BDO LEASING AND FINANCE, INC.'s POLICY ON RETIREMENT OF DIRECTORS

The effective governance of the Company is by the individual and collective responsibility of the members of the Board of Directors. To contribute effectively, directors must have the necessary qualifications that best suit the needs and governance requirements of the Company such as skills, expertise, experience, probity, integrity, competencies relevant to the job, and the sufficiency of time to carry out responsibilities fully. The diversity of the Board underpins its effectiveness to provide strategic direction, oversight and compliance with laws and regulations.

The need to have a proper balance to refresh the Board with new talents while continuing to benefit from the wisdom, expertise and experience of the directors shall therefore be the guiding principle on the retirement of directors. The longer life expectancy and the willingness of directors to serve even in their advanced years shall be taken into consideration. As a policy, the continuing service of directors shall be determined on the basis of each director’s ability to perform his/her duties effectively and willingness to serve regardless of age with due regard to mental acuity, physical fitness, and the fortitude to actively engage and make a positive contribution in the pursuit of shared goals of the Company for the benefit of its stakeholders. The Company reserves the right to determine the continuing fitness of directors to serve but will accede to the request of a director, if he/she wishes not to do anymore for whatever reason.

BDO Leasing

NOTICE OF ANNUAL STOCKHOLDERS' MEETING

Dear Stockholder:

Please be informed that the Annual Meeting of the Stockholders of **BDO LEASING AND FINANCE, INC. (the "Corporation")** will be held on **April 12, 2019, Friday,** at **10:00 a.m**. at the Francisco Santiago Hall, Mezzanine Floor, South Tower, BDO Corporate Center, 7899 Makati Avenue, Makati City, Metro Manila.

The Agenda of the meeting is as follows:

I. Call to order

II. Certification of notice of meeting and determination of existence of quorum

III. Approval of the minutes of the Annual Stockholders' Meeting held on April 13, 2018

IV. President's Report and approval of the Audited Financial Statements of the Corporation as of December 31, 2018

V. Open Forum

VI. Approval and Ratification of all Acts of the Board of Directors, Board Committees and Management during their respective terms of office

VII. Election of the Board of Directors

VIII. Appointment of External Auditor

IX. Other Business that may properly be brought before the meeting

X. Adjournment

Each agenda item for approval is explained in the Definitive Information Statement ("DIS"), with brief details and rationale in attached Annex "A".

Stockholders of record as of **February 27, 2019** are entitled to notice of, to attend, and vote at, this year's Annual Meeting. Stockholders unable to attend the Annual Meeting in person may execute and deliver a proxy. Proxies should be submitted **on or before April 2, 2019,** addressed to the attention of the Corporate Secretary. Validation of proxies is set on **April 5, 2019, 12:00 noon** at the 14th Floor, North Tower, BDO Corporate Center, 7899 Makati Avenue, Makati City. Stockholders of record may opt to use the proxy form enclosed in the DIS, or download and print the form from the Corporation's website. (www.bdo.com.ph/leasing/2019proxyform)

Please bring this notice and any form of identification, such as passport, driver's license, or any other government-issued ID to facilitate registration.

JOSEPH JASON M. NATIVIDAD
Corporate Secretary

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

ANNEX "A"

AGENDA
DETAILS AND RATIONALE

I. **Call to order.** The Chairperson, Ms. Teresita T. Sy, will formally open the 2019 Annual Stockholders' Meeting of BDO Leasing and Finance, Inc. (the "Corporation").

II. **Certification of notice of meeting and determination of existence of quorum.** The Corporate Secretary, Atty. Joseph Jason M. Natividad, will certify that copies of the Notice of this Meeting have been duly sent to all stockholders of record as of February 27, 2019, and will attest whether a quorum is present for the valid transaction of the Annual Stockholders' Meeting and all the matters included in the Agenda.

III. **Approval of the minutes of the Annual Stockholders' Meeting held on April 13, 2018.** Copies of the Minutes are available for examination during office hours at the Office of the Corporate Secretary and at the Corporation's website www.bdo.com.ph/leasing/company-disclosures. Stockholders will be asked to approve the Minutes. Below is the text of the proposed resolution:

> "RESOLVED, That the Stockholders of BDO Leasing and Finance, Inc. approve, as they hereby approve, the Minutes of the Annual Stockholder's Meeting held on April 13, 2018."

IV. **President's Report and approval of the Corporation's Audited Financial Statements as of December 31, 2018 (AFS).** The Report presents a summary of the performance of the Corporation for the year 2018. It includes the highlights of the AFS of the Corporation which is incorporated in the Definitive Information Statement. Copies of AFS are submitted to the Securities and Exchange Commission and Bureau of Internal Revenue.

V. **Open Forum**. Every Stockholder, after identifying himself/herself, may raise any relevant question or express any appropriate comment.

VI. **Approval and Ratification of all Acts of the Board of Directors, Board Committees and Management during their respective terms of office.** All actions and proceedings, criteria and process for the Board of Directors' evaluation as published in the Corporation's website, including approvals of significant Related Parties' Transactions (RPT), of the Board of Directors, the Board Committees, and the Management of the Corporation from the last Annual Meeting of the Corporation held on April 13, 2018 will be presented to the stockholders for their approval and ratification. These collective acts are the main keys to the successful performance of the Corporation in 2018.

VII. **Election of the Board of Directors.** The Chairman of the Nomination Committee will present to the stockholders the nominees for election as members of the Board of Directors of the Corporation, including the independent directors. The nomination period is February 13 to 28, 2019. The profiles of the nominees to the Board of Directors are to be provided in the Definitive Information Statement for reference of the stockholders.

The stockholders will cast their votes for the nominees they want to elect to the Board of Directors of the Corporation. The tabulation and validation of votes will be conducted by the Office of the Corporate Secretary or an independent party to be engaged by the Corporation.

VIII. **Appointment of External Auditor.** The Board Audit Committee of the Corporation would accept and screen the nominees for external auditor of the Corporation. It will make the appropriate recommendation on the appointment of one auditing firm as external auditor of the Corporation. The recommended external auditor will be presented to the stockholders for their approval.

IX. **Other Business that may properly be brought before the meeting.** All other matters that arise after the Notice of Meeting and Agenda have been sent out, or raised throughout the course of the meeting, and which need to be presented to the stockholders for consideration will be taken up under this item. Stockholders may raise such matters as may be relevant or appropriate to the occasion.

X. **Adjournment.** After consideration of all business, the Chairperson shall declare the meeting adjourned. This formally ends the 2019 Annual Stockholders' Meeting of the Corporation.

Proxy

Form for Individuals

I/We, the undersigned stockholder/s of **BDO LEASING AND FINANCE, INC. (the "Corporation"),** hereby appoint/s ________________ ____ or in his absence, the Chairman of the meeting, as my/our attorney and proxy, with power of substitution, to represent and vote ________________________________ shares registered in my/our name/s, at the Annual Meeting of Stockholders of the Corporation on April 12, 2019, and at any of the adjournments thereof, for the purpose of acting on the following matters:

1 Approval of the minutes of the Annual Stockholders' Meeting held on April 13, 2018
____Yes ____No ____Abstain

2 Approval of the Audited Financial Statements of the Corporation as of December 31, 2018
____Yes ____No ____Abstain

3 Approval and Ratification of all Acts of the Board of Directors, Board Committees and Management during their respective terms of office
____Yes ____No ____Abstain

4 Election of Directors
____a) Vote for all nominees listed below

1. Antonio N. Cotoco
2. Roberto E. Lapid
3. Jeci A. Lapus
4. Luis S. Reyes, Jr.
5. Teresita T. Sy
6. Nestor V. Tan
7. Exequiel P. Villacorta, Jr.
8. Walter C. Wassmer
9. Jesse H. T. Andres (Independent Director)
10. Ma. Leonora V. De Jesus (Independent Director)
11. Vicente S. Pérez, Jr. (Independent Director)

____b) Withhold authority for all nominees listed above

____c) Withhold authority to vote for nominees listed below:

______________________ ______________________
______________________ ______________________
______________________ ______________________

5 Appointment of External Auditor
____Yes ____No ____Abstain

6 At their discretion, the proxies named above are authorized to vote upon such other matters as may properly come before the meeting
____Yes ____No ____Abstain

THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY ON OR BEFORE **APRIL 2, 2019**, TUESDAY, THE DEADLINE FOR SUBMISSION OF PROXIES.

THIS PROXY IS NOT REQUIRED TO BE NOTARIZED, AND WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER(S). IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED 'FOR' THE ELECTION OF ALL NOMINEES AND FOR THE APPROVAL OF THE MATTERS STATED ABOVE AND FOR SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING IN THE MANNER DESCRIBED IN THE INFORMATION STATEMENT AND/OR AS RECOMMENDED BY MANAGEMENT OR THE BOARD OF DIRECTORS.

THIS PROXY SHALL CONTINUE UNTIL SUCH TIME THAT THE SAME IS WITHDRAWN BY ME/US THROUGH NOTICE IN WRITING DELIVERED TO THE CORPORATE SECRETARY BEFORE THE DATE OF ANY SUCH MEETING OR ADJOURNMENT(S) THEREOF, OR UNTIL THE LAST DAY OF THE FIFTH YEAR FROM THE DATE HEREOF, WHICHEVER COMES FIRST, BUT SHALL BE DEEMED SUSPENDED AND INAPPLICABLE IN INSTANCES WHERE I PERSONALLY ATTEND THE MEETING.

IN WITNESS WHEREOF, I/we have hereunto affixed my/our signature this ____ day of ____________ , 20 ____ at ______________ .

____
Printed Name and Signature of Stockholder(s)

____
Address

Proxy

Form for Corporations

Secretary's Certificate

I, ______________________________, Filipino, of legal age and with office address at ______________________________ ____, do hereby certify that:

1 I am the duly appointed Corporate Secretary of ______________________________ (the "Corporation"), a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with office address at ____________ ____;

2 As of record date, the Corporation holds ______________________________ (_________________________) shares in BDO Leasing and Finance, Inc.;

3 Based on the records, during the lawfully convened meeting of the Board of Directors of the Corporation held on ______________, the following resolution was passed and approved:

> **"RESOLVED,** That _________________________ be authorized and appointed, as, s/he is hereby authorized and appointed, as the Corporation's Proxy (the "Proxy") to attend all meetings of the stockholders of BDO Leasing and Finance, Inc. ("BDOLF"), whether the meeting is regular or special, or any meeting postponed or adjourned therefrom, with full authority to vote the shares of stock of the Corporation held in BDOLF and to act upon all matters and resolutions that may come before or presented during the meetings, or any adjournments thereof, in the name, place and stead of the Corporation.
>
> **RESOLVED FURTHER,** That BDOLF be furnished with a certified true copy of this resolution and BDOLF may rely on the continuing validity of this resolution until receipt of written notice of its revocation."

4 The foregoing resolution has not been modified, amended or revoked, and is in accordance with the records of the Corporation presently in my custody.

IN WITNESS WHEREOF, I have hereunto affixed my signature this _____ day of ____________, 20___ at ____________ ____.

____

Printed Name and Signature of
the Corporate Secretary

SUBSCRIBED AND SWORN TO before me this ____day of _____________, 20___, at ____________________________, Affiant exhibited to me his Competent Evidence of Identity by way of ____ Issued on __________________ at _________________.

NOTARY PUBLIC

Doc. No.
Page No.
Book No.
Series of 2019.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

   [ ] Preliminary Information Statement

   [√] Definitive Information Statement

2. Name of Registrant as specified in its charter:

   BDO LEASING AND FINANCE, INC.

3. Country of Incorporation: **Philippines**

4. SEC Identification Number: **97869**

5. BIR Tax Identification Code: **000-486-050-000**

6. Address of Principal Office: **No. 12 ADB Avenue, Ortigas Avenue**
   Ortigas Center, Mandaluyong City 1554

7. Registrant's Telephone Number, Including Area Code: **(632) 688-1288**

8. Date, time and place of the annual meeting of the security holders:

Date	-	**April 12, 2019 (Friday)**
Time	-	**10:00 a.m.**
Place	-	**Francisco Santiago Hall** **Mezzanine Floor, BDO Corporate Center** **7899 Makati Avenue, Makati City**

9. Approximate date on which the Information Statement is first to be sent or given to security holders:

   on or before March 21, 2019

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA:

	Subscribed and Outstanding	
Title of each Class	**No. of Shares**	**Amount in Pesos**
Common	**2,162,475,312**	**Php 2,162,475,312.00**
Total	**2,162,475,312**	**Php 2,162,475,312.00**

	Authorized	Outstanding
Short Term Commercial Paper	**Php 15,000,000,000.00**	**Php 1,764,100,000.00**
Long Term Commercial Paper	**0.00**	**0.00**
Total	**Php15,000,000,000.00**	**Php 1,764,100,000.00**

11. Are any or all of registrant's securities listed on a Stock Exchange?

Yes (√) No ( ) **Philippine Stock Exchange,**
Common Shares only
(not commercial papers)

WE ARE NOT ASKING YOU FOR A PROXY
AND YOU ARE REQUESTED NOT TO SEND US A PROXY.

BDO LEASING AND FINANCE, INC.
INFORMATION STATEMENT

THIS INFORMATION STATEMENT IS BEING FURNISHED TO STOCKHOLDERS OF RECORD OF BDO LEASING AND FINANCE, INC. AS OF **FEBRUARY 27, 2019** IN CONNECTION WITH THE ANNUAL STOCKHOLDERS' MEETING. COPIES OF THE INFORMATION STATEMENT WILL BE FIRST SENT OR GIVEN TO SECURITY HOLDERS ON OR BEFORE **MARCH 21, 2019**.

A. GENERAL INFORMATION

ITEM 1. DATE, TIME AND PLACE OF ANNUAL MEETING OF SECURITY HOLDERS

(a) Date : **April 12, 2019 (Friday)**

Time : **10:00 in the morning**

Place : **Francisco Santiago Hall, Mezzanine Floor**
BDO Corporate Center, 7899 Makati Avenue
Makati City, Philippines.

Mailing Address: **39th Floor, BDO Corporate Center Ortigas**
No. 12 ADB Avenue, Ortigas Avenue
Ortigas Center, Mandaluyong City 1554

(b) Approximate date on which the Information Statement is first to be sent or given to security holders: **March 21, 2019**

ITEM 2. DISSENTER'S RIGHT OF APPRAISAL

BDO Leasing and Finance, Inc. (the "**Company**" or the "**Registrant"**) respects the inherent rights of shareholders in accordance with law. The Company recognizes that all shareholders should be treated fairly and equally whether they are controlling or minority, local or foreign. To ensure this, the By-Laws of the Company provides that all shares of each class should carry the same rights, and any changes in the voting rights shall be approved by them.

When a proposed corporate action would involve a substantial and fundamental change in the Company in the cases provided by law, a stockholder may exercise his appraisal rights. Pursuant to Section 80 of the Revised Corporation Code of the Philippines (the **"Corporation Code"**), a stockholder may exercise his appraisal right by dissenting on any of the following corporate actions and demanding payment of the fair value of his shares:

(1) amendment to the articles of incorporation that has the effect of changing or restricting the rights of any stockholder or class of shares, or ;
(2) amendment to the articles of incorporation that has the effect of authorizing preferences in any respect superior to those of outstanding shares of any class;
(3) amendment to the articles of incorporation that either extends or shortens the term of corporate existence;
(4) in case of lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code;
(5) in case of merger or consolidation; or
(6) in case of investment of corporate funds for any purpose other than the primary purpose of

the Company.

The procedure for the exercise of a stockholder's appraisal right is as follows:

(1) A stockholder shall have dissented to such corporate action;

(2) Within thirty (30) days after the date on which the vote was taken, the dissenting stockholder shall make a written demand on the Company for payment of the fair value of his shares.

Failure to make the demand within such period shall be deemed a waiver of the appraisal right.

(3) Within ten (10) days after demanding payment for his shares, the dissenting stockholder shall submit to the Company the certificate(s) of stock representing his shares for notation thereon that such shares are dissenting shares. His failure to do so shall, at the option of the Company, terminate his appraisal rights.

(4) No demand for payment as aforesaid may be withdrawn by the dissenting stockholder unless the Company consents thereto.

(5) If the corporate action is implemented or effected, the Company shall pay to such dissenting stockholder, upon surrender of the certificate(s) of stock representing his shares, the fair value thereof as of the day prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of a merger if such be the corporate action involved.

(6) If within a period of sixty (60) days from the date the corporate action was approved by the stockholders, the dissenting stockholder and the Company cannot agree on the fair value of the shares, it shall be appraised and determined by three (3) disinterested persons, one of whom shall be named by the stockholder, another by the Company, and the third by the two (2) thus chosen.

(7) The findings of a majority of the appraisers shall be final, and their award shall be paid by the Company within thirty (30) days after such award is made. No payment shall be made to any dissenting stockholder unless the Company has unrestricted retained earnings in its books to cover such payment.

(8) Upon payment of the agreed or awarded price, the stockholder shall forthwith transfer his shares to the Company.

No matter will be presented for shareholders' approval during the annual stockholders' meeting that may give rise to the exercise of an appraisal right.

ITEM 3. INTEREST OF CERTAIN PERSONS IN OR OPPOSITION TO MATTERS TO BE ACTED UPON

(a) No director or officer of the Registrant since the beginning of the last fiscal year, or any nominee for election as director, nor any of their associates, has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon at the meeting, other than election to office.

(b) No director of the Registrant has informed the Registrant in writing that he intends to oppose any action to be taken by the Registrant at the meeting.

B. CONTROL AND COMPENSATION INFORMATION

ITEM 4. VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

(a) Voting securities entitled to be voted at the meeting:

Title of Each Class	Number of Shares	Number of Votes Outstanding
Common Shares	2,162,475,312	One (1) vote per share, except in the election of directors where one share is entitled to as many votes as there are directors to be elected.

(b) Record date

Only stockholders of record in the books of the Company as of the close of business on February 27, 2019 are entitled to notice of, and to vote at, the annual meeting.

(c) Election of directors and voting rights (cumulative voting)

Each shareholder holding Common Shares as of February 27, 2019 ("**Voting Shares**") is entitled to as many votes as there are directors to be elected. Thus, if there are eleven (11) directors to be elected, each Voting Share is entitled to eleven (11) votes. Such shareholder may cumulate and cast all his votes in favor of one candidate or distribute them among as many candidates as he shall see fit, provided that the total number of votes cast by him does not exceed the number of shares owned by him multiplied by the number of directors to be elected.

The shareholder holding Voting Shares may nominate directors and vote in person or by proxy. If he will vote through a proxy, the Company's By-Laws require the submission of a proxy form to the Corporate Secretary no later than 5:30 p.m. on April 2, 2019 at the Office of the Corporate Secretary, 14th Floor, North Tower, BDO Corporate Center, 7899 Makati Avenue, Makati City. A suggested format for the proxy form is included in the materials sent to the stockholders.

A forum for the validation of proxies chaired by the Corporate Secretary or Assistant Corporate Secretary and attended by the Company's stock and transfer agent shall be convened on April 5, 2019, 12:00 noon, at the 14th Floor, North Tower, BDO Corporate Center, 7899 Makati Avenue, Makati City. Any questions and issues relating to the validity and sufficiency, both as to form and substance, of proxies shall only be raised during said forum and resolved by the Corporate Secretary. The Corporate Secretary's decision shall be final and binding on the shareholders, and those not settled at such forum shall be deemed waived and may no longer be raised during the meeting.

(d) Security ownership of certain record and beneficial owners and management:

1. **Security ownership of certain record/beneficial owners**

   As of February 28, 2019, 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. *(formerly Banco De Oro Unibank, Inc.)* BDO Corporate Center, 7899 Makati Avenue, Makati City ***BDO Unibank, Inc. is the parent company of the Registrant***	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 ***PCD has no relationship with the Registrant except as stockholder.*** ***PCD, being a nominee corporation, only holds legal title, not beneficial ownership of the lodged shares.***	Various shareholders No stockholder owns more than 5% of the Company's voting securities through PCD	Filipino Foreigner	246,273,365 559,714	11.39% 0.03%

The persons authorized to vote the shares of BDO Unibank, Inc. ("**BDO Unibank"**) are Ms. Teresita T. Sy and Mr. Nestor V. Tan.

As of February 28, 2019, the following stockholders own more than 5% of BDO Unibank:

Title of Class	Name & Address of Record Owner	Citizenship	Number of BDO Shares Held	Percentage
Common and Preferred	**SM Investments Corporation** 10th Floor, One E-com Center, Harbour Drive, Mall of Asia Complex, CBP-I-A, Pasay City	Filipino	1,874,530,649	38.34%
Common	**PCD Nominee Corp. (Non-Filipino)** 37th Floor, The Enterprise Center Ayala Avenue, Makati City	Foreign	1,329,975,652	27.20%
Common and Preferred	**Sybase Equity Investments Corporation** 10th Floor L.V. Locsin Building 6752 Ayala Avenue, Makati City	Filipino	631,410,292*	12.92%
Common	**PCD Nominee Corp. (Filipino)** 37th Floor, The Enterprise Center Ayala Avenue, Makati City	Filipino	552,174,057**	11.29%
Common	**Multi-Realty Development Corporation** 10th Floor L.V. Locsin Building 6752 Ayala Avenue, Makati City	Filipino	291,513,036*	5.96%
TOTAL (COMMON & PREFERRED)			**4,679,603,686**	**95.71%**

* Inclusive of PCD-lodged shares
** Exclusive of PCD-lodged shares of Multi-Realty Development Corporation and Sybase Equity Investments Corporation

There are no voting trust shares or shares issued pursuant to a Voting Trust Agreement registered with the Company nor has there been any change in control of the Company. The Company is also not aware of any contractual arrangement or otherwise between its shareholders and/or third parties, which may result in change in control.

2. **Security ownership of management**

As of February 28, 2019, the total number of shares owned by the directors and management of the Registrant as a group is 107,375 Common Shares, which is equivalent to 0.0049651% of the total outstanding Common Shares of the Registrant. 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	**Teresita T. Sy** Chairperson	Chairperson	Filipino	100 (R)	0.0000046%
Common	**Roberto E. Lapid** Vice Chairman & President	Vice-Chairman & President	Filipino	100 (R)	0.0000046%
Common	**Jesse H.T. Andres**	Independent Director	Filipino	100 (R)	0.0000046%
Common	**Antonio N. Cotoco**	Director	Filipino	115 (R)	0.0000053%
Common	**Ma. Leonora V. De Jesus**	Independent Director	Filipino	100 (R)	0.0000046%
Common	**Jeci A. Lapus**	Director	Filipino	100 (R)	0.0000046%
Common	**Vicente S. Pérez, Jr.**	Independent Director	Filipino	100 (R)	0.0000046%
Common	**Luis S. Reyes Jr.**	Director	Filipino	100 (R)	0.0000046%
Common	**Nestor V. Tan**	Director	Filipino	100 (R)	0.0000046%
Common	**Exequiel P. Villacorta, Jr.**	Director	Filipino	100 (R)	0.0000046%
Common	**Walter C. Wassmer**	Director	Filipino	100 (R)	0.0000046%
Common	**Rosario C. Crisostomo**	Vice President	Filipino	106,260 (R)	0.0049138%
	Total			**107,375**	**0.0049651%**

Directors and officers of the Company are required to report to the Company any acquisition or disposition of the Company's shares within three (3) business days from the date of the transaction. As prescribed by the Disclosure Rules of the Philippine Stock Exchange, Inc. (**"PSE"**), the Company shall disclose to the PSE any acquisition or disposition of its shares by its directors and officers within five (5) trading days from the transaction.

ITEM 5. DIRECTORS AND EXECUTIVE OFFICERS

(a) Directors and executive officers of the Registrant

1. **Directors and Corporate Officers**

The Board of Directors of the Company (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 (1) 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 (5) 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
68 years old, Filipino

Ms. Sy was elected to the Board of Directors of the Company on September 20, 2005 and currently serves as Chairperson of the Board. She is also the Chairperson of the Board of Directors of BDO Unibank, where she has been a member since 1977. Concurrently, she serves as the Chairperson and/or Director of various subsidiaries and affiliates of BDO Unibank such as BDO Private Bank, Inc., BDO Capital & Investment Corporation, BDO Foundation, Inc., and BDO Life Assurance Company, Inc. (formerly Generali Pilipinas Life Assurance Company, Inc.). Ms. Sy also serves as Adviser to the Board of One Network Bank, Inc. (A Rural Bank of BDO).

Ms. Sy is the Vice Chairperson of SM Investments Corporation and Adviser to the Board of SM Prime Holdings, Inc. She also sits as Chairperson of SM Retail, Inc. A graduate of Assumption College with a Bachelor of Arts and Science degree in Commerce major in Management, she brings to the board her diverse expertise in banking and finance, retail merchandising, mall and real estate development.

ROBERTO E. LAPID
Vice Chairman and President
62 years old, Filipino

Mr. Lapid was appointed Vice Chairman of the Company on December 1, 2010, and appointed as its President on April 23, 2014. He is concurrently President and Vice Chairman of the Board of Directors of BDO Rental, Inc. (**"BDO Rental"**), 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.

