase in documentary stamp tax costs on its commercial paper issue due to the TRAIN law.

Gross revenues amounted to P1,583.8 million, an increase of 4% from P1,520.4 million last year. This was due to higher income from the loan portfolio and sale of various non-financial assets .

Interest and financing charges however rose 26% to P514.2 million due primarily to a rising interest rate environment. This resulted in lower interest margins for the current period, as the company's liabilities re-price faster than its lease assets

The company set aside 29.2 million as provision for credit and impairment losses bringing its NPL cover to 87%. Taxes and licenses increased from P122 million due to a 50% increase in the cost of documentary stamp taxes resulting from implementation of the TRAIN law.

Occupancy and equipment related expenses decreased 3% to P24.2 million. Depreciation Expense-Operating Lease went up 7% to P427 million due to new bookings of Operating Leases.

Litigation/assets acquired expenses decreased 40% to P7 million due to lower expenses related to foreclosed assets.

Total assets declined 1% year-on-year to P41.2 billion, mainly due to the maturity of an investment. The Company's loans and other receivables-net climbed slightly to P33.2 billion from P33.0 billion in June 2017. Property, Plant and Equipment-net increased by P3.2 million.

Cash & cash equivalents went down by 40% or P178.0 million as the Company's free funds were used to reduce more expensive borrowings. As a result, Bills Payable declined to P29.1 billion. FVOCI Securities went down 10% to P4.4 billion primarily due to a matured investment.

Net investment properties declined to P352 million from P425 million. Other Assets increased to P843 million from P812 million.

Accounts Payable, accrued expenses and other liabilities increased P85.3 million year-on-year mainly due to increase in outstanding check payments to supplier/dealers.

Lease deposits went up from P5.9 billion in June 2017 to P6.3 billion, consistent with growth in volumes.

Stockholders' equity was steady at P5.1 billion.



The Company's five (5) key performance indicators are as follows:

	June 2018	June 2017
Current Ratio	0.39:1	0.39:1
Quick asset ratio	0.38:1	0.38:1
Debt to Equity Ratio	7.02:1	7.10:1
Net Profit Margin	11.23%	18.53%
Return on Equity	6.91%	10.98%

Formulas used:

Current ratio	= Current Assets over Current Liabilities
Quick assets ratio	= Quick assets over Current Liabilities
Debt to equity	= Total Liabilities over Total Stockholders' Equity
Net profit margin	= Net income over Gross Revenues
Return on ave. equity	= Annualized Net income over Ave. Stockholders' Equity

**Related Party Transactions**

*(Amounts in Millions of Philippine Pesos)*

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

The Group's and Parent Company's related parties include BDO Unibank and affiliates as described below.

The summary of the Company's significant transactions with its related parties in June 30, 2018, December 31, 2017 and June 30, 2017 are as follows:

BDO Leasing & Finance Inc  
 Related Party Transaction  
 June 30, 2018, December 31, 2017 and June 30, 2017

<u>Related Party Category</u>	<u>Note</u>	<u>Amount of Transaction</u>		
		June 30, 2018	December 31, 2017	June 30, 2017
<b>Ultimate Parent Company (BDO Unibank)</b>				
Interest Income on savings and demand deposits	(a) P	0.3 P	0.8 P	0.4
Interest expense on Bills Payable	(b)	46.2	141.5	76.4
Rent Expense	(c)	6.5	12.3	6.2
Management fees	(d)	8.0	13.8	5.7
Service fees	(e)	1.3		
Employee stock option plan		3.5	6.3	1.8
<b>Subsidiary (BDO Rental)</b>				
Rent Income	(c)		0.1	
Management fees	(d)	0.2	0.4	0.2
Dividend Income	(h)	35.0	120.0	120.0
<b>Related Party under Common Ownership (BDO Capital, BDO Strategic and BDO Insurance)</b>				
Service and charges fees	(e, i)	2.0	5.0	1.5
Interest expense on Bills Payable	(j)	75.0	94.1	1.3

<u>Related Party Category</u>	<u>Note</u>	<u>Outstanding Balance</u>		
		June 30, 2018	December 31, 2017	June 30, 2017
<b>Parent Company (BDO Unibank)</b>				
Savings and demand deposits	(a) P	257.5	P 453.0	P 435.8
Bills Payable	(b)	934.4	4,782.9	4,371.3
Employee stock option		3.5	-	1.8
<b>Related Party under Common Ownership</b>				
Accounts Receivable	(i)		0.8	0.7
Bills Payable	(j)	1,912.5	3,901.0	699.8
Unearned Rental Income	(k)	12.9	4.6	
<b>Key Management Personnel</b>				
Loans to Officers	(f)	5.1	7.5	11.0
<b>Retirement Fund</b>				
Shares of stock	(g)	1.5	1.0	