JESSE H.T. ANDRES
Independent Director
54 years old, Filipino

Atty. Andres was elected to the Board of Directors of the Company on September 20, 2005, and is presently the Chairman of the Corporate Governance Committee, Nomination Committee, and the Related Party Transactions Committee, and a member of the Company's Board Audit Committee and Risk Management Committee. Moreover, he also serves as Independent Director of MMPC Auto Financial Services, Inc. and One Network Bank, Inc. (A Rural Bank of BDO). 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 for six (6) years. He was also Chairman of the Board of GSIS Family Bank from June 2007 to October 2010. Since July 1, 2011, he is the Managing Partner of the Andres Padernal & Paras Law Offices. From 1996 to 2003, he was a Partner at PECABAR Law Offices, where he became Co-Head of the Litigation Department in

2001. He was also Chief of Staff (Undersecretary) of the Office of the Vice-President (2004-2010). Previously, he was Senior Manager of the Philippine Exporters' Foundation, and Board Secretary of the Department of Trade and Industry's Garments and Textile Export Board. Atty. Andres holds a Bachelor of Arts degree in Economics from the School of Economics, University of the Philippines (U.P.) and a Bachelor of Laws degree from the U.P. College of Law.

ANTONIO N. COTOCO
Director
70 years old, Filipino

Mr. Cotoco was elected to the Board of the Company on January 25, 2001. He is a Senior Executive Vice President of BDO Unibank and a member of its Board Credit Committee. Mr. Cotoco is Chairman of BDO Rental, and he also sits on the boards of directors of 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 more than 40 years, Mr. Cotoco has been involved in investment banking, corporate finance, treasury, consumer banking, credit, business development & account management. Mr. Cotoco holds a Master's degree in Business Administration from the University of the Philippines.

MA. LEONORA V. DE JESUS
Lead Independent Director
68 years old, Filipino

Ms. De Jesus was elected to the Board of Directors of the Company 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 One Network Bank, Inc. (A Rural Bank of BDO). Ms. De Jesus also serves as Director of 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. In the past, Ms. De Jesus was an Independent Director of Equitable Savings Bank, PCI Capital Corporation, BDO Elite Savings Bank, Inc. (formerly GE Money Bank, Inc.), and SM Development Corporation. She was a professorial lecturer at the University of the Philippines, Diliman, and at the De La Salle Graduate School of Business and Governance. She was also a member of the Board of Governors of the Philippine National Red Cross. 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 Doctorate degrees in Psychology from the University of the Philippines.

JECI A. LAPUS
Non-Executive Director
65 years old, Filipino

Hon. Lapus was elected as to the Board of Directors of the Company on April 23, 2014 and is presently a member of the Company's Related Party Transactions Committee. He is also a Director of One Network Bank, Inc. (A Rural Bank of BDO). 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 PNOC-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 House of Representatives, representing the third district of Tarlac from 2007 – 2013, and he also served as a

Reserved Officer with 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.

VICENTE S. PÉREZ, JR.
Independent Director
60 years old, Filipino

Mr. Pérez was elected to the Board of Directors of the Company on April 7, 2017, and is the Chairman of the Company's Risk Management Committee. He is an Independent Director of BDO Capital & Investment Corporation and DoubleDragon Properties Corp., and serves as an independent advisor to the Board of BDO Unibank. He is also a Non-Executive Director of Singapore Technologies Telemedia Pte Ltd. and STT Communications Ltd. Mr. Pérez is currently the Chairman of the Alternergy and SolarPacific, Philippine renewable power companies in wind, hydro and solar. He was Philippine Energy Secretary from 2001 to 2005. Mr. Pérez briefly served in early 2001 as Undersecretary at the Department of Trade and Industry and as Managing Head of the Board of Investments. He was Vice Chairman of the National Renewable Energy Board. He is a member of the advisory boards of Bhutan Foundation, the Yale Center for Business & Environment, Geneva-based Pictet Clean Energy Fund, and bio-energy company Roxas Holdings, Inc. Mr. Pérez is Chairman of the National Advisory Council of WWF-Philippines, a Trustee of WWF-China and a Board member of WWF-US. 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.

LUIS S. REYES, JR.
Director & Treasurer
61 years old, Filipino

Mr. Reyes was elected to the Board of Directors of the Company on April 18, 2012 and was appointed as Treasurer on April 23, 2014. He is concurrently the Executive Vice President for Investor Relations and Corporate Planning of BDO Unibank. He is also the Director and Treasurer of BDO Rental, Director of BDO Strategic Holdings, Inc. and BDO Nomura Securities, Inc., and Chairman of Nashville Holdings, 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.

NESTOR V. TAN
Director
60 years old, Filipino

Mr. Tan was elected to the Board of Directors of the Company on January 23, 2007. He is the President and Chief Executive Officer of BDO Unibank, Inc., and concurrently holds the Chairmanship of the following BDO Unibank Subsidiaries: BDO Strategic Holdings, Inc. and One Network Bank, Inc. (A Rural Bank of BDO). He also concurrently holds vice chairmanships and/or directorships in the following subsidiaries of BDO Unibank, Inc. : BDO Capital & Investment Corporation, BDO Insurance Brokers, Inc., BDO 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 is also a Trustee of BDO Foundation, Inc., Chairman of the De La Salle University Board of Trustees, and a Director of the Asian School of Business and Technology. He currently serves as President and Director of the Bankers Association of the Philippines and the BAP

Credit Bureau. He is also the Chairman of the Philippine Dealing System Holdings Corporation, Bancnet, and the RBB Microfinance Foundation Board of Trustees.

Prior to joining BDO Unibank, Mr. Tan was 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 the Mellon Bank (now BNY Mellon) in Pittsburgh, PA; Bankers Trust Company (now Deutsche Bank) in New York, NY; 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.

EXEQUIEL P. VILLACORTA, JR.
Non-Executive Director
73 years old, Filipino

Mr. Villacorta was elected to the Board of Directors of the Company on May 24, 2006. He is currently a Director of Premium Leisure Corp. Mr. Villacorta was formerly director of Equitable PCI Bank, Inc. from 2005 to 2006, EBC Insurance Brokerage, Inc., Maxicare Healthcare Corporation, and Philab Holdings, Inc. He was also 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 Universal Bank and TA Bank of the Philippines, and was Vice President of Private Development Corporation of the Philippines. He was Senior Adviser and BSP Controller of Equitable PCI Bank, Inc. and PBCom; and Adviser to the Board of PCI Capital Corporation. Mr. Villacorta holds a Bachelor of Science degree in Business Administration from De La Salle University and a Master's degree in Business Management from Asian Institute of Management.

WALTER C. WASSMER
Director
61 years old, Filipino

Mr. Wassmer was elected to the Board of Directors of the Company on November 17, 1999. He is the Senior Executive Vice President and Head of the Institutional Banking Group of BDO Unibank. He is also the Director of BDO Capital & Investment Corporation, and MMPC Auto Financial Services, Inc. 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.). He holds a Bachelor of Science degree in Commerce from De La Salle University.

JOSEPH JASON M. NATIVIDAD
Corporate Secretary
46 years old, Filipino

Atty. Natividad was appointed Corporate Secretary of the Company on May 31, 2010. He is also the Assistant Corporate Secretary of BDO Capital & Investment Corporation, BDO Securities Corporation and BDO Insurance Brokers, Inc. He 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 the BDO Rental and Agility Group of Companies in the Philippines. Atty. Natividad is currently a Partner of the Factoran & Natividad Law Offices. He has been in law practice for 21 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, 53 years old

Atty. Santos was appointed as Assistant Corporate Secretary of the Company effective October 1, 2015. She is concurrently the First Vice President of BDO Unibank. She is also the Assistant Corporate Secretary of BDO Private Bank, Inc., BDO Rental, and One Network Bank, Inc. (a Rural Bank of BDO). Further, she is the Corporate Secretary of BDO Nomura Securities, Inc. (formerly PCIB Securities, Inc.), BDO Strategic Holdings, Inc., Equimark-NFC Development Corporation, and Ivory Homes, Inc. She was formerly 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 18 years, starting as Manager with BDO Unibank's Legal Department. She is currently assigned at the Legal Services Group as Team Head providing legal assistance to BDO Unibank's Support Groups and Subsidiaries and in managing BDO Unibank's Intellectual Property (BDO and BDO-related marks). In 2017 and 2018, she was included in the World Trademark Review 300: The World's Leading Corporate Trademark Professionals. 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.

The independent directors of the Registrant are Atty. Jesse H.T. Andres, Mr. Vicente S. Pérez, Jr., and Ms. Ma. Leonora V. De Jesus.

Directorships in other reporting companies:

During the last five (5) years, the following directors and nominees to the Board are also directors of other reporting companies as listed below:

Name of Director	Name of Reporting Company	Position Held
Teresita T. Sy	BDO Unibank, Inc. SM Investments Corporation	Chairperson Vice Chairperson
Nestor V. Tan	BDO Unibank, Inc.	President
Exequiel P. Villacorta, Jr.	Premium Leisure Corp.	Director
Vicente S. Pérez, Jr.	DoubleDragon Properties Corp.	Independent Director

Nomination of Directors

The following are nominated for election to the Board of Directors during this year's annual stockholders' meeting:

1. Teresita T. Sy
2. Antonio N. Cotoco
3. Roberto E. Lapid
4. Jeci A. Lapus
5. Luis S. Reyes, Jr.
6. Nestor V. Tan
7. Exequiel P. Villacorta, Jr.

8. Walter C. Wassmer
9. Jesse H.T. Andres (Independent Director)
10. Ma. Leonora V. De Jesus (Independent Director)
11. Vicente S. Pérez, Jr. (Independent Director)

The nominees for independent directors for this year's annual stockholders' meeting are Atty. Jesse H.T. Andres, Ms. Ma. Leonora V. De Jesus, and Mr. Vicente S. Pérez, Jr. They were nominated by Ms. Manette D. Vicente, a stockholder of the Company. To the Company's knowledge, there is no relationship between the nominees for independent directors and Ms. Vicente.

The procedure for nomination of directors shall be as follows:

- All nominations for directors shall be submitted in writing to the Corporate Secretary of the Company from February 13 to 28, 2019. Nominations that are not submitted within such nomination period shall not be valid. Only a stockholder of record entitled to notice of and to vote at the regular or special meeting of the stockholders for the election of directors shall be qualified to be nominated and elected as a director of the Registrant.

- All nominations shall be signed by the nominating stockholders together with the acceptance and conformity by the would-be nominees in accordance with Rule 38 of the Securities Regulation Code (**"SRC"**).

- The nominations received from February 13 to 28, 2019 shall be submitted to the Company's Nomination Committee, which shall determine the qualifications of the nominees for directors and independent directors.

- The Nomination Committee meets at least once a year to (a) open the nomination period for the submission of nominations for directors, (b) pre-screen and check the qualifications of all persons nominated to be elected to the Board from the pool of candidates submitted by the nominating stockholders, and (c) approve the final list of nominees for presentation and approval by the shareholders of the Company.

- The Nomination Committee shall pre-screen the nominees based on their qualifications as provided in the Company's Manual of Good Corporate Governance and Rule 38 of the SRC. The Nomination Committee will hold its meeting on March 5, 2019.

- The Nomination Committee shall prepare a Final List of Candidates which shall contain all the information about all the nominees for directors and independent directors. Only nominees whose names appear in the Final List of Candidates shall be eligible for election as either independent or regular directors. No other nomination shall be entertained after the expiration of the period for the submission of nominations. No further nomination shall be entertained or allowed on the floor during the actual meeting of the stockholders (Section 8, Article III, By-Laws).

- The Nomination Committee is composed of the following members, two of whom are independent directors:

1. Jesse H.T. Andres	-	Chairperson (independent director)
2. Ma. Leonora V. De Jesus	-	Member (independent director)
3. Antonio N. Cotoco	-	Member

Those elected to the Board as independent directors shall submit to the Securities and Exchange

Commission (**"SEC"**) a Certification on the Qualifications and Disqualifications of Independent Directors. The Company ensures compliance with the Code of Corporate Governance for Publicly Listed Companies dated November 22, 2016 on the term limits for independent directors.

All newly-elected directors are required to undergo an orientation program within three (3) months from date of election. This is intended to familiarize the new directors on their statutory/fiduciary roles and responsibilities in the Board and Committees, the Company's strategic plans, enterprise risks, group structures, business activities, compliance programs, and Corporate Governance Manual.

All directors are also encouraged to participate in continuing education programs at the Company's expense to maintain a current and effective Board.

2. **Senior 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 (5) years:

ANGELITA C. TAD-Y
First Vice President/Chief Risk & Compliance Officer
Filipino, 54 years old

Ms. Tad-y was appointed as Chief Risk and Compliance Officer of the Company on December 16, 2017. She is concurrently the Data Privacy and Information Security Officer of the Company. She joined the Asset Management Group of BDO Unibank in 2008 and transferred to Risk Management Group from 2010 to December 15, 2017. Prior to BDO Unibank, Ms. Tad-y worked for Philamlife Insurance Compamy as Associate Controller, Asset Management & Compliance Officer for 5 years, and for JP Morgan Chase Bank as Credit Officer for 12 years. Ms. Tad-y earned her Bachelor of Science Degree major in Accounting from De La Salle University.

AGERICO MELECIO S. VERZOLA
First Vice President & Marketing Head
Filipino, 61 years old

Mr. Verzola was appointed as First Vice President & Marketing Head of the Company on October 1, 2014. He is a Director of BDO Rental. Mr. Verzola has been involved in Credit, Corporate Banking, Commercial Banking, Branch Banking and Branch Lending, and Investment Banking over the past 38 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.

ROSARIO C. CRISOSTOMO
First Vice President
Filipino, 50 years old

Ms. Crisostomo joined the Company as Account Officer in October 1993. She later became a Team Head for Metro Manila Marketing and was appointed Head for Metro Manila Marketing Unit 1 in 2017 where she manages three (3) marketing teams. She holds a degree in Bachelor in Accountancy from the Polytechnic University of the Philippines and is a Certified Public Accountant.

MA. THERESA M. SORIANO
First Vice President
Filipino, 49 years old

Ms. Soriano is the current Head of Metro Manila Marketing Unit 2 of the Company. She is with the Company for the last 25 years (since its predecessor PCI Leasing and Finance Inc.) where she rose from the ranks from being an Account Officer to a Unit Head. She obtained from De La Salle University baccalaureate degrees in Economics and Management of Financial Institutions as well as a masteral degree in Business Administration.

COSME S. TRINIDAD JR.
First Vice President
Filipino, 54 years old

Mr. Trinidad was designated Unit Head for Luzon on October 1, 2016. He joined BDO Unibank's Risk Management Group in 2008 and was seconded to the Company in September 2011. His banking career spans more than 25 years covering marketing, account management, credit, risk management and asset management. Mr. Trinidad holds a Bachelor's Degree in Fisheries, major in Business Management, magna cum laude, and a Master in Business Administration from De La Salle University Graduate School.

The Company is not dependent on the services of any particular employee and does not have any special arrangements to ensure that any employee will remain with the Company and will not compete upon termination.

(b) Significant Employees

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

(c) Family Relationships

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

(d) 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 (5) years up to February 28, 2019 in any legal proceeding 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 (5) years:

i. bankruptcy petition by or against any business of which such director or senior executive was a general partner or executive officer either at the time of bankruptcy or within two (2) years prior to that time;

ii. a conviction by final judgment, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign;

iii. 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;

iv. 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.

(e) Certain Relationships and Related Transactions

Related party transactions are transfers of resources, services or obligations between the Company and its subsidiary, BDO Rental (the Company and BDO Rental collectively referred to as the "**Group")** and the Group's related parties, regardless of 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.

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

Policies and procedures have been put in place to manage potential conflicts of interests arising from related party transactions. Even as the Company's Executive Committee approves these transactions, the Related Party Transactions Committee composed of independent and non-executive directors, reviews the terms and conditions of the approved transactions to ensure that these are done on an arms-length basis, that no preferential treatment is accorded, and they are negotiated as a regular business transaction in accordance with regulations. These transactions are then elevated to the Board for confirmation and approval. Directors and officers who have interest in the transactions abstain from participating in the discussion. The details of the deliberations are included in the minutes of the Board and Board Committee meetings. Approved related party transactions are properly tagged for monitoring and reporting of exposures.

(f) Disagreement with a Director

No director has resigned or declined to stand for re-election to the Board since the date of the last annual shareholders' meeting because of a disagreement with the Company on any matter relating to the Company's operations, policies or practices.

ITEM 6. EXECUTIVE COMPENSATION

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	2019 (estimate)	17.47	8.78	n.a.
	2018	16.64	8.36	n.a.
	2017	15.84	8.07	n.a.

Year	Name	Position/Title
2018	Roberto E. Lapid	President
	Agerico Melecio S. Verzola	First Vice President
	Ma. Theresa M. Soriano	First Vice President
	Rosario C. Crisostomo	First Vice President
	Angelita C. Tad-y	First Vice President
2017	Roberto E. Lapid	President
	Agerico Melecio S. Verzola	First Vice President
	Ma. Theresa M. Soriano	First Vice President
	Rosario C. Crisostomo	First Vice President
	Cosme S. Trinidad	First 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	2019 (estimate)	110.49	41.03	n.a.
	2018	105.23	39.08	n.a.
	2017	104.70	36.73	n.a.

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 ten percent (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.

(3) Employment contracts and termination of employment and change-in-control arrangements

There are no special contracts of employment between the Company and its named executive officers, as well as special compensatory plans or arrangements, including payment to be received from the Company with respect to any named director or executive.

ITEM 7. INDEPENDENT PUBLIC ACCOUNTANTS

The present external auditor of the Company, the accountancy and auditing firm of **P&A Grant Thornton ("P&A"),** will be recommended to be re-appointed as the external auditor of the Registrant for the ensuing year. P&A has been the Company's Independent Public Accountants for the past five (5) years. Representatives of P&A will be present during the annual meeting and will be given the opportunity to make a statement if they desire to do so. They are also expected to respond to appropriate questions if needed.

P&A was first appointed external auditor of the Company in 2007 and has not resigned, been dismissed, or its services ceased since its appointment. 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 or procedure.

The Company engaged Mr. Leonardo D. Cuaresma, Jr., Partner of P&A, for the examination of the Company's financial statements starting year 2018. Previously, the Company engaged Mr. Romuald V. Murcia III, Partner of P&A, for the examination of the Company's financial statements from 2012 to 2017. The Company is compliant with the rotation requirement of its external auditor's certifying partner as required under SRC Rule 68 (3)(b)(ix).

The Audit Committee approves and proposes for management and Board approval the appointment and removal of the Company's internal and external auditor.

<u>Audit and Audit-Related Fees</u>

The aggregate fees billed for each of the last three (3) fiscal years for professional services rendered by the external auditor was ₱1.009 million for the year 2018, ₱1.068 million for the year 2017, and ₱0.839 million for the year 2016. These fees cover services rendered by the external auditor for audit of the financial statements of the Company and other services in connection with statutory and regulatory filings for fiscal years 2018, 2017 and 2016.

<u>Tax Fees and Other Fees</u>

No other fees were paid to the auditing firm of P&A for the last three (3) fiscal years.

It is the policy of the Company that all audit findings are presented to the Board Audit Committee which reviews and makes recommendations to the Board on actions to be taken thereon. The Board passes upon and approves the Audit Committee's recommendations.

The members of the Audit Committee of the Company are as follows:

1. Ma. Leonora V. De Jesus - Chairperson (independent director)
2. Jesse H.T. Andres. - Member (independent director)

3. Vicente S. Pérez, Jr. - Member (independent director)

ITEM 8. COMPENSATION PLANS

No action is to be taken with respect to any plan pursuant to which cash or non-cash compensation may be paid or distributed.

C. ISSUANCE AND EXCHANGE OF SECURITIES

ITEM 9. AUTHORIZATION OR ISSUANCE OF SECURITIES OTHER THAN FOR EXCHANGE

No action will be presented for shareholders' approval at this year's annual meeting which involves authorization or issuance of any securities.

ITEM 10. MODIFICATION OR EXCHANGE OF SECURITIES

No action will be presented for shareholders' approval at this year's annual meeting which involves the modification of any class of the Company's securities, or the issuance of one class of the Company's securities in exchange for outstanding securities of another class.

ITEM 11. FINANCIAL AND OTHER INFORMATION

The Audited Financial Statements of the Company and the Management Report, incorporating the Management's Discussion & Analysis, are attached as Annexes "A" and "B".

Representatives of the Company's external auditor, P&A, are expected to be present at the annual meeting, and they will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions from the shareholders. The Company has had no material disagreement with P&A on any matter of accounting principle or practices or disclosures in its financial statements.

ITEM 12. MERGERS, CONSOLIDATIONS, ACQUISITIONS AND SIMILAR MATTERS

No action will be presented for shareholders' approval at this year's annual meeting in respect of (1) the merger or consolidation of the Company into or with any other person, or of any other person into or with the Company, (2) acquisition by the Company or any of its shareholders of securities of another person, (3) acquisition by the Company of any other going business or of the assets thereof, (4) the sale or transfer or all or any substantial part of the assets of the Company, or (5) liquidation or dissolution of the Company.

ITEM 13. ACQUISITION OR DISPOSITION OF PROPERTY

No action will be presented for shareholders' approval at this year's annual meeting in respect of any acquisition or disposition of property of the Company.

ITEM 14. RESTATEMENT OF ACCOUNTS

No action will be presented for shareholders' approval at this year's annual meeting which involves the restatement of any of the Company's assets, capital or surplus account.

D. OTHER MATTERS

ITEM 15. ACTION WITH RESPECT TO REPORTS

There is no action to be taken with respect to any report of the Company or of its directors, officers or committees, except for the approval of the following:

a. Minutes of the annual stockholders' meeting held on April 13, 2018 at 10:00 in the morning at the Francisco Santiago Hall, Mezzanine Floor, BDO Corporate Center, 7899 Makati Avenue, Makati City (attached as Annex "C");

b. President's Report and approval of the Audited Financial Statements of the Company as of December 31, 2018; and

c. Approval and ratification of all acts of the Board of Directors, the Board Committees and Management during their respective terms of office.

There are no specific acts or proceedings which, by law, are required to be approved or ratified by the stockholders. Nevertheless, all acts covered by resolutions duly adopted by the Board, Executive Committee, Board Audit Committee, Related Party Transactions Committee, and other Committees of the Board in the normal course of business pertaining to credit transactions, approving authorities, designation of corporate signatories, regulatory compliances, and similar matters shall be submitted to the stockholders for their ratification. These acts and proceedings are described in the minutes of the Board and Board committee meetings which are available for inspection at reasonable hours on any business day. Significant acts and transactions are likewise covered by appropriate disclosures with the Securities and Exchange Commission and the PSE.

ITEM 16. MATTERS NOT REQUIRED TO BE SUBMITTED

There is no action to be taken with respect to any matter which is not required to be submitted to a vote of security holders.

ITEM 17. AMENDMENT OF CHARTER, BY-LAWS OR OTHER DOCUMENTS

Stockholders have the right to approve or disapprove any proposed amendment to the Articles of Incorporation and By-laws of the Company.

No action will be presented for stockholders' approval at this year's annual meeting with respect to the amendment of the Company's Articles of Incorporation and By-Laws.

ITEM 18. OTHER PROPOSED ACTION

Other than the matters indicated in the Notice and Agenda included in this Information Statement, there are no other actions proposed to be taken at the annual meeting.

ITEM 19. VOTING PROCEDURES

Except as otherwise provided by law, each stockholder of record shall be entitled at every meeting of stockholders to one vote for each share of stock standing in his name on the stock books of this Company, which vote may be given personally or by attorney or authorized in writing. In accordance with the process on proxy validation, the instrument authorizing an attorney or proxy to act shall be exhibited to the Corporate Secretary if he shall so request. A majority vote of the shares present and constituting a quorum shall decide any matter submitted to the shareholders at the meeting, except in those cases where the law requires a greater number.

In the election of Directors, each stockholder entitled to vote may cumulate and distribute his votes in accordance with the provisions of the Corporation Code and as discussed under Part B, Item 4(c) of this Information Statement. The eleven (11) directors receiving the highest number of votes shall be declared elected.

There is no manner of voting prescribed in the By-Laws of the Company. Hence, voting may be done *viva voce*, by show of hands, or by balloting. In the election of directors, the election must be by ballot if requested by any voting shareholder.

The Canvassing Committee, chaired by the Corporate Secretary, will be responsible for counting votes based on the number of shares entitled to vote owned by the stockholders who are present or represented by proxies at the Annual Meeting of the Stockholders. BDO Unibank – Trust and Investments Group, the Company's stock transfer agent, in conjunction with P&A, the Company's external auditor, both independent parties, are tasked to count votes on any matter property brought to the vote of the shareholders, including the election of directors.

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E. <u>SIGNATURE PAGE</u>

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on 18 MARCH 2019.

BDO LEASING AND FINANCE, INC.

By:

JOSEPH JASON M. NATIVIDAD
Corporate Secretary

ANNEX "A"

AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED 2018 AND 2017

BDO Leasing

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, 2018, 2017 and 2016, 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 19th day of February 2019.

BDO Leasing and Finance, Inc.
39/F BDO Corporate Center Ortigas,
12 ADB Avenue, Ortigas Center,
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www.bdo.com.ph

BDO Leasing

SUBSCRIBED and SWORN to me before this ______ day of 22 FEB 2019 2019 affiant exhibiting to me his/her Social Security Number, as follows:

NAMES	SSS NUMBER
Teresita T. Sy	03-2832705-4
Roberto E. Lapid	03-5034078-2
Rosalisa B. Kapuno	03-5894505-3

DOC. NO. 516
PAGE NO. 105
BOOK NO. LXX
SERIES OF 2019.

KIM BRIGUERA-DACARA
NOTARY PUBLIC FOR THE CITY OF MANDALUYONG
APPOINTMENT NO. 0204-18
UNTIL DECEMBER 31, 2019
IBP LIFETIME ROLL NO. 1010007
PTR NO. [illegible] 1-3-2019 MANDALUYONG
MCLE NO. V-0004637
29TH FLR., BDO CORPORATE CENTER ORTIGAS
12 ADB AVE., MANDALUYONG

P&A
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An instinct for growth™

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Report of Independent Auditors

The Board of Directors and the Stockholders
BDO Leasing and Finance, Inc.
(A Subsidiary of BDO Unibank, Inc.)
39th Floor, BDO Corporate Center Ortigas
12 ADB Avenue, Ortigas Center
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, 2018 and 2017, and the statements of income, statements of comprehensive income (loss), statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2018, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group and of the Parent Company as at December 31, 2018 and 2017, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2018 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 and of the Parent Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, 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.

(a) Adoption of PFRS 9, Financial Instruments

Description of the Matter

Effective January 1, 2018, the Group and the Parent Company adopted PFRS 9, *Financial Instruments*, (PFRS 9) which replaced Philippine Accounting Standard (PAS) 39, *Financial Instruments: Recognition and Measurement*. The adoption of this new standard, which primarily affected the Group's and the Parent Company's classification and measurement of their financial assets and impairment of financial instruments using the expected credit losses, is considered significant in our audit due to the complexity of the accounting requirements and the significant judgement required in determining assumptions to be used in applying the standard.

The impact of the adoption of PFRS 9, and the related changes in accounting policies, basis of judgement and estimates, and risk management policies and procedures are disclosed in Notes 2, 3 and 5 to the financial statements.

How the Matter was Addressed in the Audit

We have obtained an understanding of the Group's and the Parent Company's implementation process of PFRS 9, including the changes to the Group's and the Parent Company's policies and information technology systems and processes. Our audit procedures for each of the new requirements of the PFRS 9 are the following:

(i) Classification and Measurement

- Evaluating the appropriateness of the Group's and the Parent Company's policy for classification and measurement of financial instruments based on the requirements of PFRS 9.

- Reviewing the sufficiency and appropriateness of the business model assessment and contractual cash flows characteristics assessment (i.e., testing if the cash flows arising relate solely to payment of principal and interest) performed by the Group and the Parent Company on their financial assets.

- Reviewing the classification and measurement analysis done by the Group and the Parent Company regarding the classification of financial assets into fair value through profit or loss, amortized cost and fair value through other comprehensive income.

- Evaluating the appropriateness of transition adjustments as a result of the adoption of PFRS 9 on classification and measurement of financial assets, and determining the adequacy of the related financial statement disclosures, including changes in accounting policies and basis of judgement and estimates.

(ii) Impairment

- Evaluating the appropriateness of the impairment policies, particularly those requiring the exercise of judgement such as when a credit exposure has experienced a significant increase in credit risk.

- Understanding and assessing appropriateness of expected credit loss (ECL) models used, including reasonableness of overlays or forward-looking information (FLI).

- Assessing completeness, accuracy, relevance and reliability of inputs in the ECL models, including historical information sourced outside of the controllership function or obtained from the third party sources.

- Reviewing the assessment done by the Group and the Parent Company regarding appropriateness of the ECL models and assumptions and estimates used and reasonableness of computed impairment loss.

- Evaluating appropriateness of the impairment adjustments resulting in the transition to PFRS 9, including completeness and reasonableness of related ECL disclosures.

(b) Proper Valuation of Loans and Other Receivables

Description of the Matter

The Group and the Parent Company had loans and other receivables that are subject to impairment. As of December 31, 2018, the Group and the Parent Company had loans and other receivables amounting to P34,352.6 million and P34,187.5 million, respectively, net of allowance for impairment of P550.8 million and P550.6 million, respectively. Loans and other receivables are the most significant assets of the Group and the Parent Company which account for 83% and 87% of the Group's and the Parent Company's total assets, respectively.

The allowance for impairment of loans and other receivables is considered to be a matter of significance as it requires the application of critical management judgement and use of subjective estimates in determining how much impairment loss are required to be recognized in the financial statements. These judgement and estimates are disclosed in the Group's and the Parent Company's accounting policies in Notes 2 and 3 to the financial statements.

As discussed in item (a) above, on January 1, 2018, the Group and the Parent Company adopted PFRS 9, *Financial Instruments*, which introduced the ECL model in determining impairment of financial assets. Accordingly, the Group and the Parent Company used the ECL model in determining impairment of its loans and other receivables. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, the associated loss ratios and of default correlations between counterparties. Furthermore, the Group and the Parent Company incorporated FLI into both the assessment of whether the credit risk of an instrument has increased significantly from its initial recognition to the measurement of ECL. The Group and Parent Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The disclosures of the Group and the Parent Company on the allowance for impairment of loans and other receivables, and the related credit risk are included in Notes 5 and 9 to the financial statements.

How the Matter was Addressed in the Audit

In addition to the procedures performed in item (a) above, our audit procedures to address the risk of material misstatement relating to the adequacy of allowance for impairment of loans and other receivables, which were considered to be a significant risk, included:

- testing the design and operating effectiveness of key controls across the processes over the loan classification into stages, and the calculating and recording of the allowance for impairment;
- evaluating the appropriateness of the Group's and the Parent Company's credit policy and loan impairment process as approved by the Board of Directors;
- verifying that the loans are allocated to the appropriate stage by challenging the criteria used to allocate the loan to Stage 1, 2 or 3 in accordance with PFRS 9;
- on a sample basis, evaluating the appropriateness of the credit risk ratings of performing Stage 1 loans to assess appropriateness of credit risk monitoring;
- evaluating the inputs and assumptions, as well as the formulas used in the development of the ECL models for each of its loan portfolio. This includes assessing the appropriateness of design of the ECL impairment model and formula used in determining the probability of default, loss given default and exposure at default;
- for FLI used, assessing whether the forecasted macro-economic factors, which generally include but not limited to gross domestic product growth, unemployment rate, foreign exchange, stock market index, oil prices and interest rates, were appropriate. In addition, assessing the level of significance of correlation of selected macro-economic factors to the default rates as well as the impact of these variables to the ECL;
- assessing the borrowers' repayment abilities by examining payment history for selected loan accounts; and,
- on selected non-performing loan accounts, evaluating the management's forecast of recoverable cash flows, valuation of collaterals, estimates of recovery from other sources of collection.

(c) 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 significant judgement by the management. Critical judgement 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 judgement will result in either overstatement or understatement of assets and liabilities as well as the related income or expenses.

The Group and the Parent Company classify 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.

In 2018, the total income related to financing lease contracts entered into by the Group and the Parent Company amounted to P1,893.6 million and P1,893.2 million, respectively, from revenues on interest and discounts for finance lease contracts and P938.3 million from revenues on rent by the Group for operating lease contracts.

The revenue recognition policy and the critical management judgement in applying the policy of the Group and the Parent Company are disclosed in Notes 2 and 3 to the financial statements, and the other disclosures relating to leases are included in Notes 9 and 19 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 also 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 and the Parent Company's assessment on the classification of a particular lease contract, and recomputation of the related interest and rent income.

(d) 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 and 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, 2018, the Group's investment properties, and property and equipment amounted to P354.5 million and P2,254.9 million, respectively, while the Parent Company's investment properties, and property and equipment amounted to P128.4 million and P8.9 million, respectively. The Group's financial statement disclosures on the significant accounting policies and the appropriate valuation of investment properties, and property and equipment are included in Notes 2, 10 and 11 to the financial statements.

How the Matter was Addressed in the Audit

We checked the impairment testing done by the Group and the Parent Company on the investment properties, and property and equipment to determine that the investment properties, and property and equipment are carried at their recoverable amounts. We assessed the appropriateness of the assumptions used in the estimation of fair values reflected in the appraisal reports. We also evaluated the competence and objectivity of the appraisers and ensured that their reports adequately documented their work. In addition, we also examined the relevant documents to support the cash flow assumptions and performed recomputation of net recoverable values of the investment properties, and property and equipment based on the discounted cash flow model.

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), SEC Form 17-A, and Annual Report for the year ended December 31, 2018, but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS, SEC Form 17-A and Annual Report 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 and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group and the Parent Company or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with PSA, we exercise professional judgement 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 and the Parent Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group and the Parent Company 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 to 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, 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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. As discussed in Note 22 to the financial statements, the Parent Company presented the supplementary information required by the Bureau of Internal Revenue under Revenue Regulation (RR) No. 15-2010 in a supplementary schedule filed separately from the basic financial statements. RR No. 15-2010 requires the supplementary information to be presented in the notes to the financial statements. Such supplementary information is the responsibility of management. The supplementary information is not a required part of the basic financial statements prepared in accordance with PFRS; it is not also a required disclosure under Securities Regulation Code Rule 68, as amended, of the SEC.

The engagement partner on the audits resulting in this independent auditors' report is Leonardo D. Cuaresma, Jr.

PUNONGBAYAN & ARAULLO

By: Leonardo D. Cuaresma, Jr.
Partner

CPA Reg. No. 0058647
TIN 109-227-862
PTR No. 7333690, January 3, 2019, Makati City
SEC Group A Accreditation
Partner - No. 0007-AR-5 (until July 9, 2021)
Firm - No. 0002-FR-5 (until March 26, 2021)
BIR AN 08-002511-7-2017 (until June 19, 2020)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until July 24, 2021)

February 20, 2019

BDO LEASING AND FINANCE, INC. AND SUBSIDIARY
(A Subsidiary of BDO Unibank, Inc.)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017
(Amounts in Millions of Philippine Pesos)

	Notes	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017
A S S E T S					
CASH AND CASH EQUIVALENTS	7	**P 274.6**	P 457.7	**P 228.5**	P 376.8
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	8	**3,591.9**	-	**3,591.9**	-
AVAILABLE-FOR-SALE FINANCIAL ASSETS	8	**-**	4,642.0	**-**	4,642.0
LOANS AND OTHER RECEIVABLES - Net	9	**34,352.6**	34,324.7	**34,187.5**	34,206.6
PROPERTY AND EQUIPMENT - Net	10	**2,254.9**	2,256.6	**8.9**	7.1
INVESTMENT PROPERTIES - Net	11	**354.5**	354.4	**128.4**	128.3
OTHER ASSETS - Net	12	**711.7**	806.2	**936.7**	1,004.4
TOTAL ASSETS		**P 41,540.2**	P 42,841.6	**P 39,081.9**	P 40,365.2
LIABILITIES AND EQUITY					
BILLS PAYABLE	14	**P 28,977.8**	P 30,478.3	**P 26,723.9**	P 28,278.3
ACCOUNTS PAYABLE AND OTHER LIABILITIES	15	**587.1**	877.9	**472.6**	672.0
INCOME TAX PAYABLE		**-**	54.5	**-**	54.5
LEASE DEPOSITS	16	**6,632.3**	5,988.6	**6,542.4**	5,918.1
Total Liabilities		**36,197.2**	37,399.3	**33,738.9**	34,922.9
CAPITAL STOCK	17	**2,225.2**	2,225.2	**2,225.2**	2,225.2
ADDITIONAL PAID-IN CAPITAL		**571.1**	571.1	**571.1**	571.1
TREASURY SHARES	17	**(81.8)**	(81.8)	**(81.8)**	(81.8)
NET ACCUMULATED ACTUARIAL LOSSES		**(60.8)**	(59.7)	**(60.8)**	(59.7)
NET UNREALIZED FAIR VALUE GAINS (LOSSES) ON:					
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		**(195.0)**	-	**(195.0)**	-
AVAILABLE-FOR-SALE FINANCIAL ASSETS		**-**	169.0	**-**	169.0
ACCUMULATED SHARE IN OTHER COMPREHENSIVE INCOME OF ASSOCIATE	12	**0.4**	-	**0.4**	-
RETAINED EARNINGS	17	**2,883.9**	2,618.5	**2,883.9**	2,618.5
Total Equity		**5,343.0**	5,442.3	**5,343.0**	5,442.3
TOTAL LIABILITIES AND EQUITY		**P 41,540.2**	P 42,841.6	**P 39,081.9**	P 40,365.2

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, 2018, 2017 AND 2016
(Amounts in Millions of Philippine Pesos, Except Per Share Data)

		Group			Parent Company		
	Notes	**2018**	2017	2016	**2018**	2017	2016
REVENUES							
Interest and discounts	7, 8, 9, 20	**P 1,967.1**	P 1,918.3	P 1,760.7	**P 1,966.7**	P 1,917.9	P 1,760.4
Rent	19	**938.3**	922.2	890.2	**-**	-	-
Other income - net	18	**310.1**	316.0	203.4	**264.7**	323.9	268.5
		3,215.5	3,156.5	2,854.3	**2,231.4**	2,241.8	2,028.9
OPERATING COSTS AND EXPENSES							
Interest and financing charges	14	**1,170.2**	850.3	673.5	**1,074.8**	784.0	617.7
Occupancy and equipment-related expenses	10, 11, 12, 25	**911.8**	865.4	775.2	**49.7**	50.1	58.9
Taxes and licenses	22	**345.2**	268.9	245.5	**320.2**	246.6	227.5
Employee benefits	20	**235.7**	227.0	220.7	**235.7**	227.0	220.7
Litigation/assets acquired expenses		**14.3**	41.6	30.0	**14.3**	41.6	29.9
Impairment and credit losses	8, 9, 11, 12	**1.0**	63.5	50.0	**0.8**	63.5	50.0
Other expenses	21	**117.0**	120.5	108.7	**115.8**	119.0	108.4
		2,795.2	2,437.2	2,103.6	**1,811.3**	1,531.8	1,313.1
PROFIT BEFORE TAX		**420.3**	719.3	750.7	**420.1**	710.0	715.8
TAX EXPENSE	22	**89.6**	148.8	180.7	**89.4**	139.5	145.8
NET PROFIT		**P 330.7**	P 570.5	P 570.0	**P 330.7**	P 570.5	P 570.0
Basic and Diluted Earnings Per Share	23	**P 0.15**	P 0.26	P 0.26	**P 0.15**	P 0.26	P 0.26

See Notes to Financial Statements.

BDO LEASING AND FINANCE, INC. AND SUBSIDIARY
(A Subsidiary of BDO Unibank, Inc.)
STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Millions of Philippine Pesos)

		Group			Parent Company		
	Notes	**2018**	2017	2016	**2018**	2017	2016
NET PROFIT		**P 330.7**	P 570.5	P 570.0	**P 330.7**	P 570.5	P 570.0
OTHER COMPREHENSIVE INCOME							
Item that will not be reclassified subsequently to profit or loss							
Fair valuation of equity investments at fair value through other comprehensive income (FVOCI):							
Fair value losses during the year	8	**(450.5)**	-	-	**(450.5)**	-	-
Fair value losses on disposed financial assets at FVOCI	8	**135.7**	-	-	**135.7**	-	-
Remeasurements of post-employment defined benefit plan	20	**(1.6)**	(24.2)	(9.5)	**(1.6)**	(24.2)	(9.5)
Share in other comprehensive income of an associate accounted for under equity method	12	0.4	-	-	0.4	-	-
		(316.0)	(24.2)	(9.5)	**(316.0)**	(24.2)	(9.5)
Tax income	22	**4.6**	7.3	2.9	**4.6**	7.3	2.9
		(311.4)	(16.9)	(6.6)	**(311.4)**	(16.9)	(6.6)
Item that will be reclassified subsequently to profit or loss							
Fair value losses on debt instruments at FVOCI	8	**(54.5)**	-	-	**(54.5)**	-	-
Fair valuation of available-for-sale (AFS) financial assets:							
Fair value losses during the year	8	**-**	(28.2)	(4.0)	**-**	(28.2)	(4.0)
Fair value gains on matured and disposed AFS financial assets reclassified to profit or loss	8	**-**	(0.2)	(0.7)	**-**	(0.2)	(0.7)
		(54.5)	(28.4)	(4.7)	**(54.5)**	(28.4)	(4.7)
Tax income	22	**-**	0.1	0.6	**-**	0.1	0.6
		(54.5)	(28.3)	(4.1)	**(54.5)**	(28.3)	(4.1)
Other Comprehensive Loss - net of tax		**(365.9)**	(45.2)	(10.7)	**(365.9)**	(45.2)	(10.7)
TOTAL COMPREHENSIVE INCOME (LOSS)		**(P 35.20)**	P 525.3	P 559.3	**(P 35.20)**	P 525.3	P 559.3

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, 2018, 2017 AND 2016
(Amounts in Millions of Philippine Pesos)

		Group										
						Net Unrealized Fair Value Gains (Losses) on			Retained Earnings			
	Notes	Capital Stock	Additional Paid-in Capital	Treasury Shares, At Cost	Net Accumulated Actuarial Losses	Financial Assets at Other Comprehensive Income	Available-for-Sale Financial Assets	Accumulated Share in Other Comprehensive Income of Associate	Reserves	Free	Total	Net Equity
Balance at January 1, 2018												
As previously reported		P 2,225.2	P 571.1	(P 81.8)	(P 59.7)	P -	P 169.0	P -	P -	P 2,618.5	P 2,618.5	P 5,442.3
Effects of adoption of PFRS 9	2	-	-	-	-	170.2	(169.0)	-	142.6	8.3	150.9	152.1
As restated		P 2,225.2	P 571.1	(81.8)	(59.7)	170.2	-	-	142.6	2,626.8	2,769.4	5,594.4
Total comprehensive income (loss)		-	-	-	(1.1)	(365.2)	-	0.4	-	330.7	330.7	(35.2)
Cash dividends	17	-	-	-	-	-	-	-	-	(216.2)	(216.2)	(216.2)
Appropriation	17	-	-	-	-	-	-	-	4.4	(4.4)	-	-
Balance at December 31, 2018		**P 2,225.2**	**P 571.1**	**(P 81.8)**	**(P 60.8)**	**(P 195.0)**	**P -**	**P 0.4**	**P 147.0**	**P 2,736.9**	**P 2,883.9**	**P 5,343.0**
Balance at January 1, 2017		P 2,225.2	P 571.1	(P 81.8)	(P 42.8)	P -	P 197.3	P -	P -	P 2,480.5	P 2,480.5	P 5,349.5
Total comprehensive income (loss)		-	-	-	(16.9)	-	(28.3)	-	-	570.5	570.5	525.3
Cash dividends	17	-	-	-	-	-	-	-	-	(432.5)	(432.5)	(432.5)
Balance at December 31, 2017		P 2,225.2	P 571.1	(P 81.8)	(P 59.7)	P -	P 169.0	P -	P -	P 2,618.5	P 2,618.5	P 5,442.3
Balance at January 1, 2016		P 2,225.2	P 571.1	(P 81.8)	(P 36.2)	P -	P 201.4	P -	P -	P 2,343.0	P 2,343.0	P 5,222.7
Total comprehensive income (loss)		-	-	-	(6.6)	-	(4.1)	-	-	570.0	570.0	559.3
Cash dividends	17	-	-	-	-	-	-	-	-	(432.5)	(432.5)	(432.5)
Balance at December 31, 2016		P 2,225.2	P 571.1	(P 81.8)	(P 42.8)	P -	P 197.3	P -	P -	P 2,480.5	P 2,480.5	P 5,349.5

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, 2018, 2017 AND 2016
(Amounts in Millions of Philippine Pesos)

		Parent Company										
						Net Unrealized Fair Value Gains (Losses) on						
	Notes	Capital Stock	Additional Paid-in Capital	Treasury Shares, At Cost	Net Accumulated Actuarial Losses	Financial Assets at Other Comprehensive Income	Available-for-Sale Financial Assets	Accumulated Share in Other Comprehensive Income of Associate	Reserves	Retained Earnings Free	Retained Earnings Total	Net Equity
Balance at January 1, 2018												
As previously reported		P 2,225.2	P 571.1	(P 81.8)	(P 59.7)	P -	P 169.0	P -	P -	P 2,618.5	P 2,618.5	P 5,442.3
Effects of adoption of PFRS 9	2	-	-	-	-	170.2	(169.0)	-	142.6	8.3	150.9	152.1
As restated		2,225.2	571.1	(81.8)	(59.7)	170.2	-	-	142.6	2,626.8	2,769.4	5,594.4
Total comprehensive income (loss)		-	-	-	(1.1)	(365.2)	-	0.4	-	330.7	330.7	(35.2)
Cash dividends	17	-	-	-	-	-	-	-	-	(216.2)	(216.2)	(216.2)
Appropriation	17	-	-	-	-	-	-	-	4.4	(4.4)	-	-
Balance at December 31, 2018		**P 2,225.2**	**P 571.1**	**(P 81.8)**	**(P 60.8)**	**(P 195.0)**	**P -**	**P 0.4**	**P 147.0**	**P 2,736.9**	**P 2,883.9**	**P 5,343.0**
Balance at January 1, 2017		P 2,225.2	P 571.1	(P 81.8)	(P 42.8)	P -	P 197.3	P -	P -	P 2,480.5	P 2,480.5	P 5,349.5
Total comprehensive income (loss)		-	-	-	(16.9)	-	(28.3)	-	-	570.5	570.5	525.3
Cash dividends	17	-	-	-	-	-	-	-	-	(432.5)	(432.5)	(432.5)
Balance at December 31, 2017		P 2,225.2	P 571.1	(P 81.8)	(P 59.7)	P -	P 169.0	P -	P -	P 2,618.5	P 2,618.5	P 5,442.3
Balance at January 1, 2016		P 2,225.2	P 571.1	(P 81.8)	(P 36.2)	P -	P 201.4	P -	P -	P 2,343.0	P 2,343.0	P 5,222.7
Total comprehensive income (loss)		-	-	-	(6.6)	-	(4.1)	-	-	570.0	570.0	559.3
Cash dividends	17	-	-	-	-	-	-	-	-	(432.5)	(432.5)	(432.5)
Balance at December 31, 2016		P 2,225.2	P 571.1	(P 81.8)	(P 42.8)	P -	P 197.3	P -	P -	P 2,480.5	P 2,480.5	P 5,349.5

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, 2018, 2017 AND 2016
(Amounts in Millions of Philippine Pesos)

		Group			Parent Company		
	Notes	**2018**	2017	2016	**2018**	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit before tax		**P 420.3**	P 719.3	P 750.7	**P 420.1**	P 710.0	P 715.8
Adjustments for:							
Interest received		**2,000.8**	1,911.5	1,763.0	**2,000.4**	1,911.5	1,762.7
Interest and discounts	7, 8, 9, 20	**(1,967.1)**	(1,918.3)	(1,760.7)	**(1,966.7)**	(1,917.9)	(1,760.4)
Interest and financing charges	14	**1,170.2**	850.3	673.5	**1,074.8**	784.0	617.7
Interest and financing charges paid		**(1,167.5)**	(850.8)	(674.8)	**(1,076.3)**	(784.5)	(619.0)
Depreciation and amortization	10, 11, 12	**881.5**	836.2	738.0	**20.1**	21.7	22.9
Dividend income	8, 18	**(206.0)**	(215.2)	(150.3)	**(206.0)**	(215.2)	(150.3)
Gain on sale of property and equipment and investment properties	18	**(42.2)**	(65.1)	(20.2)	**(17.4)**	(59.1)	(9.5)
Equity share in net earnings of a subsidiary and an associate	12	**39.0**	13.5	19.9	**49.5**	(6.8)	(81.3)
Reversal of impairment losses	13	**(10.4)**	-	-	**(10.4)**	-	-
Day-one gain - net	18	**(13.2)**	(4.8)	(2.5)	**(4.5)**	6.1	(0.1)
Impairment and credit losses	8, 9 , 11, 12	**1.0**	63.5	50.0	**0.8**	63.5	50.0
Gain on sale of available-for-sale (AFS) financial assets	8	**-**	-	(1.5)	**-**	-	(1.5)
Operating profit before changes in operating assets and liabilities		**1,106.4**	1,340.1	1,385.1	**284.4**	513.3	547.0
Increase (decrease) in loans and other receivables		**95.2**	(2,992.7)	(3,951.2)	**142.3**	(2,664.0)	(3,879.2)
Decrease (increase) in other assets		**(49.7)**	(8.8)	(354.8)	**(45.9)**	(36.1)	(67.2)
Increase (decrease) in accounts payable and other liabilities		**(294.7)**	222.7	280.5	**(203.0)**	256.2	136.0
Increase in lease deposits		**654.2**	413.2	599.9	**630.2**	398.6	594.6
Cash generated from (used) in operations		**1,511.4**	(1,025.5)	(2,040.5)	**808.0**	(1,532.0)	(2,668.8)
Cash paid for income taxes		**(112.0)**	(163.2)	(159.2)	**(112.0)**	(163.2)	(159.2)
Net Cash From (Used) in Operating Activities		**1,399.4**	(1,188.7)	(2,199.7)	**696.0**	(1,695.2)	(2,828.0)
CASH FLOWS FROM INVESTING ACTIVITIES							
Acquisitions of property and equipment	10	**(895.1)**	(782.6)	(937.0)	**(6.2)**	(6.1)	(2.0)
Proceeds from redemption of financial assets at fair value through other comprehensive income	8	**680.0**	251.2	15.4	**680.0**	251.2	15.4
Receipt of cash dividends	8, 21	**194.4**	209.7	126.6	**229.4**	269.7	126.6
Proceeds from disposal of property and equipment and investment properties	10, 11	**169.6**	224.6	82.4	**37.8**	135.0	20.6
Addition in investment properties	11	**(14.7)**	(4.7)	-	**(14.7)**	(4.7)	(3.7)
Acquisition of AFS financial assets	8	**-**	(1,400.0)	-	**-**	(1,400.0)	-
Acquisition of equity investments	12	**-**	-	-	**-**	-	(300.0)
Net Cash From (Used) in Investing Activities		**134.2**	(1,501.8)	(712.6)	**926.3**	(754.9)	(143.1)
CASH FLOWS FROM FINANCING ACTIVITIES							
Payments of bills payable	14	**(174,115.4)**	(163,410.9)	-	**(161,900.3)**	(156,127.7)	-
Availments of bills payable	14	**172,614.9**	166,621.1	3,383.0	**160,345.9**	159,093.9	3,395.2
Payments of cash dividends	17	**(216.2)**	(432.5)	(432.5)	**(216.2)**	(432.5)	(432.5)
Net Cash From (Used) in Financing Activities		**(1,716.7)**	2,777.7	2,950.5	**(1,770.6)**	2,533.7	2,962.7
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(183.1)	87.2	38.2	**(148.3)**	83.6	(8.4)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**457.7**	370.5	332.3	**376.8**	293.2	301.6
CASH AND CASH EQUIVALENTS AT END OF YEAR	7	**P 274.6**	P 457.7	P 370.5	**P 228.5**	P 376.8	P 293.2

Supplemental Information on Non-cash Investing Activities:

1. The Group reclassified certain items of Other Assets account to/from Property and Equipment account (see Notes 10 and 12).