- (a) The Group maintains savings and demand deposit accounts with BDO Unibank. As of 31 June 30, 2018, December 31, 2017 and June 30, 2017, 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 June 30, 2018 and June 30, 2017 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 June 30, 2018, December 31, 2017 and June 30, 2017 is presented under Bills Payable account in the statements of financial position. Interest expense incurred on these bills payable June 30, 2018 and June 30, 2017 is included as part of Interest and Financing Charges under Operating Costs and Expenses account in the statements of income.
- (c) 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 June 30, 2018 and June 30, 2017 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 June 30, 2018 and June 30, 2017 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 June 30, 2018, December 31, 2017 and June 30, 2017.

- (d) 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 June 30, 2018, December 31, 2017 and June 30, 2017.
- (e) The Parent Company engaged the services of BDO Capital and Investment Corporation (BDO Capital), a wholly owned subsidiary of BDO Unibank for underwriting services related to the Parent Company's issuance of short term commercial papers. Service and charges fees paid by the Parent Company to BDO Capital both for June 30, 2018 and June 30, 2017 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 June 30, 2018, December 31, 2017 and June 30, 2017.
- (f) Compensation of key management personnel (covering officer positions starting from Assistant Vice President and up) is included as part of Employee Benefits under Operating Costs and Expenses in the statements of 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. Outstanding loans to officers are presented as part of Accounts receivable under Loans and Other Receivables account. The Group assessed that these loans are not impaired as of June 30, 2018, December 31, 2017 and June 30, 2017.
- (g) The retirement fund holds, as an investment, 519,915 shares of stock of the Parent Company in 2018 and 2017, respectively, which has a market value of P2.83 and P1.90 per share as of June 30, 2018 and 2017, respectively. The retirement fund does not hold any shares of stock of BDO Unibank.
- (h) BDO Rental declared Cash Dividends which is presented as part of other income in the Parent company's statement of income in June 30, 2018 and June 30, 2017. This resulted for outstanding receivable of the Parent Company from BDO Rental in 2017 which is recorded as part of Dividends receivable under Loans and Other Receivables account in the statements of financial position in June 30, 2018, December 31, 2017 and June 30, 2017.
- (i) The Parent Company earned from BDO Insurance Brokers, Inc. (BDO Insurance) service charges and fees for accounts referred and are included as part of Service Fees and other Income. This resulted for outstanding receivable of the Parent Company from BDO Insurance in 2018 and 2017 which is recorded as part of Accounts receivables under Loans and Other Receivables account in the statements of financial position. The Parent assessed that such receivable is not impaired.
- (j) In 2017, the Parent Company obtains short-term bills payable from BDO Strategic Holdings Inc. and SM Prime Holdings, Inc. The amount outstanding from borrowings from borrowings is presented under Bills Payable account in the statement of financial position. Interest expense incurred on these bills payable is included as part of Interest and

Financing Charges account under Operating Costs and Expenses in the June 30, 2018 and June 30, 2017.

- (k) In 2017, BDO Rental, entered into Operating Lease Agreement with BDO Nomura Securities, Inc. (BDO Nomura) which will commence this 2018. Prepaid rental made by BDO Nomura is included as part of Other Liabilities under Accounts Payable and Other Liabilities account in June 30, 2018 statement of financial position.

### **Commitments and Contingencies**

In the ordinary course of business, the company may incur contingent liabilities and commitments such as guarantees and pending litigation arising from normal business transactions which are not shown in the accompanying financial statements. Management does not anticipate significant losses from these commitments and contingencies that would adversely affect the company's operations.

### **Economic Events**

Management is continuously evaluating the current business climate and the impact of recent economic events on the present operations of the company. As the need arises, the company will recognize related effects in the ensuing financial statements.

### **Risk Factors**

We assessed the financial risk exposure of the company and subsidiaries particularly on currency, interest, credit, market and liquidity risks. There were no changes that would materially affect the financial condition and results of operations of the company.

Risk Management of the company's credit risks, market risks, liquidity risks, 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 of Directors. The Board approves the overall institutional tolerance for risk, including risk policies and risk Philosophy of the Company.

### **Plans for the Next Quarter**

- We will continue to extensively market our products through BDO Leasing & Finance's branches. Additionally, we will use the extensive branch network of BDO Unibank, Inc. to boost referrals and ultimately our business volumes.
- We will aggressively tap the existing corporate accounts of the BDO Institutional Banking Group for possible lease requirements.
- We will continue to develop equipment vendor/supplier tie-ups to expand our market presence and clientele base.