2. The Group and the Parent Company reclassified Allowance for impairment from certain Investment Properties account to Non-currents assets held-for-sale under Other Assets account and to Accounts Receivables under Loans and Other Receivables account (see Notes 9, 11, and 12).

See Notes to Financial Statements.

BDO LEASING AND FINANCE, INC. AND SUBSIDIARY
(A Subsidiary of BDO Unibank, Inc.)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Millions of Philippine Pesos, Except Per Share Data, Exchange Rates and as Indicated)

1. CORPORATE INFORMATION

1.1 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 or Subsidiary), 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 39th Floor, BDO Corporate Center Ortigas, 12 ADB Avenue, Ortigas Center, Mandaluyong City. As of December 31, 2018, 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.

1.2 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, 2018 (including the comparative financial statements as of December 31, 2017 and for the years ended December 31, 2017 and 2016) were authorized for issue by the Parent Company's Board of Directors (BOD) on February 20, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 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 and the Parent Company present the statement of comprehensive income separate from the statement of income.

The Group and the Parent Company present 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.

In 2018, the Group and the Parent Company adopted PFRS 9, *Financial Instruments*, which was applied using the transitional relief allowed by the standard. This allows the Group and the Parent Company not to restate its prior periods' financial statements. Differences arising from the adoption of PFRS 9 in relation to classification and measurement and impairment of financial assets are recognized in the opening balance of Retained Earnings (or other component of equity, as appropriate) in the current year [see Note 2.2(a)(ii)].

Further, the Group and the Parent Company adopted PFRS 15, *Revenue from Contracts with Customers*, which was applied using the modified retrospective approach. However, such adoption did not result in material retrospective restatements to the balance of Retained Earnings as at January 1, 2018 [see Note 2.2(a)(iii)].

Accordingly, the adoption of these two new accounting standards did not require the Group and the Parent Company to present its third statement of financial position.

The table below shows the impact of the adoption of PFRS 9 to the total equity of the Group and the Parent Company as at January 1, 2018.

	Effects on				
			Net Unrealized Fair Value Gains on		
	Retained Earnings		Financial Assets At Fair Value Through Other Comprehensive Income (FVOCI)	Available-for-Sale (AFS) Financial Assets	Total Equity
Measurement Category	**Free**	**Reserves**			
Balances at December 31, 2017 under PAS 39	P 2,618.5	P -	P -	P 169.0	P 5,442.3
Impact of PFRS 9 [see Note 2.2(a)(ii)]					
Reversal of allowance for impairment on loans and other receivables	144.8	-	-	-	144.8
Appropriation of retained earnings for general loan loss provision per Bangko Sentral ng Pilipinas (BSP) requirement	(142.6)	142.6	-	-	-
Share on the impact of adoption of PFRS 9 of associate	7.3	-	-	-	7.3
Recognition of allowance for impairment on debt securities classified as financial assets at FVOCI	(1.2)	-	1.2	-	-
Effect of reclassification of AFS financial assets to FVOCI	-	-	169.0	(169.0)	-
Total impact of adoption of PFRS 9	8.3	142.6	170.2	(169.0)	152.1
Balances at January 1, 2018 under PFRS 9 (2014)	**P 2,626.8**	**P 142.6**	**P 170.2**	**P -**	**P 5,594.4**

(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.

2.2 *Adoption of New and Amended PFRS*

(a) *Effective in 2018 that are Relevant to the Group*

The Group adopted for the first time the following new PFRS, amendments, interpretation and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2018:

PAS 40 (Amendment)	:	Investment Property – Reclassification to and from Investment Property
PFRS 9	:	Financial Instruments
PFRS 15	:	Revenue from Contracts with Customers; Clarifications to PFRS 15

International Financial Reporting Interpretations Committee (IFRIC) 22	:	Foreign Currency Transactions and Advance Consideration
Annual Improvements to PFRS (2014-2016 Cycle) PAS 28 (Amendments)	:	Investment in Associates – Clarification on Fair Value Through Profit or Loss Classification

Discussed below are the relevant information about these standards, interpretation and improvements.

(i) PAS 40 (Amendment), *Investment Property – Reclassification to and from Investment Property*. 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. The application of this amendment has no impact on the Group's financial statements.

(ii) PFRS 9, *Financial Instruments* (issued in 2014). This new standard on financial instruments will replace PAS 39, *Financial Instruments: Recognition and Measurement,* and PFRS 9 issued in 2009, 2010 and 2013. 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, i.e., financial assets at amortized costs, fair value through profit and loss (FVTPL) and FVOCI;

- an expected credit loss (ECL) model in determining impairment of all debt financial assets that are not measured at FVTPL, which generally depends on whether there has been a significant increase in credit risk since initial recognition of such financial assets; 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.

The Group's new accounting policies relative to the adoption of PFRS 9 is fully disclosed in Note 2.5.

The impact of the adoption of this new accounting standard to the Group's and the Parent Company's financial statements are as follows:

a. *Investment Securities Reclassified to Financial Asset at FVOCI from AFS Financial Assets*

   The Group and the Parent Company reclassified to Financial Assets at FVOCI its equity and debt securities amounting to P2,575.0 and P2,067.0, respectively, as of January 1, 2018, which were previously classified as AFS financial assets. The related Net Unrealized Fair Value Gains on AFS Financial Assets amounting to P169.0 was accordingly reclassified to Net Unrealized Fair Value Gains on Financial Assets at FVOCI [see Note 2.1(b)].

   The Group and the Parent Company elected to irrevocably designate its equity securities at FVOCI as the assets are now held by the Group for long-term investments and are neither held-for-trading nor designated as at FVTPL. On the other hand, the Group's debt securities were determined that the investment objective of the business model is to hold these investments to collect the contractual cash flows, and sell but are held for long-term strategic investment and are not expected to be traded in the short-to-medium term. In addition, the Group determined the ECL for these securities based on the ECL model developed by the Group [see Note 2.2(a)(ii)c].

b. *Credit Losses on Loans and Receivables*

   The application of the ECL methodology based on the stages of impairment assessment for loans and other receivables resulted in the reversal of allowance for impairment amounting P144.8, with the adjustment credited to the opening balance of Retained Earnings Free account [see Note 2.1(b)]. Moreover, as prescribed by the BSP, the Group appropriated P142.6 for general loan loss provisions (GLLP). Such appropriation is presented under Retained Earnings Reserves account [see Notes 2.1(b) and 17.5].

c. *Credit Losses on Investment in Debt Securities*

   All of the Group's investment in debt securities reclassified as part of Financial Assets at FVOCI as at January 1, 2018 are considered to have low credit risk, and the loss allowance recognized was therefore limited to 12-month expected credit loss. Management considers 'low credit risk' for listed bonds to be an investment grade credit rating with at least one reputable rating agency. Other instruments are considered to have low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term. Nevertheless, due to application of ECL methodology, an allowance for impairment was recognized on debt securities at FVOCI as at January 1, 2018 amounting to P1.2 and was adjusted against the opening balance of Net Unrealized Fair Value Gains on Financial Assets at FVOCI [see Note 2.1(b)].

d. *Adoption of PFRS 9 of an Associate*

The Group recognized its share amounting to P7.3 for the effect of PFRS 9 adoption by an associate [see Note 2.1(b)].

The table below summarizes the effects of the adoption of PFRS 9 (2014) in the carrying amounts and presentation of the categories of the affected financial assets accounts in the statement of financial position as at January 1, 2018. The adoption of PFRS 9 has no significant impact on the Group's financial liabilities.

Measurement Category	Notes	Carrying Value PAS 39 December 31, 2017	Reclassification	Remeasurement	Carrying Value PFRS 9 January 1, 2018
Investment securities:					
AFS financial assets	a	P 4,642.0	(P 4,642.0)	P -	P -
Financial assets at FVOCI	a	-	4,642.0	-	4,642.0
Financial assets at amortized cost – Loans and other receivables					
Gross amount		35,030.8	-	-	35,030.8
Allowance for impairment	b	(706.1)	-	144.8	(561.3)
Total		**P 38,966.7**	**P -**	**P 144.8**	**P 39,111.5**

(iii) PFRS 15, *Revenue from Contract with Customers,* together with the *Clarifications to PFRS 15* (herein referred to as PFRS 15). This standard replaces PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: 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.

The Group's significant sources of revenue pertain to its lending and rental activities which generate interest income, rent revenue and service fees. Except for certain service fees, significant amount of the Group's revenues are out of scope of PFRS 15. Recognition and measurement of revenue streams within the scope of PFRS 15 did not vary from PAS 18.

The Group's adoption of PFRS 15 has resulted in changes in its accounting policies (see Note 2.14). The adoption of the new standard has no material impact on the Group's financial statements.

(iv) IFRIC 22, *Foreign Currency Transactions and Advance Consideration – Interpretation on Foreign Currency Transactions and Advance Consideration*. 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. The application of this interpretation has no impact on the Group's financial statements.

(v) Annual Improvements to PFRS 2014-2016 Cycle. Among the improvements, PAS 28 (Amendments), *Investment in Associates – Clarification on Fair Value through Profit or Loss Classification,* is relevant to the Group but had no material impact on the Group's financial statements as these amendments merely clarify existing requirements. The amendments clarify that the option for venture capital organization, mutual funds and other similar entities to elect the fair value through profit or loss classification in measuring investments in associates and joint ventures shall be made at initial recognition, separately for each associate or joint venture.

(b) Effective in 2018 that are not Relevant to the Group

The following amendments to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2018 but are not relevant to the Group's financial statements:

PFRS 2 (Amendments)	:	Share-based Payment – Classification and Measurement of Share-based Payment Transactions
PFRS 4 (Amendments)	:	Insurance Contracts – Applying PFRS 9 with PFRS 4
Annual Improvements to PFRS (2014-2016 Cycle)		
PFRS 1 (Amendments)	:	First-time Adoption of Philippine Financial Reporting Standards – Deletion of Short-Term Exemptions

(c) Effective Subsequent to 2018 but not Adopted Early

There are new PFRS, interpretation, amendments and annual improvements to existing standards effective for annual periods subsequent to 2018, which are adopted by the FRSC. Management will adopt the relevant pronouncements presented in the succeeding pages in accordance with their transitional provisions.

(i) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement* (effective January 1, 2019). The amendments require the use of updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability (asset). Management is currently assessing the impact of this amendment on the Group's financial statements.

(ii) PAS 28 (Amendments), Investment in Associates – Long-term Interest in Associates and Joint Venture (effective from January 1, 2019). The amendments clarify that the scope exclusion in PFRS 9 applies only to ownership interests accounted for using the equity method. Thus, the amendments further clarify 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, 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 amendment on the Group's financial statements.

(iii) PFRS 9 (Amendments), Financial Instruments – Prepayment Features with Negative Compensation (effective from January 1, 2019). The amendments clarify that prepayment features with negative compensation attached to financial instruments may still qualify under the "solely payments of principal and interests" (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVOCI. Management initially assessed that this amendment will not affect the Group's financial statements since it has no financial instruments having prepayment features with negative compensation.

(iv) PFRS 16, Leases (effective from January 1, 2019). The new standard will eventually replace PAS 17, Leases, and its related interpretation IFRIC 4, Determining Whether an Arrangement Contains a Lease. 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.

The management plans to adopt the modified retrospective application of PFRS 16 where the cumulative effect of initially applying the standard will be recognized as an adjustment to the opening balance of Retained Earnings account at the date of initial application. The Group will elect to apply the standard to contracts that were previously identified as leases applying PAS 17 and IFRIC 4 at the date of initial application. Management is currently assessing the financial impact of this new standard on the Group's financial statements.

(v) 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 Group 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 Group 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 interpretation on the Group's financial statements.

(vi) 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 of 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. The Group is currently assessing the impact of these amendments in its financial statements.

(vii) Annual Improvements to PFRS 2015-2017 Cycle (effective from January 1, 2019). 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 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 – Remeasurement of Previously Held Interests in a Joint Operation.* The amendments clarify that previously held interest in a joint operation shall be remeasured when the Group obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Group obtains joint control of the business.

2.3 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 over which the Parent Company has the power to control the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Parent Company controls another entity. The Parent Company obtains and exercises control when (i) it has 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, usually through voting rights. 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. Acquisition method requires recognizing and measuring the identifiable resources 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.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date 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 as a gain in profit or loss.

Investment in a subsidiary is initially recognized at cost and subsequently accounted for using the equity method in the Parent Company's financial statements.

(b) *Investment in an Associate*

An associate is an entity over which the Parent Company has 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 associates 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 (see Note 2.17).

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 associates 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 Note 12).

2.4 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 financial statements.

In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

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

2.5 Financial Assets and Financial Liabilities

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental or directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

(a) Classification, Measurement and Reclassification of Financial Assets in Accordance with PFRS 9

Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described below and in the succeeding pages.

(i) Financial Assets at Amortized Cost

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Group's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and,

- the contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI on the principal amount outstanding.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

Where the business model is to hold assets to collect contractual cash flows, the Group assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement [(see Note 3.1(d)]. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

The Group's financial assets at amortized cost are presented in the statement of financial position as Cash and Cash Equivalents and Loans and Other Receivables. 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.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the statement of income as part of Interest and Discounts.

(ii) Financial Assets at Fair Value Through Other Comprehensive Income

The Group accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective is to hold to collect the associated cash flows and sell ("hold to collect and sell"); and,

- the contractual terms of the financial assets give rise to cash flows that are SPPI on the principal amount outstanding.

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Group for trading or as mandatorily required to be classified as FVTPL. The Group has designated all equity instruments as at FVOCI on initial application of PFRS 9.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value, including the foreign exchange component, are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported as Net Unrealized Fair Value Gains (Losses) on Financial Assets at FVOCI account in equity. When the asset is disposed of, the cumulative gain or loss previously recognized in the Net Unrealized Fair Value Gains (Losses) on Financial Assets at FVOCI account is not reclassified to profit or loss but is reclassified directly to Retained Earnings account, except for those debt securities classified as FVOCI wherein cumulative fair value changes are recycled back to profit or loss.

Any dividends earned on holding equity instruments are recognized in profit or loss as part of Other Income account, when the Group's right to receive dividends is established, it is probable that the economic benefits associated with the dividend will flow to the Group, and, the amount of the dividend can be measured reliably, unless the dividends clearly represent recovery of a part of the cost of the investment.

(iii) Financial Assets at Fair Value Through Profit or Loss

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at FVTPL, if any. Further, irrespective of business model, financial assets whose contractual cash flows are not SPPI are accounted for at FVTPL. Also, equity securities are classified as financial assets at FVTPL, unless the Group designates an equity investment that is not held for trading as at FVOCI at initial recognition.

Financial assets at FVTPL are measured at fair value with gains or losses recognized in the statements of profit or loss, if any. The fair values of these financial assets are determined by reference to active market transactions or using a valuation technique where no active market exists.

The Group can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Group is required to reclassify financial assets: (i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the Group's business model will take effect only at the beginning of the next reporting period following the change in the business model.

(b) Classification, Measurement and Reclassification of Financial Assets in Accordance with PAS 39

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

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 Other Receivables

Loans and other 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 other 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 other 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 Net 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.

(c) Effective Interest Rate Method and Interest Income

Under both PFRS 9 and PAS 39, Interest income is recorded using the effective interest rate (EIR) method for all financial instrument measured at amortized cost. Interest income on interest bearing financial assets measured at FVOCI under PFRS 9, similar to interest bearing financial assets classified as AFS under PAS 39, are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of EIR. The Group recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive (negative) adjustment to the carrying amount of the asset in the balance sheet with an increase (reduction) in Interest income. The adjustment is subsequently amortized through interest and similar income in the statement of income.

The Group calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

For financial assets that have become credit-impaired subsequent to initial recognition [see Note 2.5(d)], interest income is calculated by applying the effective interest rate to the net carrying amount of the financial assets (after deduction of the loss allowance). If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying a credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

(d) Impairment of Financial Assets Under PFRS 9

From January 1, 2018, the Group assesses its ECL on a forward-looking basis associated with its financial assets at amortized cost and debt securities measured at FVOCI. Recognition of credit losses is no longer dependent on Group's identification of a credit loss event. Instead, the Group considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following financial instruments for which they are measured as 12-month ECL:

- debt securities that are identified to have 'low credit risk' at the reporting date; and,
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

For these financial instruments, the allowance for credit losses is based on 12-month ECL associated with the probability of default of a financial instrument in the next 12 months (referred to as 'Stage 1' financial instruments). Unless there has been a significant increase in credit risk subsequent to the initial recognition of the financial asset, a lifetime ECL (which are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial asset) will be recognized (referred to as 'Stage 2' financial instruments). 'Stage 2' financial instruments also include those loan accounts and facilities where the credit risk has improved and have been reclassified from 'Stage 3'. A lifetime ECL shall be recognized for 'Stage 3' financial instruments, which include financial instruments that are subsequently credit-impaired, as well as purchased or originated credit impaired (POCI) assets.

The Group's definition of credit risk and information on how credit risk is mitigated by the Group are disclosed in Note 5.3.

Measurement of ECL

The key elements used in the calculation of ECL are as follows:

- *Probability of default (PD)* – it is an estimate of likelihood of a borrower defaulting on its financial obligation (see Note 5.3) over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation.

- *Loss given default (LGD)* – it is an estimate of loss arising in case where a default occurs at a given time (either over the next 12 months or 12-month LGD, or over the remaining lifetime or lifetime LGD). It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Group would expect to receive, including the realization of any collateral. It is presented as a percentage loss per unit of exposure at the time of default.

- *Exposure at default (EAD)* – it represents the gross carrying amount of the financial instruments subject to the impairment calculation; hence, this is the amount that the Group expects to be owed at the time of default over the next 12 months (12-month EAD) or over the remaining lifetime (lifetime EAD). In case of a loan commitment, the Group shall include the undrawn balance (up to the current contractual limit) at the time of default should it occur.

The measurement of the ECL reflects: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and, (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

The Group's detailed ECL measurement, as determined by the management, is disclosed in Note 5.3.

(e) *Impairment of Financial Assets Under PAS 39*

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) 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:

- Clean loans and advances past due for a period of more than six months;
- 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;
- Past due loans secured by real estate mortgage the title to which is subject to an adverse claim rendering settlement through foreclosure doubtful;
- When the borrower, and his co-maker or guarantor, is insolvent or where their whereabouts is unknown, or their earning power is permanently impaired;
- Accrued interest receivable that remains uncollected after six months from the maturity date of the loan to which it accrues; and,
- 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) 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.

(iii) Carried at cost

The Group assesses at the end of each reporting period whether there is objective evidence that any of the unquoted equity securities (investments in perpetual notes) which are carried at cost and for which objective evidence of impairment exists. The amount of impairment loss is the difference between the carrying amount of the equity security and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset. Impairment losses on assets carried at cost cannot be reversed.

(f) Derecognition of Financial Assets

(i) Modification of loans

When the Group derecognizes a financial asset through renegotiation or modification of contractual cash flows of loans to customers, the Group assesses whether or not the new terms are substantially different to the original terms. The Group considers, among others:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- Whether any substantial new terms are introduced that will affect the risk profile of the loan;
- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate;
- Change in the currency the loan is denominated in; and/or,
- Insertion of collateral, other security or credit enhancements that will significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognizes the financial asset and recognizes a "new" asset at fair value, and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are as gain or loss on derecognition of financial assets in profit or loss. As to the impact on ECL measurement, the expected fair value of the "new" asset is treated as the final cash flow from the existing financial asset at the date of derecognition. Such amount is included in the calculation of cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows of the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets). As to the impact on ECL measurement, the derecognition of the existing financial asset will result in the expected cash flows arising from the modified financial asset to be included in the calculation of cash shortfalls from the existing financial asset.

(ii) Derecognition of financial assets other than modification

A financial asset (or where applicable, a part of a financial asset or part of a group of financial assets) is 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 a collateralized borrowing for the proceeds received.

(g) Classification and Measurement of Financial Liabilities

As the accounting for financial liabilities remains largely the same under PFRS 9 compared to PAS 39, the Group's financial liabilities were not impacted by the adoption of PFRS 9. However, for completeness, the accounting policy is disclosed below and in the succeeding page.

Financial liabilities include bills payable, accounts payable and other liabilities (except tax-related payables) and lease deposits.

Financial liabilities 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.

(h) Derecognition of Financial Liabilities

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.

2.6 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 to 5 years
Furniture, fixtures and others	3 to 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 2.17).

The residual values and estimated useful lives and method of depreciation and amortization 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 amortization 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.

2.7 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 Notes 3.1(g)].

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 values 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.

2.8 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 that are not held-for-sale in the next 12 months from the end of the reporting period. For these properties, the cost at initial recognition is the properties' fair market value at the date of foreclosure. 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.

2.9 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 2.17. 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 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.

2.11 Provisions and Contingencies

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

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

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

2.12 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.

2.13 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.

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

Net unrealized fair value gains and losses on financial assets at FVOCI (previously as AFS financial assets) pertain to cumulative mark-to-market valuation.

Accumulated share in other comprehensive income of associate pertains to changes resulting from the Group's share in other comprehensive income of associate or items recognized directly in the associates' equity.

Retained earnings reserves pertain to the appropriation of the Retained Earnings – Free account, brought about by cases when the allowance for impairment on 'Stage 1' loan accounts computed under the requirements of PFRS 9 is less than the 1% GLLP required by the BSP. This is in pursuant to BSP Circular No. 1011, *Guidelines on the Adoption of PFRS 9,* which requires financial institutions to set up GLLP equivalent to 1% of all outstanding 'Stage 1' on the statement of financial position.

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

2.14 Other Income and Expense Recognition

In 2017 and prior years, revenue is recognized to the extent that the revenue can be reliably measured; it is probable that future economic benefits will flow to the Group; and the expenses and costs incurred and to be incurred can be measured reliably. In 2018, revenue is recognized only when (or as) the Group satisfies a performance obligation by transferring control of the promised services to the customer. A contract with a customer that results in a recognized financial instrument in the Group's financial statements may be partially within the scope of PFRS 9 and partially within the scope of PFRS 15. In such case, the Group first applies PFRS 9 to separate and measure the part of the contract that is in-scope of PFRS 9, and then applies PFRS 15 to the residual part of the contract. Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on accrual basis.

The Group also earns service fees related to the Group's factoring receivables which are supported by contracts and approved by the parties involved. These revenues are accounted for by the Group in accordance with PFRS 15.

For revenues arising from various financing services which are to be accounted for under PFRS 15, the following provides information about the nature and timing of satisfaction of performance obligations in contracts with customers and the related revenue recognition policies:

(a) *Service fees* – Service fees related to the factoring of receivables are recognized as revenue at the point when services are rendered, i.e., when performance obligation is satisfied. This account is included under Other Income account in the statement of income.

(b) *Income from assets sold or exchanged* – Income from assets sold or exchanged is recognized when the control and title to the properties is transferred to the buyer or when the collectability of the entire sales price is reasonably assured. This account is included under Other Income account in the statement of income.

2.15 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.

2.16 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 financial assets at FVOCI (previously 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.

2.17 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.

2.18 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 interpolated yields of government bonds as calculated by Bloomberg which used BVAL Evaluated Pricing Service to calculate the PHP BVAL Reference Rates. These yields 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 which are published by Philippine Dealing & Exchange Corp. (PDEx).

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 account under Operating Costs and Expenses in the statement of income (see Notes 15 and 20).

2.19 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.

2.20 Income Taxes

Tax expense recognized in profit or loss comprises current tax and deferred 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.

2.21 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.

2.22 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.

2.23 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 JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements in accordance with PFRS requires management to make judgements and estimates that affect the amounts reported in the financial statements and related notes. Judgements 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.

3.1 Critical Management Judgements in Applying Accounting Policies

In the process of applying the Group's accounting policies, management has made the following judgements, 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 judgement 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 judgement 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) Application of ECL to Financial Assets at FVOCI (2018)

The Group uses a provision matrix to calculate ECL for all debt instruments carried at FVOCI. The allowance for impairment is based on the ECLs associated with the PD of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized.

The Group has established a policy to perform an assessment, at the end of each reporting period, whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

(c) Evaluation of Business Model Applied in Managing Financial Instruments (2018)

Upon adoption of PFRS 9, the Group developed business models which reflect how it manages its portfolio of financial instruments. The Group's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Group) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument under PFRS 9, the Group evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Group (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Group's investment and trading strategies.

(d) Testing the Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model (2018)

In determining the classification of financial assets under PFRS 9, the Group assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Group assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Group considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

In addition, PFRS 9 emphasizes that if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, if any, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgement, the Group considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessary inconsistent with a held-to-collect business model if the Group can explain the reasons for those sales and why those sales do not reflect a change in the Group's objective for the business model.

(e) *Impairment of AFS Financial Assets (2017)*

The determination when an investment is other-than-temporarily impaired requires significant judgement. In making this judgement, the Group evaluates, among other factors, the significant or prolonged decline in the fair value of an investment below 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 2017 and 2016 for AFS financial assets.

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

The Group determines whether a property qualifies as investment property. In making its judgement, 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. Judgement 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 judgement.

(g) *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.

(h) Recognition of Provisions and Contingencies

Judgement is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.11 and disclosures on relevant provisions are presented in Note 25.

3.2 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) Estimation of Allowance for ECL (2018)

The measurement of the allowance for ECL on financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 5.3.

The carrying value of financial assets at FVOCI and Loans and other receivables, and the analysis of the allowance for impairment on such financial assets, are shown in Notes 8, 9 and 13, respectively.

(b) Determination of Fair Value Measurement for Financial Assets at FVOCI (2018)

The Group carries certain financial assets at fair value which requires the extensive use of accounting estimates and judgement. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another financial instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument.

The amount of changes in fair value would differ if the Group had utilized different valuation methods and assumptions. Any change in fair value of the financial assets and financial liabilities would affect other comprehensive income.

The carrying values of the Group's financial assets at FVOCI and the amounts of fair value changes recognized are disclosed in Notes 6 and 8, respectively.

(c) Impairment of Loans and Other Receivables (2017)

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 Notes 9 and 13, respectively.

(d) 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 and computer software are presented in Notes 10, 11 and 12, respectively. Based on management's assessment as of December 31, 2018 and 2017, 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.

(e) Impairment of Non-Financial Assets

The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.17. 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, 12 and 13. No impairment loss is recognized for property and equipment (see Note 10).

(f) Determining Fair Value Measurement for AFS Financial Assets (2017)

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 fair values and the carrying values of the Group's AFS financial assets are disclosed in Notes 6 and 8, respectively.

(g) 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.

(h) *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, 2018 and 2017 may be recoverable.

The carrying value of the deferred tax assets (netted against deferred tax liabilities) as at December 31, 2018 and 2017 is disclosed in Note 22.

(i) *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 20.2.

4. SEGMENT REPORTING

4.1 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;
- 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).

4.2 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.

4.3 Intersegment Transactions

Intersegment transactions in 2018 and 2017 pertain to rent income, management fee, as well as dividends earned by the Parent Company from BDO Rental.

4.4 Analysis of Segment Information

Segment information and reconciliation can be analyzed as follows:

	Leasing	Financing	Segment Total	Others	Eliminations	Group
For the Year Ended December 31, 2018						
Statement of Income						
Segment revenues						
External	P 1,833.5	P 998.4	P 2,831.9	P 383.6	P -	P 3,215.5
Inter-segment	-	-	-	35.4	(35.4)	-
	1,833.5	998.4	2,831.9	419.0	(35.4)	3,215.5
Segment expenses						
External	1,593.8	867.9	2,461.7	333.5	-	2,795.2
Inter-segment	-	-	-	0.4	(0.4)	-
	1,593.8	867.9	2,461.7	333.9	(0.4)	2,795.2
Segment results	P 239.7	P 130.5	P 370.2	P 85.1	(P 35.0)	420.3
Tax expense						89.6
Net profit						P 330.7
December 31, 2018						
Statement of Financial Position						
Segment assets	P 22,254.8	P 14,024.5	P 36,279.3	P -	P -	P 36,279.3
Unallocated assets						5,260.9
Total assets						P 41,540.2
Segment liabilities	20,816.9	14,793.3	35,610.1	-	-	P 35,610.1
Unallocated liabilities						587.1
Total liabilities						P 36,197.2
Other segment information :						
Capital expenditures	P 888.9	P -	P 888.9	P 6.2	P -	P 895.1
Depreciation and amortization	P 861.4	P -	P 861.4	P 20.1	P -	P 881.5
Impairment and credit losses	P -	P -	P -	P 1.0	P -	P 1.0

	Leasing	Financing	Segment Total	Others	Eliminations	Group
For the Year Ended December 31, 2017						
Statement of Income						
Segment revenues						
External	P 1,775.7	P 979.3	P 2,755.0	P 401.5	P -	P 3,156.5
Inter-segment	-	-	-	120.4	(120.4)	-
	1,775.7	979.3	2,755.0	521.9	(120.4)	3,156.5
Segment expenses						
External	1,367.5	815.2	2,182.7	254.5	-	2,437.2
Inter-segment	-	-	-	0.4	(0.4)	-
	1,367.5	815.2	2,182.7	254.9	(0.4)	2,437.2
Segment results	P 408.2	P 164.1	P 572.3	P 267.0	(P 120.0)	719.3
Tax expense						148.8
Net profit						P 570.5
December 31, 2017						
Statement of Financial Position						
Segment assets	P 20,498.1	P 15,606.7	P 36,104.8	P 5,897.5	(P 531.2)	P 41,471.1
Unallocated assets						1,370.5
Total assets						P 42,841.6
Segment liabilities	19,400.4	17,066.5	36,466.9	-	-	P 36,466.9
Unallocated liabilities						932.4
Total liabilities						P 37,399.3
Other segment information :						
Capital expenditures	P 776.5	P -	P 776.5	P 6.1	P -	P 782.6
Depreciation and amortization	P 814.5	P -	P 814.5	P 21.7	P -	P 836.2
Impairment and credit losses	P -	P -	P -	P 63.5	P -	P 63.5
For the Year Ended December 31, 2016						
Statement of Income						
Segment revenues						
External	P 1,720.3	P 914.3	P 2,634.6	P 219.7	P -	P 2,854.3
Inter-segment	-	-	-	60.7	(60.7)	-
	1,720.3	914.3	2,634.6	280.4	(60.7)	2,854.3
Segment expenses						
External	1,267.8	673.9	1,941.7	161.9	-	2,103.6
Inter-segment	-	-	-	0.7	(0.7)	-
	1,267.8	673.9	1,941.7	162.6	(0.7)	2,103.6
Segment results	P 452.5	P 240.4	P 692.9	P 117.80	(P 60.0)	750.7
Tax expense						180.7
Net profit						P 570.0

Segment expenses are allocated on the basis of gross income.

Net segment assets are comprised of the following:

	2018	
	Leasing	**Financing**
Receivables	P 15,351.4	P 14,299.2
Residual value of leased assets	6,582.4	-
Unearned income	(1,618.6)	(29.2)
Client's equity	-	(31.6)
	20,315.2	14,238.4
Equipment under lease	2,246.1	-
	22,561.3	14,238.4
Allowance for impairment	(306.5)	(213.9)
	P 22,254.8	**P 14,024.5**

	2017	
	Leasing	Financing
Receivables	P 13,951.7	P 16,022.8
Residual value of leased assets	5,974.4	-
Unearned income	(1,361.1)	(19.4)
Client's equity	-	(33.3)
	18,565.0	15,970.1
Equipment under lease	2,249.5	-
	20,814.5	15,970.1
Allowance for impairment	(316.4)	(363.4)
	P 20,498.1	P 15,606.7

The Group's bills payable, including payable to BDO Unibank, amounting to P28,977.8 and P30,478.3 as of December 31, 2018 and 2017, respectively, is allocated between the leasing and financing segments based on the carrying amounts of receivables of these segments. Deposits on lease amounting to P6,632.3 and P5,988.6 as of December 31, 2018 and 2017, respectively, are included in the leasing segment.

5. RISK MANAGEMENT

Management of the Group's credit risk, liquidity risk, market 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 risks which results from both its operating and investing activities. The Group's risk management is coordinated in close cooperation with the BOD, and focuses on actively securing the Group's short-to-medium term cash flows by minimizing the exposure to financial markets. The Group does not engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described in the succeeding pages.

5.1 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, 2018 and 2017 are as follows:

	2018	2017
Cash and cash equivalents	**P 5.0**	P 7.0
Loans and other receivables	**722.5**	746.6
Bills payable	**(565.6)**	(600.7)
Lease deposits	**(131.2)**	(136.8)
	P 30.7	P 16.1

At December 31, 2018 and 2017, the currency exchange rates used to translate U.S. dollar denominated financial assets and financial liabilities to the Philippine pesos is approximately P52.58 and P49.9, 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 +/-11.8% change and +/-10.8% change of the Philippine peso/U.S. dollar exchange rate at December 31, 2018 and 2017, 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.

	2018		2017	
	Depreciation of Peso	**Appreciation of Peso**	Depreciation of Peso	Appreciation of Peso
Profit before tax	**P 3.6**	**(P 3.6)**	P 1.7	(P 1.7)
Equity	**2.5**	**(2.5)**	1.2	(1.2)

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.

5.2 Interest Rate Risk

At December 31, 2018 and 2017, 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 following table illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates for bills payable of +/-1.5% at December 31, 2018 and +/-0.6% at December 31, 2017 and variable rate loans and other receivables of +/-2.9% at December 31, 2018 and +/-2.4% at December 31, 2017. 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.

	Increase in Interest Rate	Decrease in Interest Rate
2018:		
Loans and other receivables	+2.9%	-2.9%
Bills payable	+1.5%	-1.5%
Group/Parent Company		
Increase (decrease) in:		
Profit before tax	P 11.1	(P 11.1)
Equity	7.7	(7.7)
2017:		
Loans and other receivables	+2.4%	-2.4%
Bills payable	+0.6%	-0.6%
Group/Parent Company		
Increase (decrease) in:		
Profit before tax	P 0.3	(P 0.3)
Equity	0.2	(0.2)

5.3 Credit Risk

Credit risk is the risk that the counterparty in a transaction may default and arises from lending, treasury, and other activities undertaken by the Group. Risk Management Unit (RMU) undertakes several functions with respect to credit risk management including credit analysis, risk ratings for corporate accounts, and development and performance monitoring of credit risk rating and scoring models for both corporate and consumer loans. It also ensures that Group's credit policies and procedures are adequate to meet the demands of the business.

RMU also subjects the loan portfolio to a regular portfolio quality review, credit portfolio stress testing, and rapid portfolio reviews based on specific and potential events that may affect borrowers in particular geographic locations or industries.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a regular basis and subject to an annual or more frequent review. Approval for credit limits are secured from the Credit Committee.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also managed in part by obtaining collateral or corporate and personal guarantees.

5.3.1 Exposure to Credit Risk

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 as necessary, and rated based on internal and external factors that affect its performance. On a monthly 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 as follows:

- 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.

(a) Unclassified

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

(b) 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:

(c) Adversely Classified

(i) Loans Especially Mentioned (LEM)

It is an adverse classification of loans/accounts that have potential weaknesses and deserves management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to the Group.

(ii) Substandard

Accounts classified as "Substandard" are individual credits or portions thereof, that have well-defined weakness/(es) that may jeopardize repayment/liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower.

(iii) Doubtful

Accounts classified as "Doubtful" are individual credits or portions thereof which exhibit more severe weaknesses that those classified as "Substandard" whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable, however, the exact amount remains undeterminable as yet. Classification as "Loss" is deferred because of specific pending factors, which may strengthen the assets.

(iv) 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 are not warranted although the loans may have some recovery or salvage value.

This shall be viewed as a transitional category for loans and other credit accommodations, which have been identified as requiring write-off during the current reporting period 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.

5.3.2 Credit Quality Analysis

The following table sets out information about the credit quality of Loans and Other Receivables, debt investment securities at FVOCI (2018) and AFS debt securities (2017). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. In 2018, the Group and the Parent Company has no financial instruments that are POCI assets.

The following table shows the exposure to credit risk as of December 31, 2018 and 2017 for each internal risk grade and the related allowance for impairment:

Group

		2018				2017
		Stage 1	Stage 2	Stage 3	Total	Total
Receivables from customers - corporate						
Grades AAA to B	: Current	P 24,881.0	P 0.4	P 33.1	P 24,914.5	P 27,078.6
Grade B-	: Watchlisted	539.9	33.4	22.1	595.4	252.8
Grade C	: LEM	-	21.7	33.0	54.7	376.8
Grade D	: Substandard	-	0.4	207.1	207.5	217.6
Grade E	: Doubtful	-	-	283.9	283.9	173.8
Grade F	: Loss	-	-	312.4	312.4	193.6
		25,420.9	55.9	891.6	26,368.4	28,293.2
Expected credit loss allowance		(111.3)	(1.8)	(333.4)	(446.5)	(541.6)
Carrying amount		P 25,309.6	P 54.1	P 558.2	P 25,921.9	P 27,751.6
Receivables from customers - consumer						
Grades AAA to B	: Current	P 7,937.5	P -	P 36.9	P 7,974.4	P 5,998.3
Grade B-	: Watchlisted	-	-	-	-	-
Grade C	: LEM	-	70.7	11.1	81.8	-
Grade D	: Substandard	-	-	33.2	33.2	214.5
Grade E	: Doubtful	-	-	42.8	42.8	72.1
Grade F	: Loss	-	-	116.9	116.9	54.6
		7,937.5	70.7	240.9	8,249.1	6,339.5
Expected credit loss allowance		(23.7)	(3.2)	(47.0)	(73.9)	(138.2)
Carrying amount		P 7,913.8	P 67.5	P 193.9	P 8,175.2	P 6,201.3
Other receivables						
Grades AAA to B	: Current	P 243.0	P -	P -	P 243.0	P 359.5
Grade B-	: Watchlisted	-	-	-	-	-
Grade C	: LEM	-	-	-	-	-
Grade D	: Substandard	-	12.4	4.6	17.0	7.4
Grade E	: Doubtful	-	-	2.3	2.3	3.9
Grade F	: Loss	-	-	23.6	23.6	27.3
		243.0	12.4	30.5	285.9	398.1
Expected credit loss allowance		(0.7)	(0.3)	(29.4)	(30.4)	(26.3)
Carrying amount		P 242.3	P 12.1	P 1.1	P 255.5	P 371.8
Debt investment securities at FVOCI (2018) /AFS debt securities (2017)						
Grades AAA to B	: Current	P 1,119.8	P -	P -	P 1,119.8	P 1,175.0

Parent Company

		2018				2017
		Stage 1	Stage 2	Stage 3	Total	Total
Receivables from customers - corporate						
Grades AAA to B	: Current	P 24,881.0	P 0.4	P 33.1	P 24,914.5	P 27,078.6
Grade B-	: Watchlisted	539.9	33.4	22.1	595.4	252.8
Grade C	: LEM	-	21.7	33.0	54.7	376.8
Grade D	: Substandard	-	0.4	207.1	207.5	217.6
Grade E	: Doubtful	-	-	283.9	283.9	173.8
Grade F	: Loss	-	-	312.4	312.4	193.6
		25,420.9	55.9	891.6	26,368.4	28,293.2
Expected credit loss allowance		(111.3)	(1.8)	(333.4)	(446.5)	(541.6)
Carrying amount		P 25,309.6	P 54.1	P 558.2	P 25,921.9	P 27,751.6

Parent Company

		2018				2017
		Stage 1	Stage 2	Stage 3	Total	Total
Receivables from customers - consumer						
Grades AAA to B	: Current	P 7,937.5	P -	P 36.9	P 7,974.4	P 5,998.3
Grade B$^-$	: Watchlisted	-	-	-	-	-
Grade C	: LEM	-	70.7	11.1	81.8	-
Grade D	: Substandard	-	-	33.2	33.2	214.5
Grade E	: Doubtful	-	-	42.8	42.8	72.1
Grade F	: Loss	-	-	116.9	116.9	54.6
		7,937.5	70.7	240.9	8,249.1	6,339.5
Expected credit loss allowance		(23.7)	(3.2)	(47.0)	(73.9)	(138.2)
Carrying amount		P 7,913.8	P 67.5	P 193.9	P 8,175.2	P 6,201.3
Other receivables						
Grades AAA to B	: Current	P 80.8	P -	P -	P 80.8	P 241.3
Grade B$^-$	: Watchlisted	-	-	-	-	-
Grade C	: LEM	-	-	-	-	-
Grade D	: Substandard	-	9.4	4.6	14.0	7.4
Grade E	: Doubtful	-	-	2.3	2.3	3.9
Grade F	: Loss	-	-	23.5	23.5	27.4
		80.8	9.4	30.4	120.6	280.0
Expected credit loss allowance		(0.7)	(0.3)	(29.2)	(30.2)	(26.3)
Carrying amount		P 80.1	P 9.1	P 1.2	P 90.4	P 253.7
Debt investment securities at FVOCI (2018)/AFS debt securities (2017)						
Grades AAA to B	: Current	P 1,119.8	P -	P -	P 1,119.8	P 1,175.0

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

5.3.3 Concentrations of Credit Risk

The Group and the Parent Company monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk (net of allowance) at the reporting date is shown below.

	2018			2017		
	Cash and Cash Equivalents	Loans and Other Receivables	Financial Assets at FVOCI*	Cash and Cash Equivalents	Loans and Other Receivables	AFS Financial Assets*
Group						
Concentration by sector:						
Financial intermediaries	P 274.6	P 842.2	P -	P 457.7	P 2,653.6	P -
Manufacturing	-	3,587.3	-	-	3,228.3	-
Transportation, communication and energy	-	5,700.0	-	-	4,528.5	-
Wholesale and retail trade and personal activities	-	5,263.5	-	-	4,559.8	-
Real estate, renting and business activities	-	5,710.6	1,119.8	-	5,483.7	1,175.0
Agriculture, fishing and forestry	-	183.3	-	-	242.9	-
Other community, social and personal activities	-	13,065.7	-	-	13,627.9	-
	P 274.6	P 34,352.6	P 1,119.8	P 457.7	P 34,324.7	P 1,175.0
Parent Company						
Concentration by sector:						
Financial intermediaries	P 228.5	P 842.2	P -	P 376.8	P 2,653.6	P -
Manufacturing	-	3,587.3	-	-	3,228.3	-
Transportation, communication and energy	-	5,700.0	-	-	4,528.5	-
Wholesale and retail trade and personal activities	-	5,263.5	-	-	4,559.8	-
Real estate, renting and business activities-	-	5,710.6	1,119.8	-	5,483.7	1,175.0
Agriculture, fishing and forestry	-	183.3	-	-	242.9	-
Other community, social and personal activities	-	12,900.6	-	-	13,509.8	-
	P 228.5	P 34,187.5	P 1,119.8	P 376.8	P 34,206.6	P 1,1175.0

**Financial Assets at FVOCI (2018)/AFS Financial Assets (2017) do not include equity securities.*

5.3.4 Collateral Held as Security and Other Credit Enhancements

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.

Estimate of the fair value of collateral and other security enhancements held against the following credit exposures as of December 31 follows:

	2018	2017
Receivable from customers – corporate		
Real property	**P 5,742.6**	P 7,914.5
Personal property	**40,755.5**	47,554.2
	P 46,498.1	P 55,468.7
Receivable from customers – consumer		
Real property	**P 13,511.0**	P 10,064.8
Personal property	**539.6**	480.7
	P 14,050.6	P 10,545.5
Other receivables		
Real property	**P 113.6**	P 103.9

As of December 31, 2018 and 2017, no collateral is held for cash and cash equivalents and financial assets at FVOCI.

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, 2018 and 2017.

(a) Receivable from Customers – Corporate

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Group generally requests that corporate borrowers provide it. The Group may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

While the Group is focused on corporate customers' creditworthiness, it continuously and regularly updates the valuation of collateral held against all loans to corporate customers. Most frequent updating, however, is required when the loan is put on a watch list and the loan is monitored more closely. The same applies to credit-impaired loans, as the Group obtains appraisals of collateral to provide input into determining the management credit risk actions.

At December 31, 2018 and 2017, the net carrying amount of credit-impaired (loans under Stages 2 and 3) receivables from corporate customers amounted to P612.3 and P485.2, respectively, and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to P656.0 and P1,423.1, respectively. For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

(b) Receivable from Customers – Consumer

The general creditworthiness of an individual customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Group generally requests that individual borrowers provide it. The Group may take collateral in the form of a first charge over real estate, floating charges over all individual assets and other liens and guarantees.

While the Group is focused on individual customers' creditworthiness, it continuously and regularly updates the valuation of collateral held against all loans to individual customers. Most frequent updating, however, is required when the loan is put on a watch list and the loan is monitored more closely. The same applies to credit-impaired loans, as the Group obtains appraisals of collateral to provide input into determining the management credit risk actions.

At December 31, 2018 and 2017, the net carrying amount of credit-impaired (loans under Stage 2 and 3) receivables to individual customers amounted to P261.4 and P282.7, respectively, and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to P495.7 and P397.0, respectively. For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

(c) Other Receivables

The general creditworthiness of an individual customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Group generally requests that individual borrowers provide it. The Group may take collateral in the form of a first charge over real estate, floating charges over all individual assets and other liens and guarantees.

While the Group is focused on individual customers' creditworthiness, it continuously and regularly updates the valuation of collateral held against all loans to individual customers. Most frequent updating, however, is required when the loan is put on a watch list and the loan is monitored more closely. The same applies to credit-impaired loans, as the Group obtains appraisals of collateral to provide input into determining the management credit risk actions.

At December 31, 2018 and 2017, the net carrying amount of credit-impaired receivables to individual customers amounted to P1.6 and P9.2, respectively, and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to P4.5 and P4.3, respectively. For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

5.3.5 Amounts Arising from Expected Credit Losses

At each reporting date, the Group assesses whether Loans and Other Receivables and debt investment securities at FVOCI are credit-impaired (referred to as Stages 2 and 3 financial assets). A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using PD, LGD and EAD.

(a) Significant Increase in Credit Risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information (FLI).

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime PD as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Group uses the following criteria in determining whether there has been a significant increase in credit risk: (i) quantitative test based on movement in PD; and (ii) qualitative indicators, such as substantial decline in sales or intermittent delays in payment;

(i) Credit risk grading

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

The credit grades are defined and calibrated such that the risk of default increases exponentially at each higher risk grade so, for example, the difference PD between an AAA and AA rating grade is lower than the difference in the PD between a B and B- rating grade.

(ii) Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information from external credit reference agencies is also used.

The Group employs statistical models to analyze the data collected and generate the term structure of PD estimates.

(iii) Determining whether credit risk has significantly increased

The Group assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower. What is considered significant varies across financial assets of the Group.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Group's risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as substantial decline in sales and intermittent delays in payments.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

(b) Definition of Default

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Group; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Group considers indicators that are qualitative (e.g. breaches of covenant) and, quantitative (overdue or non-payment).

Inputs into the assessment of whether a financial instrument is in default as well as their significance may vary over time to reflect changes in circumstances.

(c) Forward-looking Information

The Group incorporates FLI into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The relevant macro-economic variables for selection generally include, but are not limited to, gross domestic product growth, unemployment rate, foreign exchange, stock market index, oil prices and interest rates.

Predicted relationships between the key macro-economic indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 10 to 15 years.

The significance of the selected macro-economic variables as predictors of default may change over time as historical information is added. As such, the generated macroeconomic models are updated at least on an annual basis.