- We will continue to expand and optimize our sources of funds to match our asset growth and help manage our funding costs.
- We will continue to control operating expenses to ensure that these remain at a level, which is attuned with our business volumes.
- We will further pursue process improvements to improve our services to our various stakeholders.

## **PART II--OTHER INFORMATION**

Nothing to report.

### **Explanation for each information where disclosure of such is not applicable in our interim financial statements**

#### **ITEM 1-7**

B. Explanatory comments about the seasonality or cyclical nature of interim operations;

***The Company is not affected by seasonality or cyclical factors when it comes to interim financial reporting since there are no products or services that are seasonal.***

C. The nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that is unusual because of their nature, size, or incidents.

***None.***

D. The nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period.

***None.***

E. Issuances, repurchases, repayments of debt and equity securities;

***For the first semester of 2018, the Company has issued bills payable amounting to P10,667.9M and made total payments on its bills payable amounting to P18,355.8M.***

- F. Dividends paid (aggregate or per share) separately for ordinary shares and other shares.

***On February 21, 2018, the BOD approved the declaration of cash dividends at P0.10 per share, amounting to P216.2 million. The dividends were declared in favor of stockholders of record as of March 9, 2018 and said dividends were paid subsequently on March 27, 2018.***

***There were no dividends paid on other shares as the Company only has common shares as outstanding stock.***

- G. Segment revenue and segment result for business segments or geographical segments.

***Please see attached.***

- H. Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.

***None.***

- I. The effect of changes in the composition of the issuer during the interim period, including business combination, acquisition or disposal of subsidiaries and long-term investments.

***None.***

- J. Changes in contingent liabilities or contingent assets.

***None***

- K. Existence of material contingencies and any other events or transactions that are material to an understanding of the current interim period.

***None.***

## **ITEM 2**

### **Management's Discussion and Analysis (MDA) of Financial Condition and Results of Operations [(Part III, Par. (A)(2)(b)]**

3. Discussion and analysis of material event/s and uncertainties known to management that would address the past and would have an impact on future operations of the following:

- A. *Any known trends, demands, commitments, events or uncertainties that will have a material impact on the issuer's liquidity.*

***None.***

- B. *Any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation;*

**None**

- C. *All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.*

**None**

- D. *Any material commitments for capital expenditure, the general purpose of such commitments and the expected sources of funds for such expenditures.*

**None**

- E. *Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales / revenues / income from continuing operations.*

**None**

- F. *Any significant elements of income or loss that did not arise from the issuer's continuing operations.*

**None**

- H. *Any seasonal aspects that had a material effect on the financial condition or results of operations.*

**None**



BDO LEASING & FINANCE, INC. AND SUBSIDIARY  
 SEGMENT INFORMATION

For the six months ended June 30, 2018

(in millions)

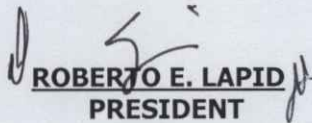
	Leasing	Financing	Others	Eliminations	Total
Segment revenues					
External	905.1	511.3	167.3		1,583.8
Inter-segment			35.2	(35.2)	-
	<u>905.1</u>	<u>511.3</u>	<u>202.5</u>	<u>(35.2)</u>	<u>1,583.8</u>
Segment expenses					
External	773.9	437.2	143.1		1,354.1
Inter-segment			0.2	(0.2)	-
	<u>773.9</u>	<u>437.2</u>	<u>143.3</u>	<u>(0.2)</u>	<u>1,354.1</u>
Segment results	131.3	74.2	59.3	(35.0)	229.7
Income tax expense					51.8
Net Income					<u>177.9</u>
Segment assets - net	21,349.4	13,681.7	5,378.4	(493.2)	39,916.3
Unallocated assets					1,258.9
Total Assets					<u>41,175.2</u>
Segment liabilities	20,423.2	15,007.4	-		35,430.7
Unallocated liabilities					609.1
Total Liabilities					<u>36,039.8</u>

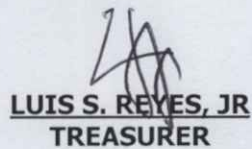
Segment expenses are allocated on the basis of gross income.

**SIGNATURES**

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report (June 2018 SEC Form 17-Q Report) to be signed on its behalf by the undersigned thereunto duly authorized.

**BDO LEASING & FINANCE, INC.**

  
**ROBERTO E. LAPID**  
**PRESIDENT**

  
**LUIS S. REYES, JR**  
**TREASURER**

**July 26, 2018**  
**Date**

BDO LEASING AND FINANCE INC.  
 AGING OF RECEIVABLE  
 As of June 30, 2018

Account	Total	1 Month	Over 1 Mos. to 3 Mos.	Over 3 Mos. to 6 Mos.	Over 6 Mos. to 1 Yr.	Over 1 Yr. to 3 Yrs.	3 to 5 yrs.	Over 5 Yrs.	Non-Performing Loans
Factored Receivable	174,561,156.86	-	163,345,863.72	-	-	-	-	-	11,215,293.14
Receivables Purchased	56.00	-	-	-	-	-	-	-	56.00
Floor Stock Financing	294,860,329.58	160,950,800.75	113,796,218.44	20,113,310.39	-	-	-	-	-
Installment Paper Purchase	641,496,611.61	96,855,916.46	102,804,835.13	136,968,338.61	124,419,163.32	104,165,865.83	558,427.84	-	75,724,064.42
Amortized Commercial Loan	12,968,064,538.69	316,161,635.92	605,522,846.32	869,977,450.29	1,526,897,746.48	4,420,091,923.17	2,181,121,193.42	2,637,080,836.98	411,210,906.13
Lease Contract Receivables	21,011,200,205.51	1,016,282,826.16	1,416,488,515.41	1,871,651,311.15	3,396,272,476.92	9,204,734,699.90	3,308,758,860.45	297,864,712.11	499,146,803.41
Personal Loans Programs	1,148.00	-	-	-	-	-	-	-	1,148.00
Discounting Line	-	-	-	-	-	-	-	-	-
<b>TOTAL LOAN PORTFOLIO</b>	<b>35,090,184,046.25</b>	<b>1,590,251,179.29</b>	<b>2,401,958,279.01</b>	<b>2,898,710,410.44</b>	<b>5,047,589,386.72</b>	<b>13,728,992,488.90</b>	<b>5,490,438,481.71</b>	<b>2,934,945,549.09</b>	<b>997,298,271.10</b>

705,175,918.77

Less: Allowance For Credit losses

34,385,008,127.48

**Finance Receivables - Net**

BDO Leasing and Finance, Inc. and Subsidiary  
 Financial Ratios  
 June 30, 2018 and 2017  
 (Amounts in Millions of Philippine Pesos)

	<u>2018</u>	<u>2017</u>	<u>2017</u>
<b>I. Current/liquidity ratios</b>			
Current ratio			
	11,433.7	12,217.5	0.39
	29,134.2	31,505.6	0.39
Quick ratio			
	11,185.6	11,990.1	0.38
	29,134.2	31,505.6	0.38
<b>II. Solvency ratios; debt-to-equity ratios</b>			
Solvency ratio			
	615.0	682.0	0.02
	36,039.8	36,580.0	0.02

(After tax net profit + Depreciation)  
 Total liabilities

2017

2018

2017

2018

Debt-to-equity ratio

<u>Total liabilities</u>	<u>36,039.8</u>	<u>36,580.0</u>	7.02	7.10
Total equity	5,135.6	5,155.0		

**III. Asset-to-equity ratio**

Asset-to-equity ratio

<u>Total assets</u>	<u>41,175.2</u>	<u>41,735.0</u>	8.02	8.10
Total equity	5,135.6	5,155.0		

**IV. Interest coverage ratio**

Interest coverage ratio

<u>Earnings before interest and taxes</u>	<u>743.8</u>	<u>784.5</u>	1.45	1.92
Interest expense	514.2	408.0		

**V. Profitability ratios**

Net profit margin

<u>Net Profit</u>	<u>177.9</u>	<u>281.7</u>	11.23%	18.53%
Interest income + Other operating income	1,583.8	1,520.4		

	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Return on equity				
<u>Net profit</u>	<u>177.9</u>	<u>281.7</u>		
Average equity	5,145.3	5,131.9	6.91%	10.98%
Return on assets				
<u>Net profit</u>	<u>177.9</u>	<u>281.7</u>		
Average assets	41,455.1	38,784.3	0.86%	1.45%
<b>VI. Others</b>				
Total real estate investments to Assets				
<u>Total investment properties</u>	<u>351.9</u>	<u>425.3</u>		
Total assets	41,175.2	41,735.0	0.85%	1.02%
Loans to Assets				
<u>Total loans and other receivables</u>	<u>33,160.7</u>	<u>32,997.6</u>		
Total assets	41,175.2	41,735.0	80.54%	79.06%

	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
DOSRI to Net worth				
Receivables from Directors, Officers, Stakeholders and Related Interests				
	5.1	11.0	0.10%	0.21%
Total equity	5,135.6	5,155.0		
Amount of receivable from a single corporation to Total receivables				
	1,042.4	1,293.5	3.14%	3.92%
Loan to a single corporation	33,160.7	32,997.6		
Total loans and other receivables				