Management has also considered other FLIs not incorporated within the above economic scenarios, such as any regulatory, legislative, or political changes, but are not deemed to have a significant impact on the calculation of ECL. Management reviews and monitors the appropriateness of FLIs at least annually.

(d) Modified Financial Assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of its remaining lifetime PD at the reporting date based on the modified terms with the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognized and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Group renegotiates loans to customers in financial difficulties (referred to as 'restructuring') to maximize collection opportunities and minimize the risk of default. Under the Group's restructuring policy, loan restructuring is granted on a selective basis if the debtor is currently in default on its debt; or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Consumer and corporate loans and are subject to restructuring. The Group's Credit Committee regularly reviews reports on restructured activities.

For financial assets modified as part of the Group's restructuring policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, restructuring is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

(e) Measurement of ECL

The key inputs into the measurement of ECL are the term structure of PD, LGD and EAD.

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed in Note 5.3.5(a)(ii) under the heading "Generating the term structure of PD".

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortization. The EAD of a financial asset is its gross carrying amount at the time of default. EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Group considers a longer period.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk gradings;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Group has limited historical data, external benchmark information (e.g. PD from external credit rating agencies, Basel LGD) is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL include exposures to foreign borrowers and low default borrower segments.

(f) Loss Allowance

The following tables show the reconciliation from the opening to the closing balance of the loss allowance by class of financial instrument. Comparative amounts for 2017 represent the allowance account for credit losses and reflect the measurement basis under PAS 39.

Group

	2018				2017
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Total
Receivables from customers – corporate					
Balance at January 1	**P 129.0**	**P 22.7**	**P 324.8**	**P 476.5**	P 537.3
Transfers to:					
Stage 1	**-**	**-**	**-**	**-**	-
Stage 2	**(0.4)**	**0.4**	**-**	**-**	-
Stage 3	**(0.7)**	**(0.5)**	**1.2**	**-**	-
Net remeasurement of loss allowance	**(27.0)**	**(14.2)**	**35.0**	**(6.2)**	17.8
New financial assets originated	**46.0**	**-**	**0.6**	**46.6**	13.5
Derecognition of financial assets	**(35.6)**	**(6.6)**	**(27.9)**	**(70.1)**	(26.7)
Write-offs	**-**	**-**	**(0.3)**	**(0.3)**	(0.3)
Balance at December 31	**P 111.3**	**P 1.8**	**P 333.4**	**P 446.5**	P 541.6
Receivables from customers – consumer					
Balance at January 1	**P 15.2**	**P 1.9**	**P 41.4**	**P 58.5**	P 85.7
Transfers to:					
Stage 1	**9.0**	**(1.5)**	**(7.5)**	**-**	-
Stage 2	**5.5**	**(7.2)**	**1.7**	**-**	-
Stage 3	**(0.5)**	**(0.3)**	**0.8**	**-**	-
Net remeasurement of loss allowance	**(9.3)**	**3.4**	**14.5**	**8.6**	46.3
New financial assets originated	**4.9**	**6.9**	**3.4**	**15.2**	11.2
Derecognition of financial assets	**(1.1)**	**-**	**(7.3)**	**(8.4)**	(5.0)
Balance at December 31	**P 23.7**	**P 3.2**	**P 47.0**	**P 73.9**	P 138.2

	2018 Stage 1	2018 Stage 2	2018 Stage 3	2018 Total	2017 Total
Other receivables					
Balance at January 1	P 0.4	P 0.2	P 25.7	P 26.3	P 5.0
Transfers to:					
Stage 1	(0.1)	-	0.1	-	-
Stage 2	-	(0.2)	0.2	-	-
Stage 3	-	-	-	-	-
Net remeasurement of loss allowance	-	-	3.0	3.0	21.3
New financial assets originated	0.8	0.3	8.0	9.1	-
Derecognition of financial assets	(0.4)	-	(7.6)	(8.0)	-
Balance at December 31	P 0.7	P 0.3	P 29.4	P 30.4	P 26.3

Parent Company

	2018 Stage 1	2018 Stage 2	2018 Stage 3	2018 Total	2017 Total
Receivables from customers – corporate					
Balance at January 1 [see Note 2.2(d)]	P 129.0	P 22.7	P 324.8	P 476.5	P 537.3
Transfers to:					
Stage 1	-	-	-	-	-
Stage 2	(0.4)	0.4	-	-	-
Stage 3	(0.7)	(0.5)	1.2	-	-
Net remeasurement of loss allowance	(27.0)	(14.2)	35.0	(6.2)	17.8
New financial assets originated	46.0	-	0.6	46.6	13.5
Derecognition of financial assets	(35.6)	(6.6)	(27.9)	(70.1)	(26.7)
Write-offs	-	-	(0.3)	(0.3)	(0.3)
Balance at December 31	P 111.3	P 1.8	P 333.4	P 446.5	P 541.6
Receivables from customers – consumer					
Balance at January 1 [see Note 2.2(d)]	P 15.2	P 1.9	P 41.4	P 58.5	P 85.7
Transfers to:					
Stage 1	9.0	(1.5)	(7.5)	-	-
Stage 2	5.5	(7.2)	1.7	-	-
Stage 3	(0.5)	(0.3)	0.8	-	-
Net remeasurement of loss allowance	(9.3)	3.4	14.5	8.6	46.3
New financial assets originated	4.9	6.9	3.4	15.2	11.2
Derecognition of financial assets	(1.1)	-	(7.3)	(8.4)	(5.0)
Balance at December 31	P 23.7	P 3.2	P 47.0	P 73.9	P 138.2
Other receivables					
Balance at January 1 [see Note 2.2(d)]	P 0.4	P 0.2	P 25.7	P 26.3	P 5.0
Transfers to:					
Stage 1	(0.1)	-	0.1	-	-
Stage 2	-	(0.2)	0.2	-	-
Stage 3	-	-	-	-	-
Net remeasurement of loss allowance	-	-	3.0	3.0	21.3
New financial assets originated	0.8	0.3	7.8	8.9	-
Derecognition of financial assets	(0.4)	-	(7.6)	(8.0)	-
Balance at December 31	P 0.7	P 0.3	P 29.2	P 30.2	P 26.3

5.3.6 Impaired Financial Assets – Comparative Information Under PAS 39

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.

	2017	
	Group	Parent
Individually impaired:		
Grade C: EM	P 376.8	P 376.8
Grade D: Substandard	217.6	217.6
Grade E: Doubtful	173.8	173.8
Grade F: Loss	196.0	196.0
Gross amount	964.2	964.2
Collectively Impaired –		
Unclassified	6,737.1	6,619.0
Past due but not impaired:		
Aging of past due		
Below 30 days	77.8	77.8
30-60 days	7.9	7.9
61-90 days	30.1	30.1
91-180 days	23.4	23.4
More than 180 days	-	-
Gross amount	139.2	139.2
Neither past due nor impaired		
Grade B: Watchlisted	253.0	253.0
Unclassified	26,937.3	26,937.3
Gross amount	27,190.3	27,190.3
Total gross amount	35,030.8	34,912.7
Allowance for impairment	(706.1)	(706.1)
Carrying amount	P 34,324.7	P 34,206.6

5.4 Liquidity Risk

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

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

The Group believes that it currently has adequate debt funding from banks, other financial institutions, and through the issuance of Short-Term Commercial Papers (STCPs). The P15.0 billion STCP licenses have been renewed in 2017. In 2018, the Group renewed the P15.0 billion STCP licenses.

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 page are the financial assets and financial liabilities as of December 31, 2018 and 2017 analyzed according to when these are expected to be recovered or settled.

	Group				
	One to Three Months	**Three Months to One Year**	**One to Three Years**	**More Than Three Years**	**Total**
2018					
Financial assets					
Cash and cash equivalents	**P 274.6**	**P -**	**P -**	**P -**	**P 274.6**
Financial assets at FVOCI	**-**	**-**	**1,107.3**	**2,484.6**	**3,591.9**
Loans and other receivables	**1,843.3**	**3,317.6**	**13,128.5**	**16,063.2**	**34,352.6**
	P 2,117.9	**P 3,317.6**	**P 14,235.8**	**P 18,547.8**	**P 38,219.1**
Financial liabilities					
Bills payable	**P 23,396.3**	**P 3,765.6**	**P 1,815.9**	**P -**	**P 28,977.8**
Accounts payable and other liabilities	**539.8**	**-**	**-**	**-**	**539.8**
Lease deposits	**620.2**	**1,058.1**	**3,210.2**	**1,743.8**	**6,632.3**
	P 24,556.3	**P 4,823.7**	**P 5,026.1**	**P 1,743.8**	**P 36,149.9**

	Parent Company				
	One to Three Months	**Three Months to One Year**	**One to Three Years**	**More Than Three Years**	**Total**
Financial assets					
Cash and cash equivalents	**P 228.5**	**P -**	**P -**	**P -**	**P 228.5**
Financial assets at FVOCI	**-**	**-**	**1,107.3**	**2,484.6**	**3,591.9**
Loans and other receivables	**1,832.6**	**3,163.1**	**13,128.5**	**16,063.3**	**34,187.5**
	P 2,061.1	**P 3,163.1**	**P 14,235.8**	**P 18,547.9**	**P 38,007.9**
Financial liabilities					
Bills payable	**P 21,142.4**	**P 3,765.6**	**P 1,815.9**	**P -**	**P 26,723.9**
Accounts payable and other liabilities	**427.4**	**-**	**-**	**-**	**427.4**
Lease deposits	**603.3**	**1,052.9**	**3,179.2**	**1,707.0**	**6,542.4**
	P 22,173.1	**P 4,818.5**	**P 4,995.1**	**P 1,707.0**	**P 33,693.7**

	Group				
	One to Three Months	Three Months to One Year	One to Three Years	More Than Three Years	Total
2017					
Financial assets					
Cash and cash equivalents	P 457.7	P -	P -	P -	P 457.7
Available-for-sale financial assets	2,079.4	-	-	2,562.6	4,642.0
Loans and other receivables	4,478.2	8,145.4	13,544.9	8,156.2	34,324.7
	P 7,015.3	P 8,145.4	P 13,544.9	P 10,718.8	P 39,424.4
Financial liabilities					
Bills payable	P 28,544.7	P 1,531.1	P 402.5	P -	P 30,478.3
Accounts payable and other liabilities	790.3	-	-	-	790.3
Lease deposits	542.9	1,311.7	2,747.3	1,386.7	5,988.6
	P 29,877.9	P 2,842.8	P 3,149.8	P 1,386.7	P 37,257.2

	Parent Company									
		One to Three Months		Three Months to One Year		One to Three Years		More Than Three Years		Total
2017										
Financial assets										
Cash and cash equivalents	P	376.8	P	-	P	-	P	-	P	376.8
Available-for-sale financial assets		2,079.4		-		-		2,562.6		4,642.0
Loans and other receivables		4,360.1		8,145.4		13,544.9		8,156.2		34,206.6
	P	6,816.3	P	8,145.4	P	13,544.9	P	10,718.8	P	39,225.4
Financial liabilities										
Bills payable	P	26,485.5	P	1,390.3	P	402.5	P	-	P	28,278.3
Accounts payable and other liabilities		586.5		-		-		-		586.5
Lease deposits		535.1		1,294.5		2,719.3		1,369.2		5,918.1
	P	27,607.1	P	2,684.8	P	3,121.8	P	1,369.2	P	34,782.9

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.

5.5 Price Risk

The Group is exposed to the changes in the market values of financial assets at FVOCI (2018)/AFS financial assets (2017) held as of December 31, 2018 and 2017. The Group manages its risk by identifying, analyzing and measuring relevant or likely market price risks. To manage its price risk arising from its financial assets at FVOCI (2018)/AFS financial assets (2017), the Group does not concentrate its investment in any single counterparty.

If the prices of financial assets at FVOCI (2018)/AFS financial assets (2017) changed by +/-2.3% at December 31, 2018 and +/-2.0% at December 31, 2017, then other comprehensive income would have increased/decreased by P54.3 in 2018 and by P64.8 in 2017. The analysis is based on the assumption on the change of the correlated equity indices, with all other variables held constant.

6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

6.1 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 in the succeeding pages.

	Group				Parent			
	Carrying Amounts		Fair Values		Carrying Amounts		Fair Values	
2018								
Financial Assets								
At amortized cost:								
Cash and cash equivalents	P	274.6	P	274.6	P	228.5	P	228.5
Loans and other receivables		34,352.6		33,668.7		34,187.5		33,503.6
		34,627.2		33,943.3		34,416.0		33,732.1
Financial assets at FVOCI		3,591.9		3,591.9		3,591.9		3,591.9
	P	**38,219.1**	**P**	**37,535.2**	**P**	**38,007.9**	**P**	**37,324.0**
Financial Liabilities								
At amortized cost:								
Bills payable	P	28,977.8	P	28,326.6	P	26,723.9	P	26,088.1
Accounts payable and other liabilities		539.8		539.8		427.4		427.4
Lease deposits		6,632.3		5,299.9		6,542.4		5,218.7
	P	**36,149.9**	**P**	**34,166.3**	**P**	**33,693.7**	**P**	**31,734.2**
2017								
Financial Assets								
Loans and receivables:								
Cash and cash equivalents	P	457.7	P	457.7	P	376.8	P	376.8
Loans and other receivables		34,324.7		33,524.1		34,206.6		33,406.0
		34,782.4		33,981.8		34,583.4		33,782.8
AFS financial assets*		3,242.0		3,242.0		3,242.0		3,242.0
	P	38,024.4	P	37,223.8	P	37,825.4	P	37,024.8
Financial Liabilities								
At amortized cost:								
Bills payable	P	30,478.3	P	30,341.7	P	28,278.3	P	28,156.3
Accounts payable and other liabilities		790.3		790.3		586.5		586.5
Lease deposits		5,988.6		4,869.5		5,918.1		4,805.0
	P	37,257.2	P	36,001.5	P	34,782.9	P	33,547.8

**Unquoted AFS financial assets of the Group and the Parent Company amounting to P1,400.0 in 2017 have no available fair value data; hence, are excluded for the purpose of this disclosure.*

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) *Financial Assets at FVOCI (2018)/AFS Financial Assets (2017)*

The fair value of financial assets at FVOCI/AFS financial assets is determined by direct reference to published price quoted in an active market for traded securities. On the other hand, unquoted AFS securities in 2017, are carried at cost because the fair value cannot be reliably determined either by reference to similar financial instruments or through valuation technique. In 2018, unquoted security is determined based on pricing model developed by applying benchmark pricing curves which are derived using the yield of benchmark security with similar maturities (i.e., corporate bonds or notes).

(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, hence, their fair values.

6.2 Fair Value Measurement and Disclosures

6.2.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, 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.

6.2.2 Financial Instrument Measured at Fair Value

The following table 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, 2018 and 2017. For the purpose of this disclosure, the investments in unquoted equity security classified as AFS financial assets in 2017 (see Note 8) amounting to P1,400.0, in the Group and Parent Company's financial statements, is measured at cost less impairment charges because the fair value cannot be reliably measured and therefore, are not included.

	Note	Level 1	Level 2	Level 3	Total
December 31, 2018					
Financial assets at FVOCI:					
Equity securities	8	**P 1,240.2**	**P 1,231.9**	**P -**	**P 2,472.1**
Debt securities		**1,119.8**	**-**	**-**	**1,119.8**
		P 2,360.0	**P 1,231.9**	**P -**	**P 3,591.9**
December 31, 2017					
AFS financial assets:					
Equity securities – quoted	8	P 2,067.0	P -	P -	P 2,067.0
Debt securities		1,175.0	-	-	1,175.0
		P 3,242.0	P -	P -	P 3,242.0

The Group and the Parent Company has no financial liabilities measured at fair value as of December 31, 2018 and 2017.

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

6.2.3 Financial Instruments Measured at Amortized Cost for Which Fair Value is Disclosed

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

		Group			
	Notes	Level 1	Level 2	Level 3	Total
December 31, 2018					
Financial assets:					
Cash and cash equivalents	7	**P 274.6**	**P -**	**P -**	**P 274.6**
Loans and other receivables	9	**-**	**-**	**33,668.7**	**33,668.7**
		P 274.6	**P -**	**P 33,668.7**	**P 33,943.3**
Financial liabilities:					
Bills payable	14	**P -**	**P -**	**P 28,326.6**	**P 28,326.6**
Accounts payable and other liabilities	15	**-**	**-**	**539.8**	**539.8**
Lease deposits	16	**-**	**-**	**5,299.9**	**5,299.9**
		P -	**P -**	**P 34,166.3**	**P 34,166.3**
December 31, 2017					
Financial assets:					
Cash and cash equivalents	7	P 457.7	P -	P -	P 457.7
Loans and other receivables	9	-	-	33,524.1	33,524.1
		P 457.7	P -	P 33,524.1	P 33,981.8
Financial liabilities:					
Bills payable	14	P -	P -	P 30,341.7	P 30,341.7
Accounts payable and other liabilities	15	-	-	790.3	790.3
Lease deposits	16	-	-	4,869.5	4,869.5
		P -	P -	P 36,001.5	P 36,001.5

		Parent Company			
	Notes	Level 1	Level 2	Level 3	Total
December 31, 2018					
Financial assets:					
Cash and cash equivalents	7	**P 228.5**	**P -**	**P -**	**P 228.5**
Loans and other receivables	9	**-**	**-**	**33,503.6**	**33,503.6**
		P 228.5	**P -**	**P 33,503.6**	**P 33,732.1**
Financial liabilities:					
Bills payable	14	**P -**	**P -**	**P 26,088.1**	**P 26,088.1**
Accounts payable and other liabilities	15	**-**	**-**	**427.4**	**427.4**
Lease deposits	16	**-**	**-**	**5,218.7**	**5,218.7**
		P -	**P -**	**P 31,734.2**	**P 31,734.2**

	Notes	Parent Company Level 1	Level 2	Level 3	Total
December 31, 2017					
Financial assets:					
Cash and cash equivalents	7	P 376.8	P -	P -	P 376.8
Loans and other receivables	9	-	-	33,406.0	33,406.0
		P 376.8	P -	P 33,406.0	P 33,782.8
December 31, 2017					
Financial liabilities:					
Bills payable	14	P -	P -	P 28,156.3	P 28,156.3
Accounts payable and other liabilities	15	-	-	586.5	586.5
Lease deposits	16	-	-	4,805.0	4,805.0
		P -	P -	P 33,547.8	P 33,547.8

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. The Group acquired fixed rate corporate bonds classified as financial assets at FVOCI (previously AFS financial assets) and are carried at Level 1. The fair value of the bonds is determined to be the current mid-price, which is computed as the average of ask and bid prices as appearing on Bloomberg. As of December 31, 2018 and 2017, the Group also holds preferred shares which are listed in the PSE and are designated as financial assets at FVOCI (previously classified as AFS financial assets) and are also are carried at Level 1. The quoted market prices used by the Group are the closing share prices of the said preferred shares in the PSE as of the 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. The Group holds unquoted equity securities designated as FVOCI, where the fair value is determined based on the prices of benchmark debt securities which are also quoted in an active market or bond exchange.

(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.

6.2.4 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.

	Group			
	Level 1	**Level 2**	**Level 3**	**Total**
2018				
Land	**P -**	**P -**	**P 751.2**	**P 751.2**
Building and improvements	**-**	**-**	**52.1**	**52.1**
	P -	**P -**	**P 803.3**	**P 803.3**
2017				
Land	P -	P -	P 670.5	P 670.5
Building and improvements	-	-	43.8	43.8
	P -	P -	P 714.3	P 714.3

	Parent Company			
	Level 1	**Level 2**	**Level 3**	**Total**
2018				
Land	**P -**	**P -**	**P 525.1**	**P 525.1**
Building and improvements	**-**	**-**	**52.1**	**52.1**
	P -	**P -**	**P 577.2**	**P 577.2**
2017				
Land	P -	P -	P 435.0	P 435.0
Building and improvements	-	-	43.8	43.8
	P -	P -	P 478.8	P 478.8

The fair value of the investment properties of the Group and Parent Company as of December 31, 2018 and 2017, 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 foregoing fair value 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 2018 and 2017.

6.3 Offsetting of Financial Instruments

Currently, all financial assets and financial liabilities are settled on a gross basis; however, each party of the lease agreement will have the option to settle such amount on a net basis in the event of default of the other party. As such, the Group and the Parent Company's residual value of leased assets amounting to P6,582.4 and P5,974.4 as of December 31, 2018 and 2017, respectively (see Note 9), can be offset by the amount of lease deposits amounting to P6,542.4 and P5,918.1 as of December 31, 2018 and 2017, respectively (see Note 16).

Moreover, the Group and the Parent Company's bills payable amounting to P226.2 and P1,414.9 as of December 31, 2018 and 2017, respectively, can be offset by the amount of financial assets at FVOCI with fair value of P1,240.1 and P2,066.6 as of December 31, 2018 and 2017, respectively, and certain loans receivables with carrying value amounting to P268.5 and P1,045.7, as of December 31, 2018 and 2017, respectively (see Notes 8 and 9).

7. CASH AND CASH EQUIVALENTS

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

	Group				Parent Company			
	2018		2017		**2018**		2017	
Cash on hand and in banks	**P**	**270.3**	P	453.5	**P**	**224.2**	P	372.6
Cash equivalents		**4.3**		4.2		**4.3**		4.2
	P	**274.6**	P	457.7	**P**	**228.5**	P	376.8

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 0.25% to 2.63% in 2018, 0.3% to 1.5% in 2017 and 0.3% to 1.2% in 2016.

8. FINANCIAL ASSETS AT FVOCI (2018)/AFS FINANCIAL ASSETS (2017)

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

	2018		2017	
Equity securities:				
Smart Communication Inc. perpetual notes (Smart Notes)	**P**	**1,400.0**	P	1,400.0
San Miguel Corporation preferred shares (SMC Shares)		**1,232.1**		1,232.1
First Gen Corp. Series “F” preferred shares (First Gen Shares)		**-**		680.0
Other equity investments		**0.8**		0.8
		2,632.9		3,312.9
Debt securities:				
8990 Holdings Inc. fixed rate bonds (8990 Holdings Bonds)		**937.2**		937.2
Sta. Lucia Land Inc. fixed rate bonds (Sta. Lucia Bonds)		**200.0**		200.0
		1,137.2		1,137.2
		3,770.1		4,450.1
Accumulated unrealized fair value gains (losses) – net	**(**	**190.7)**		179.4
Accrued interest receivable		**12.5**		12.5
	P	**3,591.9**	P	4,642.0

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

	2018	2017
Balance at beginning of year		
As previously stated	P -	P 3,521.6
Effect of adoption of PFRS 9 (see Note 2)	**4,642.0**	-
As restated	**4,642.0**	3,521.6
Redemption/maturity	**(680.0)**	(251.2)
Fair value losses - net	**(370.1)**	(28.4)
Additions	**-**	1,400.0
Balance at end of year	**P 3,591.9**	P 4,642.0

In March 2017, the Group acquired Smart Notes amounting to P1,400.0 at an initial interest rate of 5.6%. The Smart Notes are perpetual in nature and have no fixed redemption date.

SMC Shares bear an annual dividend rate of 8.0%. The 8990 Holdings and Sta. Lucia Bonds carrying fixed rates of 6.2% and 6.7%, respectively, both with a term of five years and three months. The First Gen Shares carry a dividend rate of 8.0% per annum and are cumulative, non-voting, non-participating and non-convertible. In July 2018, the First Gen Shares was redeemed. No gain or loss was recognized by the Parent Company on the redemption.

Dividend income earned from these financial assets are recorded as Dividend income account under Other Income-net in the statements of income (see Note 18).

The Group and the Parent Company recognized fair value losses of P370.1, P28.4, P4.7 in 2018, 2017, and 2016, respectively. From January 1, 2018, fair value losses are recorded as part of items that will not be reclassified subsequently to profit or loss in the statements of comprehensive income, except for debt securities wherein fair value losses are recorded as part of items that will be reclassified subsequently to profit or loss. The fair values of these financial assets have been determined based on quoted prices in active markets (see Note 6).

As part of the Group's transition to PFRS 9, the Group recognized an impairment loss for debt securities which was credited to the balance of Net Unrealized Fair Value Gains (Losses) on Financial Assets at FVOCI account as at January 1, 2018 amounting to P1.2 [see Note 2.1(b)]. During 2018, the Group recognized an additional impairment loss on financial assets at FVOCI amounting to P0.8, which is presented as part of Impairment and credit losses account under Operating Costs and Expenses in the statement of income and are offset to the fair value losses on debt instruments at FVOCI under items that are reclassified subsequently to profit or loss in the statement of comprehensive income.

The Group and the Parent Company recognized a gain on disposal of AFS financial assets amounting to P1.5 in 2016, which is recorded as part of Miscellaneous under Other Income (see Note 18). There was no disposal of financial assets in 2018 and 2017.

Certain financial assets with face amount of P1,232.1 and P1,912.1 as of December 31, 2018 and 2017, respectively, were used as collateral to secure the payment of certain bills payable (see Note 14).

9. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	Group		Parent Company	
	2018	2017	**2018**	2017
Receivables from customers:				
Finance lease receivables	**P 15,351.4**	P 13,951.7	**P 15,351.4**	P 13,951.7
Residual value of leased assets	**6,582.4**	5,974.4	**6,582.4**	5,974.4
Unearned leased income	**(1,618.6)**	(1,361.1)	**(1,618.6)**	(1,361.1)
	20,315.2	18,565.0	**20,315.2**	18,565.0
Loans and receivables financed	**14,299.2**	16,022.8	**14,299.2**	16,022.8
Unearned finance income	**(29.2)**	(19.4)	**(29.2)**	(19.4)
Client's equity	**(31.6)**	(33.3)	**(31.6)**	(33.3)
	14,238.4	15,970.1	**14,238.4**	15,970.1
Other receivables:				
Accounts receivable	**209.7**	297.8	**55.4**	188.4
Accrued interest receivable	**63.9**	97.6	**63.9**	97.6
Sales contract receivable	**33.1**	36.1	**33.1**	36.1
Dividends receivable	**32.1**	55.5	**32.1**	55.5
Accrued rental receivable	**11.0**	8.7	**-**	-
	349.8	495.7	**184.5**	377.6
	34,903.4	35,030.8	**34,738.1**	34,912.7
Allowance for impairment	**(550.8)**	(706.1)	**(550.6)**	(706.1)
	P 34,352.6	P 34,324.7	**P 34,187.5**	P 34,206.6

As of December 31, 2018 and 2017, 83.4% and 82.6%, 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 5.0% to 16.5% in 2018, 4.0% to 17.7% in 2017 and 4.0% to 19.6% in 2016.

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

	Group		Parent Company	
	2018	2017	**2018**	2017
Secured				
Chattel mortgage	**P 22,517.4**	P 20,674.0	**P 22,517.4**	P 20,674.0
Real estate mortgage	**2,144.7**	2,492.2	**2,144.7**	2,492.2
Others	**163.9**	245.8	**163.9**	245.8
	24,826.0	23,412.0	**24,826.0**	23,412.0
Unsecured	**9,526.6**	10,912.7	**9,361.5**	10,794.6
	P 34,352.6	P 34,324.7	**P 34,187.5**	P 34,206.6

An analysis of the Group's and Parent Company's finance lease receivables as of December 31, 2018 and 2017 is shown below.

	2018	2017
Maturity of gross investment in:		
Finance lease receivables		
Within one year	P 1,336.8	P 1,589.9
Beyond one year but not beyond five years	13,960.5	12,341.2
Beyond five years	54.1	20.6
	15,351.4	13,951.7
Maturity of gross investment in:		
Residual value of leased assets		
Within one year	1,749.2	1,862.9
Beyond one year but not beyond five years	4,828.5	4,106.8
Beyond five years	4.7	4.7
	6,582.4	5,974.4
Gross finance lease receivables	21,933.8	19,926.1
Unearned lease income	(1,618.6)	(1,361.1)
Net investment in finance lease receivables	P 20,315.2	P 18,565.0

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

	2018	2017
Due within one year	P 3,011.2	P 3,370.8
Due beyond one year but not beyond five years	17,255.2	15,172.4
Beyond five years	48.8	21.8
	P 20,315.2	P 18,565.0

Past due finance lease receivables amounted to P416.0 and P475.8 as of December 31, 2018 and 2017, respectively.

An analysis of the Group's and Parent Company's loans and receivables financed follows:

	2018	2017
Due within one year	P 1,983.7	P 1,793.2
Due beyond one year but not beyond five years	6,217.3	8,227.2
Beyond five years	6,037.4	5,949.7
	P 14,238.4	P 15,970.1

Past due loans and receivables financed amounted to P688.2 and P411.2 as of December 31, 2018 and 2017, respectively.

An analysis of other receivables follows:

	Group		Parent Company	
	2018	2017	**2018**	2017
Within one year	**P 317.3**	P 460.1	**P 152.0**	P 342.0
Beyond one year	**32.5**	35.6	**32.5**	35.6
	P 349.8	P 495.7	**P 184.5**	P 377.6

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

	Group		
	2018	2017	2016
Loans and receivable financed	**P 998.4**	P 979.3	P 834.4
Finance lease receivables	**895.2**	853.5	835.8
Financial assets at FVOCI	**71.6**	-	-
Interest on defined benefit plan	**1.3**	3.1	3.1
Cash and cash equivalents	**0.6**	0.8	0.8
AFS financial assets	**-**	81.6	86.6
	P 1,967.1	P 1,918.3	P 1,760.7

	Parent Company		
	2018	2017	2016
Loans and receivables financed	**P 998.0**	P 978.9	P 834.1
Finance lease receivables	**895.2**	853.5	835.8
Financial assets at FVOCI	**71.6**	-	-
Interest on defined benefit plan	**1.3**	3.1	3.1
Cash and cash equivalents	**0.6**	0.8	0.8
AFS financial assets	**-**	81.6	86.6
	P 1,966.7	P 1,917.9	P 1,760.4

Interest income recognized on impaired loans and receivables amounted to P10.3 in 2018, P8.2 in 2017 and P9.8 in 2016.

The changes in the allowance or impairment are summarized below.

	Group		
	2018	2017	2016
Balance at beginning of year			
As previously reported	**P 706.1**	P 629.0	P 580.1
Effect of adoption of PFRS 9 (see Note 2)	**(144.8)**	-	-
As restated	**561.3**	629.0	580.1
Reversal of impairment losses	**(10.4)**	-	-
Impairment losses during the year	**0.2**	63.5	50.0
Accounts written-off	**(0.3)**	(0.3)	(1.1)
Reclassification (see Note 11)	**-**	13.9	-
Balance at end of year	**P 550.8**	P 706.1	P 629.0

	Parent Company		
	2018	2017	2016
Balance at beginning of year			
As previously reported	**P 706.1**	P 629.0	P 580.1
Effect of adoption of PFRS 9 (see Note 2)	**(144.8)**	-	-
As restated	**561.3**	629.0	580.1
Reversal of impairment losses	**(10.4)**	-	-
Accounts written-off	**(0.3)**	(0.3)	(1.1)
Impairment losses during the year	**-**	63.5	50.0
Reclassification (see Note 11)	**-**	13.9	-
Balance at end of year	**P 550.6**	P 706.1	P 629.0

Certain loans and receivables with carrying amount of P268.5 and P1,045.7 as of December 31, 2018 and 2017, respectively, were used as collateral to secure the payment of certain bills payable (see Note 14).

In 2018 and 2017, the BOD approved the write-off of certain loans and receivable financed and finance lease receivables with a total carrying amount of P0.3 for each year.

10. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of 2018 and 2017 are shown below.

	Transportation and Other Equipment	**Furniture, Fixtures and Others**	**Leasehold Improvements**	**Total**
Group				
December 31, 2018				
Cost	**P 4,439.4**	**P 47.6**	**P 1.3**	**P 4,488.3**
Accumulated depreciation and amortization	**(2,193.4)**	**(38.7)**	**(1.3)**	**(2,233.4)**
Net carrying amount	**P 2,246.0**	**P 8.9**	**P -**	**P 2,254.9**
December 31, 2017				
Cost	P 4,385.5	P 41.4	P 1.3	P 4,428.2
Accumulated depreciation and amortization	(2,136.0)	(34.7)	(0.9)	(2,171.6)
Net carrying amount	P 2,249.5	P 6.7	P 0.4	P 2,256.6
January 1, 2017				
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	P 2,374.9	P 5.5	P 0.8	P 2,381.2
Parent Company				
December 31, 2018				
Cost	**P -**	**P 47.6**	**P 1.3**	**P 48.9**
Accumulated depreciation and amortization	**-**	**(38.7)**	**(1.3)**	**(40.0)**
Net carrying amount	**P -**	**P 8.9**	**P -**	**P 8.9**
December 31, 2017				
Cost	P -	P 41.4	P 1.3	P 42.7
Accumulated depreciation and amortization	-	(34.7)	(0.9)	(35.6)
Net carrying amount	P -	P 6.7	P 0.4	P 7.1

	Transportation and Other Equipment	Furniture, Fixtures and Others	Leasehold Improvements	Total
January 1, 2017				
Cost	P -	P 35.3	P 20.0	P 55.3
Accumulated depreciation and amortization	-	(29.8)	(19.2)	(49.0)
Net carrying amount	P -	P 5.5	P 0.8	P 6.3

A reconciliation of the carrying amounts of property and equipment at the beginning and end of 2018 and 2017 is shown below.

	Transportation and Other Equipment	**Furniture, Fixtures and Others**	**Leasehold Improvements**	**Total**
Group				
Balance at January 1, 2018, net of accumulated depreciation and amortization	**P 2,249.5**	**P 6.7**	**P 0.4**	**P 2,256.6**
Additions	**888.9**	**6.2**	**-**	**895.1**
Disposals	**(107.1)**	**-**	**-**	**(107.1)**
Reclassifications (see Notes 12.6 and 12.7)	**76.1**	**-**	**-**	**76.1**
Depreciation and amortization charges for the year	**(861.4)**	**(4.0)**	**(0.4)**	**(865.8)**
Balance at December 31, 2018, net of accumulated depreciation and amortization	**P 2,246.0**	**P 8.9**	**P -**	**P 2,254.9**
Balance at January 1, 2017, net of accumulated depreciation and amortization	P 2,374.9	P 5.5	P 0.8	P 2,381.2
Additions	776.5	6.1	-	782.6
Disposals	(82.7)	-	-	(82.7)
Reclassifications (see Note 12.6)	(4.7)	-	-	(4.7)
Depreciation and amortization charges for the year	(814.5)	(4.9)	(0.4)	(819.8)
Balance at December 31, 2017, net of accumulated depreciation and amortization	P 2,249.5	P 6.7	P 0.4	P 2,256.6
Parent Company				
Balance at January 1, 2018, net of accumulated depreciation and amortization	**P -**	**P 6.7**	**P 0.4**	**P 7.1**
Additions	**-**	**6.2**	**-**	**6.2**
Depreciation and amortization charges for the year	**-**	**(4.0)**	**(0.4)**	**(4.4)**
Balance at December 31, 2018, net of accumulated depreciation and amortization	**P -**	**P 8.9**	**P -**	**P 8.9**

	Transportation and Other Equipment	Furniture, Fixtures and Others	Leasehold Improvements	Total
Parent Company				
Balance at January 1, 2017, net of accumulated depreciation and amortization	P -	P 5.5	P 0.8	P 6.3
Additions	-	6.1	-	6.1
Depreciation and amortization charges for the year	-	(4.9)	(0.4)	(5.3)
Balance at December 31, 2017, net of accumulated depreciation and amortization	P -	P 6.7	P 0.4	P 7.1

The cost of fully depreciated assets that are still being used in operations amounted to P33.2 and P51.7 for the Group as of December 31, 2018 and 2017, respectively, and P33.2 and P20.9 for the Parent Company as of December 31, 2018 and 2017, respectively.

Depreciation and amortization charges for 2018, 2017 and 2016 are included as part of Occupancy and Equipment-related Expenses account in the statements of income.

As of December 31, 2018 and 2017, 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 P2,246.0 and P2,249.5, respectively.

In 2018, 2017 and 2016, the Group disposed of certain equipment with carrying value of P107.1, P82.7 and P51.1, respectively, resulting in a gain on sale of P24.8, P6.0 and P10.7, respectively (see Note 18).

11. INVESTMENT PROPERTIES

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

The carrying amounts and accumulated depreciation at the beginning and end of 2018 and 2017 are shown below and in the succeeding pages.

	Land	Building and Improvements	Total
Group			
December 31, 2018			
Cost	**P 358.4**	**P 40.0**	**P 398.4**
Accumulated depreciation and amortization	**-**	**(19.6)**	**(19.6)**
Accumulated impairment	**(23.4)**	**(0.9)**	**(24.3)**
Net carrying amount	**P 335.0**	**P 19.5**	**P 354.5**

	Land	Building and Improvements	Total
Group			
December 31, 2017			
Cost	P 369.9	P 38.9	P 408.8
Accumulated depreciation and amortization	-	(29.0)	(29.0)
Accumulated impairment	(24.5)	(0.9)	(25.4)
Net carrying amount	P 345.4	P 9.0	P 354.4
January 1, 2017			
Cost	P 462.5	P 63.5	P 526.0
Accumulated depreciation and amortization	-	(54.4)	(54.4)
Accumulated impairment	(44.5)	(0.6)	(45.1)
Net carrying amount	P 418.0	P 8.5	P 426.5
Parent Company			
December 31, 2018			
Cost	**P 132.3**	**P 40.0**	**P 172.3**
Accumulated depreciation and amortization	**-**	**(19.6)**	**(19.6)**
Accumulated impairment	**(23.4)**	**(0.9)**	**(24.3)**
Net carrying amount	**P 108.9**	**P 19.5**	**P 128.4**
December 31, 2017			
Cost	P 143.8	P 38.9	P 182.7
Accumulated depreciation and amortization	-	(29.0)	(29.0)
Accumulated impairment	(24.5)	(0.9)	(25.4)
Net carrying amount	P 119.3	P 9.0	P 128.3
January 1, 2017			
Cost	P 236.4	P 63.5	P 299.9
Accumulated depreciation and amortization	-	(54.4)	(54.4)
Accumulated impairment	(44.5)	(0.6)	(45.1)
Net carrying amount	P 191.9	P 8.5	P 200.4

A reconciliation of the carrying amounts at the beginning and end of 2018 and 2017 of investment properties is shown below.

	Land	Building and Improvements	Total
Group			
Balance at January 1, 2018, net of accumulated depreciation and amortization and impairment	**P 345.4**	**P 9.0**	**P 354.4**
Additions	**0.8**	**13.9**	**14.7**
Disposals	**(11.6)**	**(1.6)**	**(13.2)**
Reclassifications (see Note 12.5)	**0.4**	**-**	**0.4**
Depreciation and amortization charges for the year	**-**	**(1.8)**	**(1.8)**
Balance at December 31, 2018, net of accumulated depreciation and amortization and impairment	**P 335.0**	**P 19.5**	**P 354.5**

	Land	Building and Improvements	Total
Group			
Balance at January 1, 2017, net of accumulated depreciation and amortization and impairment	P 418.0	P 8.5	P 426.5
Additions	1.0	3.7	4.7
Disposals	(93.6)	(0.4)	(94.0)
Reclassifications	20.0	(0.3)	19.7
Depreciation and amortization charges for the year	-	(2.5)	(2.5)
Balance at December 31, 2017, net of accumulated depreciation and amortization and impairment	P 345.4	P 9.0	P 354.4
Parent Company			
Balance at January 1, 2018, net of accumulated depreciation and amortization and impairment	**P 119.3**	**P 9.0**	**P 128.3**
Additions	**0.8**	**13.9**	**14.7**
Disposals	**(11.6)**	**(1.6)**	**(13.2)**
Reclassifications (see Note 12.5)	**0.4**	**-**	**0.4**
Depreciation and amortization charges for the year	**-**	**(1.8)**	**(1.8)**
Balance at December 31, 2018, net of accumulated depreciation and amortization and impairment	**P 108.9**	**P 19.5**	**P 128.4**
Balance at January 1, 2017, net of accumulated depreciation and amortization and impairment	P 191.9	P 8.5	P 200.4
Additions	1.0	3.7	4.7
Reclassifications	20.0	(0.3)	19.7
Disposals	(93.6)	(0.4)	(94.0)
Depreciation and amortization charges for the year	-	(2.5)	(2.5)
Balance at December 31, 2017, net of accumulated depreciation and amortization and impairment	P 119.3	P 9.0	P 128.3

The appraised values of the investment properties as of December 31, 2018 and 2017 follow (see Note 6.2.4):

	Group	
	2018	2017
Land	**P 751.2**	P 670.5
Building and improvements	**52.1**	43.8
	P 803.3	P 714.3

	Parent Company			
	2018		2017	
Land	**P**	**525.1**	P	435.0
Building and improvements		**52.1**		43.8
	P	**577.2**	P	478.8

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 sale 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 P5.0 or less, while external appraisals were made for all properties with book value exceeding P5.0.

Direct operating expenses incurred, such as real property taxes, insurance and security services, amounted to P4.7, P4.2 and P4.9 in 2018, 2017 and 2016, respectively, by the Group, and P3.1, P1.3 and P1.5 in 2018, 2017 and 2016, respectively, by the Parent Company, and was recognized as part of Other Expenses account under Operating Costs and Expenses in the Group's and Parent Company's statements of income.

Depreciation and amortization charges amounting to P1.8, P2.5 and P3.9 for 2018, 2017 and 2016, respectively, are included as part of Occupancy and Equipment-related Expenses account in the statements of income. There were no impairment losses recognized in 2018, 2017 and 2016.

Gain on sale of investment properties of the Parent Company, recorded as Gain on sale of investment properties as part of Other Income, amounted to P17.4, P59.1, and P9.5 in 2018, 2017 and 2016, respectively (see Note 18).

12. OTHER ASSETS

Other assets consist of the following:

		Group				Parent Company			
	Notes	**2018**		2017		**2018**		2017	
Deferred input VAT	12.1	**P**	**259.7**	P	269.1	P	**-**	P	-
Equity investments	12.2		**235.3**		266.6		**721.0**		797.8
Deferred tax assets – net	22		**126.2**		110.1		**126.2**		110.1
Prepaid expenses	12.3		**40.4**		27.8		**40.2**		27.6
Retirement benefit asset	20		**26.3**		25.8		**26.3**		25.8
Intangible assets – net	12.4		**15.5**		29.4		**15.5**		29.4
Non-current assets held-for-sale - net	12.5		**3.6**		9.8		**3.6**		9.8
Repossessed chattels and other equipment - net	12.6		**0.5**		4.7		**-**		-
Miscellaneous – net	12.7		**4.2**		62.9		**3.9**		3.9
		P	**711.7**	P	806.2	P	**936.7**	P	1,004.4

The current and non-current portion of this account is shown below:

	Group		Parent Company	
	2018	2017	**2018**	2017
Current	**P 151.8**	P 137.9	**P 58.8**	P 39.3
Non-current	**559.9**	668.3	**877.9**	965.1
	P 711.7	P 806.2	**P 936.7**	P 1,004.4

12.1 Deferred Input VAT

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.

12.2 Equity Investments

Equity investments consist of the following:

	% Interest Held	Group		Parent Company	
		2018	2017	**2018**	2017
Subsidiary – BDO Rental	100%	**P -**	P -	**P 485.7**	P 531.2
Associate – MMPC Auto Financial Services Corp. (MAFSC)	40%	**235.3**	266.6	**235.3**	266.6
		P 235.3	P 266.6	**P 721.0**	P 797.8

A reconciliation of the carrying amounts of equity investments is as follows:

	Subsidiary		Associate	
	2018	2017	**2018**	2017
Acquisition costs	**P 250.0**	P 250.0	**P 300.0**	P 300.0
Accumulated equity in total comprehensive income:				
Balance at beginning of year, as previously reported	**281.2**	380.9	**(33.4)**	(19.9)
Share on adjustments due to the adoption of PFRS 9	**-**	-	**7.3**	-
Balance at beginning of year, as restated	**281.2**	380.9	**(26.1)**	(19.9)
Dividend income	**(35.0)**	(120.0)	**-**	-
Share in net profit (loss)	**(10.5)**	20.3	**(39.0)**	(20.0)
Share in other comprehensive income	**-**	-	**0.4**	-
Share in 2016 net operating loss carry-over	**-**	-	**-**	6.5
	235.7	281.2	**(64.7)**	(33.4)
	P 485.7	P 531.2	**P 235.3**	P 266.6

As of December 31, 2018 and 2017, the Parent Company holds 250 million common shares of BDO Rental representing 100% ownership.

On January 28, 2016, the Parent Company entered into an 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 Mitsubshi vehicles in the Philippines and commercial and industrial enterprises. Its principal office is located at 38th Floor, Robinsons Equitable Tower, ADB Avenue cor. Poveda St., Ortigas Center, Pasig City.

MAFSC 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 2018 and 2017 and is presented as part of Miscellaneous under Other Income account in the Parent Company's statements of income (see Note 18).

The summarized financial information in respect of the Group and Parent Company's equity investments are set out below.

	Total Assets	**Total Liabilities**	**Revenues**	**Net Loss**
December 31, 2018				
BDO Rental	**P 2,944.1**	**P 2,458.4**	**P 974.1**	**(P 10.5)**
MAFSC	**P 7,727.9**	**P 7,139.6**	**P 789.2**	**(P 97.6)**

	Total Assets	Total Liabilities	Revenues	Net Profit (Loss)
December 31, 2017				
BDO Rental	P 3,007.7	P 2,476.5	P 922.2	P 20.3
MAFSC	P 3,719.1	P 3,052.6	P 224.3	(P 50.1)

A reconciliation of the above summarized financial information to the carrying amount of the investment in MAFSC is shown below.

	2018	2017
Net asset of MAFSC	**P 588.3**	P 666.5
Proportion of ownership interest	**40%**	40%
	P 235.3	P 266.6

In 2018 and 2017, the Group and Parent Company have assessed that no impairment loss is necessary to be recognized for the equity investments.

12.3 Prepaid Expenses

In 2017, creditable withholding taxes of BDO Rental, Inc. amounting to P109.2, previously part of Prepaid Expenses, have been reclassified to Accounts receivable (see Note 9). There was no similar transaction in 2018.

12.4 Intangible Assets

Intangible Assets represent the unamortized cost of the leasing system of the Parent Company that was used starting 2015. Amortization expense on intangible assets amounted to P13.9, P13.9, and P13.5 in 2018, 2017, and 2016, respectively, and is included as part of Occupancy and Equipment-related Expenses account in the statements of income.

12.5 Non-current Assets Held-for-Sale

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

	2018	2017
Cost	**P 5.8**	P 15.5
Accumulated impairment	**(2.2)**	(5.7)
	P 3.6	P 9.8

A reconciliation of the carrying amounts of non-current assets held-for-sale at the beginning and end of 2018 and 2017 is shown below.

	2018	2017
Balance at January 1, net of accumulated impairment	**P 9.8**	P 0.4
Additions	**1.3**	16.4
Disposals	**(7.1)**	(1.3)
Reclassifications (see Note 11)	**(0.4)**	(5.7)
Balance at December 31, net of accumulated impairment	**P 3.6**	P 9.8

12.6 Repossessed Chattels and Other Equipment

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 (see Note 10). As of December 31, 2018 and 2017, the Parent Company had no remaining repossessed chattels and other equipment.

No depreciation expense and impairment loss was recognized on repossessed chattels and other equipment in 2018, 2017 and 2016.

12.7 Miscellaneous Assets

In 2017, Miscellaneous assets includes computer equipment and licenses amounting to P58.8, which are not yet fully installed and operational. In March 2018, the Group purchased additional computer equipment and licenses amounting to P18.0. In July 2018, such computer equipment and licenses were reclassified from other assets to property and equipment (see Note 10), and were leased out by the Group under an operating lease agreement with BDO Nomura Securities, Inc. (BDO Nomura) [see Note 21(n)].

13. ALLOWANCE FOR IMPAIRMENT

Changes in the allowance for impairment are summarized below.

	Notes	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017
Balance at beginning of year:					
Loans and other receivables	9	**P 706.1**	P 629.0	**P 706.1**	P 629.0
Investment properties	11	**25.4**	45.1	**25.4**	45.1
Other assets	12.5	**5.7**	0.1	**5.7**	0.1
Balance before adoption of PFRS 9		**737.2**	674.2	**737.2**	674.2
Effect of adoption of PFRS 9	2.2(ii)	**(144.8)**	-	**(144.8)**	-
Balance as restated		**592.4**	674.2	**592.4**	674.2
Reversals		**(10.4)**	-	**(10.4)**	-
Adjustments		**(4.6)**	(28.1)	**(4.6)**	(28.1)
Write-offs		**(0.3)**	(0.3)	**(0.3)**	(0.3)
Impairment losses - net		**0.2**	63.5	**-**	63.5
Reclassification		**-**	27.9	**-**	27.9
		(15.1)	63.0	**(15.3)**	63.0
Balance at end of year:					
Loans and other receivables	9	**550.8**	706.1	**550.6**	706.1
Investment properties	11	**24.3**	25.4	**24.3**	25.4
Other assets	12.5	**2.2**	5.7	**2.2**	5.7
		P 577.3	P 737.2	**P 577.1**	P 737.2

14. BILLS PAYABLE

This account consists of:

	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017
Borrowings from:				
Banks	**P 25,452.6**	P 19,783.2	**P 23,207.6**	P 17,592.2
Others	**3,385.5**	10,626.9	**3,385.5**	10,626.9
Accrued interest	**139.7**	68.2	**130.8**	59.2
	P 28,977.8	P 30,478.3	**P 26,723.9**	P 28,278.3

The maturity profile of this account is presented below.

	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017
Within one year	**P 27,161.9**	P 30,075.8	**P 24,908.0**	P 27,875.8
Beyond one year	**1,815.9**	402.5	**1,815.9**	402.5
	P 28,977.8	P 30,478.3	**P 26,723.9**	P 28,278.3

Bills payable to banks represent peso borrowings from local banks (including BDO Unibank as of December 31, 2018, 2017 and 2016 – see Note 21), with annual interest rates ranging from 3.1% to 7.2% in 2018, 2.2% to 3.5% in 2017, and 2.2% to 3.3% in 2016. As of December 31, 2018, 2017 and 2016, bills payable – others represent short-term notes issued to corporate investors, with annual interest rates ranging from 5.0% to 6.7%, 2.5% to 3.3% and 2.3% to 2.7% in 2018, 2017 and 2016, respectively. These rates approximate prevailing market rates. As of December 31, 2018 and 2017, bills payable amounting to P226.2 and P1,414.9, respectively, are secured by the Group's financial assets at FVOCI (2018)/AFS Financial Assets (2017) with face amount of P1,232.1 and P1,912.1 as of December 31, 2018 and 2017, respectively, and certain loans receivables with carrying value amounting to P268.5 and P1,045.7, as of December 31, 2018 and 2017, respectively (see Notes 8 and 9).

Interest and financing charges consist of interest on:

	Note	**2018**	2017	2016
Group				
Bills payable - banks		**P 850.1**	P 487.8	P 259.7
Bills payable - others		**314.5**	356.7	408.6
Amortization on lease deposits	16	**5.6**	3.8	3.3
Others		**-**	2.0	1.9
		P 1,170.2	P 850.3	P 673.5
Parent Company				
Bills payable - banks		**P 758.9**	P 424.9	P 206.4
Bills payable - others		**314.5**	356.7	408.6
Amortization on lease deposits	16	**1.4**	0.4	0.8
Others		**-**	2.0	1.9
		P 1,074.8	P 784.0	P 617.7

Presented below is the reconciliation of the liabilities arising from financing activities, which includes both cash and non-cash changes.

	Group	Parent Company
Balance as of January 1, 2018	P 30,478.3	P 28,278.3
Cash flows from financing activities:		
Repayments of bills payable	(174,115.4)	(161,900.3)
Additional borrowings	172,614.9	160,345.9
Balance at December 31, 2018	**P 28,977.8**	**P 26,723.9**
Balance as of January 1, 2017	P 27,268.1	P 25,312.1
Cash flows from financing activities:		
Additional borrowings	166,621.1	159,093.9
Repayments of bills payable	(163,410.9)	(156,127.7)
Balance at December 31, 2017	P 30,478.3	P 28,278.3

15. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities consist of the following:

	Group		Parent Company	
	2018	2017	**2018**	2017
Accounts payable	**P 433.6**	P 628.4	**P 325.5**	P 431.0
Unapplied advance payments	**74.0**	133.5	**69.6**	131.7
Accrued taxes and other expenses	**24.6**	61.6	**23.5**	61.5
Withholding taxes payable	**22.7**	26.0	**21.7**	24.0
Other liabilities	**32.2**	28.4	**32.3**	23.8
	P 587.1	P 877.9	**P 472.6**	P 672.0

Accounts payable include amount payable to BDO Unibank of P8.7 as of December 31, 2018, representing the Group's liability arising from the stock option plan offered to the Group's employees. There are no related payable arising from this transaction in 2017 [see Notes 2.18(e)].

Other liabilities include, among others, taxes, and insurance, mortgage and other fees.

Accounts payable and other liabilities have maturities within one year. 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.

16. LEASE DEPOSITS

This account represents deposits on:

	Group		Parent Company	
	2018	2017	**2018**	2017
Finance leases	**P 6,542.4**	P 5,918.1	**P 6,542.4**	P 5,918.1
Operating leases	**89.9**	70.5	**-**	-
	P 6,632.3	P 5,988.6	**P 6,542.4**	P 5,918.1

The current and non-current portion of this account is shown below:

	Group		Parent Company	
	2018	2017	**2018**	2017
Current	**P 1,678.3**	P 1,854.6	**P 1,656.2**	P 1,829.6
Non-current	**4,954.0**	4,134.0	**4,886.2**	4,088.5
	P 6,632.3	P 5,988.6	**P 6,542.4**	P 5,918.1

Interest expense on lease deposits accrued using the effective interest method in the Group's financial statements amounted to P5.6, P3.8 and P3.3 in 2018, 2017 and 2016 respectively, and P1.4, P0.4 and P0.8 in 2018, 2017 and 2016, respectively, in the Parent Company's financial statements (see Note 14). 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.

17. EQUITY

17.1 Capital Management Objectives, Policies and Procedures

The Group's capital management objectives are:

- to provide an adequate return to shareholders by pricing products commensurately with the level of risk; and,
- 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, 2018 and 2017 are shown below.

	2018	2017
Total equity	**P 5,343.0**	P 5,442.3
Cash and cash equivalents	**(274.6)**	(457.7)
Net capital	**P 5,068.4**	P 4,984.6
Bills payable	**P 28,977.8**	P 30,478.3
Lease deposits	**6,632.3**	5,988.6
Total equity	**5,343.0**	5,442.3
Overall financing	**P 40,953.1**	P 41,909.2
Capital-to-overall financing ratio	**0.12:1.00**	0.12:1.00

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

(a) Minimum paid-up capital of P10.0 million; and,

(b) 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, 2018 and 2017, the Group is in compliance with this minimum paid-up capital requirement.

17.2 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) Non-voting, except in cases expressly provided for by law.

None of these authorized preferred shares have been issued as of December 31, 2018 and 2017.

17.3 Common Shares

As of December 31, 2018 and 2017, 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.

17.4 Retained Earnings – Free

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

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 were paid on March 29, 2017.

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.

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.

17.5 Retained Earnings – Reserves

In compliance with the requirements of the BSP, the Bank appropriated P147.0 for general loan loss provision to meet the 1% minimum provisions on loans (see Notes 2.13 and 9) and is presented under Retained Earnings – Reserves account.

17.6 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, 2018 and 2017, the Parent Company's number of shares registered totaled 3,400,000,000 with par value of P1.00 per share and closed at a price of P2.19 in 2018 and P3.82 in 2017 . The total number of stockholders is 1,116 and 1,122 as of December 31, 2018 and 2017, respectively.

18. OTHER INCOME

This account is composed of the following:

	Notes	Group 2018		Group 2017		Group 2016	
Dividend income	8	**P**	**206.0**	P	215.2	P	150.3
Gain on sale of property and equipment and investment properties	10, 11		**42.2**		65.1		20.2
Day-one gains – net			**13.2**		4.8		2.5
Miscellaneous – net	8, 12, 21		**48.7**		30.9		30.4
		P	**310.1**	P	316.0	P	203.4

	Notes	Parent Company 2018		Parent Company 2017		Parent Company 2016	
Dividend income	8	**P**	**206.0**	P	215.2	P	150.3
Gain on sale of investment properties	11		**17.4**		59.1		9.5
Day-one gains – net			**4.5**		1.3		0.1
Miscellaneous – net	8, 12, 21		**36.8**		48.3		108.6
		P	**264.7**	P	323.9	P	268.5

Dividend income pertains to income earned for investments in Smart Notes, 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.

19. 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, 2018, 2017 and 2016, amounted to P938.3, P922.2 and P890.2, respectively.

Future minimum rental receivables under operating leases follow:

	2018		2017		2016	
Within one year	**P**	**747.5**	P	831.4	P	804.5
After one year but not more than five years		**792.9**		924.7		883.5
More than five years		**79.3**		87.7		100.3
	P	**1,619.7**	P	1,843.8	P	1,788.3

20. EMPLOYEE BENEFITS

20.1 Employee Benefits

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

	2018	2017	2016
Salaries and wages	**P 134.7**	P 130.9	P 122.1
Bonuses	**48.6**	42.2	43.9
Retirement – defined benefit plan	**18.1**	17.1	14.1
Fringe benefits	**10.3**	15.2	10.7
Employee stock option plan	**8.7**	6.3	16.9
Directors' fee	**5.5**	5.5	5.5
Social security costs	**4.1**	3.9	3.9
Other benefits	**5.7**	5.9	3.6
	P 235.7	P 227.0	P 220.7

The Employee benefits expense account includes the expense arising from Employee Stock Option Plan [see Note 2.18(e)] recognized by the Parent Company over the vesting period. The outstanding payable arising from this transaction as of December 31, 2018 (nil in 2017) is presented as part of Accounts payable under Accounts Payable and Other Liabilities account in the statements of financial position (see Note 15).

20.2 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 five 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 are based on the actuarial valuation report obtained from an independent actuary in 2018 and 2017.

The amounts of retirement benefit asset (presented under Other Assets account (see Note 12) the Group and the Parent Company recognized in the statements of financial position are determined as follows:

	2018	2017
Fair value of plan assets	**P 274.3**	P 279.4
Present value of the obligation	**(245.3)**	(251.6)
Effect of asset ceiling	**(2.7)**	(2.0)
Balance at end of year	**P 26.3**	P 25.8

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

	2018	2017
Balance at beginning of year	**P 279.4**	P 264.0
Interest income	**15.8**	14.8
Contributions to the plan	**18.8**	12.2
Return on plan assets (excluding amounts included in net interest)	**(15.5)**	(9.5)
Benefits paid	**(24.2)**	(2.1)
Balance at end of year	**P 274.3**	P 279.4

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

	2018	2017
Balance at beginning of year	**P 251.6**	P 205.5
Current service cost	**18.1**	17.1
Interest expense	**14.3**	11.3
Benefits paid	**(24.2)**	(2.1)
Remeasurements:		
Actuarial losses (gains) arising from changes in:		
- experience adjustments	**23.8**	72.6
- financial assumptions	**(20.6)**	(18.7)
- demographic assumptions	**(17.7)**	(34.1)
Balance at end of year	**P 245.3**	P 251.6

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.

	2018	2017
Cash and cash equivalents	**P 11.7**	P 31.4
Unit investment trust funds	**58.9**	61.4
Loans	**16.7**	12.6
Equity instruments	**5.4**	6.6
Real estate	**3.7**	2.8
	96.4	114.8
Debt instruments:		
Government bonds	**27.3**	90.9
Other bonds	**151.2**	57.8
	178.5	148.7
Others	**(0.6)**	15.9
	P 274.3	P 279.4

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 P0.3 in 2018, P5.3 in 2017 and P11.2 in 2016.

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 21(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:

	2018	2017	2016
Reported in profit or loss:			
Current service cost	**P 18.1**	P 17.1	P 14.1
Net interest income	**(1.3)**	(3.2)	(3.1)
	P 16.8	P 13.9	P 11.0
Reported in other comprehensive income:			
Actuarial losses (gains) arising from:			
- experience adjustments	**P 23.8**	P 72.6	P 8.6
- changes in financial assumptions	**(20.6)**	(18.7)	2.1
- demographic changes	**(17.7)**	(34.1)	-
Return on plan assets (excluding amounts included in net interest)	**15.5**	9.5	0.9
Effect of asset ceiling	**0.6**	(5.1)	(2.1)
	P 1.6	P 24.2	P 9.5

Current service cost is presented as a part of Employee Benefits 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:

	2018	2017	2016
Discount rates	**7.5%**	5.7%	5.5%
Expected rate of salary increases	**6%/7%/8% 9%/10%/11%**	6.0%/8.0%/ 9.0%/10.0%	9.0%

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.

(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 Risks

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 asset is concentrated in debt instruments, unit investment trust funds, cash and cash equivalents and loans. 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.

(iii) 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 follows.

(iv) 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, 2018 and 2017:

	Impact on Retirement Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
December 31, 2018			
Discount rate	**+/-1.0%**	**(P 13.67)**	**P 15.3**
Salary growth rate	**+/-1.0%**	**15.0**	**(13.6)**
December 31, 2017			
Discount rate	+/-1.0%	(P 16.5)	P 18.9
Salary growth rate	+/-1.0%	16.0	(14.4)

The 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.

(i) Asset-liability Matching Strategy

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

(ii) Funding Arrangements and Expected Contributions.

The plan is currently overfunded by P26.3 as of December 31, 2018 based on the latest actuarial valuation.

The Group expects to make contribution of P18.8 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:

		2018		2017
Within one year	**P**	**55.6**	P	55.8
More than one year to five years		**124.8**		74.9
More than five years to ten years		**203.6**		125.2
	P	**384.0**	P	255.9

21. 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 in the succeeding pages.

The summary of the Group's and Parent Company's transactions with its related parties in 2018, 2017 and 2016 and the related outstanding balances as of December 31, 2018 and 2017 are shown in the succeeding pages:

Related Party Category	Notes	Amount of Transaction 2018	2017	2016
Ultimate parent company (BDO Unibank)				
Interest income on savings and demand deposits	*(a)*	**P 0.6**	P 0.8	P 0.7
Interest expense on bills payable	*(b)*	**120.6**	141.5	38.0
Rent expense	*(c)*	**13.6**	12.3	10.5
Management fees	*(d)*	**16.0**	13.8	2.4
Service charges and fees	*(e)*	**1.4**	-	-
Service fees	*(f)*	**0.1**	-	-
Employee stock option plan	2.18, 20	**8.7**	6.3	16.9
Subsidiary (BDO Rental)				
Dividend income	*(j)*	**35.0**	120.0	60.0
Management fees	*(d)*	**0.4**	0.4	0.4
Rent income	*(c)*	**0.1**	0.1	0.4
Under common ownership				
Service and charges fees	*(g), (k)*	**4.3**	5.0	5.5
Interest expense on bills payable	*(l)*	**145.0**	94.1	-
Operating lease income	*(n)*	**47.1**	-	-
Insurance expense	*(m)*	**0.3**	-	-
Key management personnel				
Short-term benefits	*(h)*	**58.6**	47.5	50.4
Loans to officers	*(h)*	**1.7**	3.8	5.0

Related Party Category	Notes	Outstanding Balance 2018	2017
Ultimate parent company (BDO Unibank)			
Savings and demand deposits	*(a)*	**P 269.8**	P 453.0
Bills payable	*(b)*	**2,146.0**	4,782.9
Employee stock option plan	2.18, 20	**8.7**	-
Under common ownership			
Accounts receivable	*(k)*	**0.8**	0.8
Bills payable	*(l)*	**1,988.8**	3,901.0
Unearned rental income	*(n)*	**-**	4.6
Key management personnel			
Loans to officers	*(h)*	**5.1**	7.5
Retirement benefit fund			
Shares of stock	*(i)*	**1.1**	2.0

(a) The Group maintains savings and demand deposit accounts with BDO Unibank. As of December 31, 2018 and 2017, 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). These deposits generally earn interest at annual rates of 0.25% in 2018, 2017 and 2016. Interest income earned on these deposits in 2018, 2017 and 2016 is included as part of Interest and Discounts account under Revenues in the statements of income.

(b) The Group obtains short-term bills payable from BDO Unibank with annual interest rates ranging from 2.2% to 6.5% in 2018, 2.2% to 3.5% in 2017 and 2.2% to 3.0% in 2016. Total bill availments and payments amounted to P34,050.6 and P36,715.7, respectively, in 2018, P33,288.2 and P31,087.9, respectively, in 2017, and P21,532.7 and P22,205.6, respectively, in 2016. These bills payable are secured by certain financial assets at FVOCI with fair value of P1,240.1 and P2,066.6 as of December 31, 2018 and 2017, respectively (see Note 8). The amount outstanding from borrowings as of December 31, 2018 and 2017 is presented under Bills Payable account in the statements of financial position (see Note 14). Interest expense incurred on these bills payable in 2018, 2017 and 2016 is included as part of Interest and Financing Charges account under Operating Costs and Expenses 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 2018, 2017 and 2016 is presented as part of Occupancy and Equipment-related Expenses account 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 2018, 2017 and 2016 is presented as part of Other Income-net account in the Parent Company's statements of income (see Note 18). There are no outstanding receivables and payables on these transactions as of the end of 2018 and 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 are shown as part of Other Expenses account under 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-net account in the Parent Company's statements of income (see Note 18). There are no outstanding receivables and payables on these transactions as of the end of 2018 and 2017.

(e) In 2018, the Parent Company sold portion of its receivables to BDO Unibank. The Parent Company charged BDO for service charges and fees which are presented as part of Other Income-net account in the statements of income. There is no outstanding receivable and payable on these transactions as of the end of 2018.

(f) In 2018, the Parent Company entered into an agreement with BDO Unibank on stock transfer where BDO Unibank will charge the Parent Company for stock transfer services. Service fees paid by the Parent Company to BDO Unibank are shown as part of Other Expenses account under Operating Costs and Expenses in the statements of income. There is no outstanding receivable and payable on these transactions as of the end of 2018.

(g) 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 P2.0 for 2018, P3.2 for 2017 and P4.0 for 2016 are included as part of Other Expenses account under Operating Costs and Expenses in the statements of income. There are no outstanding payables on this transaction as of the end of 2018 and 2017.

(h) Compensation of key management personnel (covering officer positions starting from Assistant Vice President and up) is included as part of Employee Benefits under Operating Costs and Expenses in the statements of income of the Group and Parent Company. Short-term employee benefits amounting to P58.6 in 2018, P47.5 in 2017 and P50.4 in 2016, include salaries, paid annual leave and paid sick leave, profit sharing and bonuses, and non-monetary benefits. On the other hand, retirements benefits expense amounted to P8.7 in 2018, P7.0 in 2017 and P5.7 in 2016.

The Group also granted loans to officers, which are secured by mortgage on the property, bear interest with a range a 7.0% to 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 (see Note 9). The Group assessed that these loans are not impaired as of December 31, 2018 and 2017.

(i) The retirement fund holds, as an investment, 519,915 shares of stock of the Parent Company as of December 31, 2018 and 2017, which has a market value of P2.19 and P3.82 per share as of December 31, 2018 and 2017, respectively (see Note 20.2). The retirement fund does not hold any shares of stock of BDO Unibank.

(j) In 2018, 2017 and 2016, BDO Rental declared cash dividends amounting to P35.0 (received in 2018) and P120.0 (received in 2017), and P60.0 (outstanding in 2016, received in 2017), respectively. No outstanding receivable on this transaction as of the end of 2018 and 2017.

(k) In 2016, the Parent Company earned from BDO Insurance Brokers, Inc. (BDO Insurance) service charges and fees for accounts referred and are included as part of Miscellaneous-net under Other Income-net account in the statements of income (see Note 18). This resulted to the 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 (see Note 9). These are receivable in cash and normally collectible within 12 months after reporting period. The Group assessed that such receivable is not impaired.

(l) In 2017, the Parent Company obtains unsecured, short-term bills payable from BDO Strategic Holdings Inc. and SM Prime Holdings, Inc with annual interest rates ranging from 2.6% to 5.3% and 3.3% to 6.7%, respectively, in 2018, and 2.5% to 2.6% and 2.7% to 3.3%, respectively, in 2017. Total bill availments and payments amounted to P4,244.2 and P4,155.4, respectively, in 2018 and P3,902.4 and P2,991.7, respectively, in 2017 for BDO Strategic Holdings Inc. Total bill availments and payments amounted to P18,000.0 and P20,000.0, respectively, in 2018 and P21,000.0 and P18,000.0, respectively, in 2017 for SM Prime Holdings, Inc. The amount outstanding from borrowings is presented under Bills Payable account in the statements of financial position (see Note 14). Interest expense incurred on these bills payable is included as part of Interest and Financing Charges account under Operating Costs and Expenses in the statements of income.

(m) In 2018, the Parent Company paid BDO Life Assurance Company, Inc. for Group Life Insurance of the Parent Company's employees. Insurance paid by Parent Company is presented as part of Occupancy and Equipment Related Expense under Operating Costs and Expenses in the 2018 statement of income. No outstanding receivable and payable on this transaction as of the end of 2018.

(n) In 2017, BDO Rental, entered into Operating Lease Agreement with BDO Nomura which will commence in 2018 (see Note 12.7). Prepaid rental made by BDO Nomura is included as part of Other Liabilities under Accounts Payable and Other Liabilities account in the 2017 statement of financial position. In 2018, BDO Rental, entered into Operating Lease Agreement with SM Prime Holdings, Inc. and Alfamart Trading Philippines, Inc. Operating lease income earned from these transactions is presented as part of Rent account in the Group's statements of income. No outstanding receivable on this transaction as of the end of 2018.

22. TAXES

22.1 Taxes and Licenses

This account is composed of the following:

	Group		
	2018	2017	2016
Documentary stamp tax	**P 215.2**	P 148.4	P 131.1
Gross receipts tax	**93.2**	86.2	81.3
Local taxes	**20.2**	19.9	16.5
Others	**16.6**	14.4	16.6
	P 345.2	P 268.9	P 245.5

	Parent Company		
	2018	2017	2016
Documentary stamp tax	**P 199.4**	P 137.6	P 118.5
Gross receipts tax	**93.2**	86.2	81.3
Local taxes	**12.5**	12.0	11.1
Others	**15.1**	10.8	16.6
	P 320.2	P 246.6	P 227.5

22.2 Current and Deferred Taxes

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

	Group		
	2018	2017	2016
Reported in statements of income			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	**P 86.5**	P 192.9	P 207.1
Final tax at 20%	**14.4**	16.8	19.0
Minimum corporate income tax (MCIT) at 2%	**0.2**	-	-
	101.1	209.7	226.1
Deferred tax income relating to origination and reversal of temporary differences	**(11.5)**	(60.9)	(45.4)
	P 89.6	P 148.8	P 180.7

	Group		
	2018	2017	2016
Reported in statements of comprehensive income			
Deferred tax income relating to origination of temporary differences:			
Financial assets at FVOCI	**(P 4.1)**	P -	P -
Actuarial gains and losses	**(0.5)**	(7.3)	(2.9)
AFS financial assets	**-**	(0.1)	(0.6)
	(P 4.6)	(P 7.4)	(P 3.5)

	Parent Company		
	2018	2017	2016
Reported in statements of income			
Current tax expense:			
RCIT at 30%	**P 86.5**	P 183.6	P 172.2
Final tax at 20%	**14.4**	16.8	19.0
	100.9	200.4	191.2
Deferred tax income relating to origination and reversal of temporary differences	**(11.5)**	(60.9)	(45.4)
	P 89.4	P 139.5	P 145.8
Reported in statements of comprehensive income			
Deferred tax income relating to origination of temporary differences:			
Financial assets at FVOCI	**(P 4.1)**	P -	P -
Actuarial gains and losses	**(0.5)**	(7.3)	(2.9)
AFS financial assets	**-**	(0.1)	(0.6)
	(P 4.6)	(P 7.4)	(P 3.5)

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

	Group		
	2018	2017	2016
Tax on pretax profit	**P 126.1**	P 215.8	P 225.2
Adjustment for income subjected to lower tax rate	**(7.2)**	(8.4)	(9.5)
Tax effects of:			
Non-taxable income	**(46.9)**	(48.0)	(47.5)
Non-deductible expense	**18.5**	42.0	35.9
Non-deductible interest expense	**8.8**	8.3	10.1
Reversal of deferred tax liability	**(7.2)**	(43.7)	(33.5)
Deductible temporary differences not recognized	**(6.9)**	(17.2)	-
Unrecognized deferred tax assets on:			
Net operating loss carry-over	**4.2**	-	-
MCIT	**0.2**	-	-
	P 89.6	P 148.8	P 180.7

	Parent Company		
	2018	2017	2016
Tax on pretax profit	**P 126.0**	P 213.0	P 214.7
Adjustment for income subjected to lower tax rate	**(7.2)**	(8.4)	(9.5)
Tax effects of:			
Non-taxable income	**(44.3)**	(53.1)	(71.2)
Non-deductible expense	**21.3**	40.4	35.9
Non-deductible interest expense	**7.7**	8.5	9.4
Deductible temporary differences not recognized	**(6.9)**	(17.2)	-
Reversal of deferred tax liability	**(7.2)**	(43.7)	(33.5)
	P 89.4	P 139.5	P 145.8

The components of net deferred tax assets (see Note 12) as of December 31, 2018 and 2017 follow:

	Statements of Financial Position			
	Group		Parent Company	
	2018	2017	**2018**	2017
Deferred tax assets:				
Allowance for impairment on:				
Loans and discounts	**P 93.5**	P 87.9	**P 93.5**	P 87.9
Investment properties and non-current assets held-for-sale	**7.9**	9.3	**7.9**	9.3
Accounts receivable	**9.1**	7.9	**9.1**	7.9
Retirement benefit obligation	**22.2**	22.5	**22.2**	22.5
	132.7	127.6	**132.7**	127.6
Deferred tax liabilities:				
Unrealized fair value gains on financial assets at FVOCI	**(6.2)**	-	**(6.2)**	-
Unrealized fair value gains on AFS financial assets	**-**	(10.3)	**-**	(10.3)
Lease income differential	**-**	(7.2)	**-**	(7.2)
Others	**(0.3)**	-	**(0.3)**	-
	(6.5)	(17.5)	**(6.5)**	(17.5)
Net deferred tax assets	**P 126.2**	P 110.1	**P 126.2**	P 110.1

The components of deferred tax income in profit and loss and in other comprehensive income for the years ended December 31, 2017, 2016 and 2015 follow:

	Group		
	2018	2017	2016
In profit or loss:			
Deferred tax assets:			
Allowance for impairment on:			
Loans and discounts	**P 5.6**	P 16.0	P 9.8
Accounts receivable	**1.2**	5.3	1.4
Investment properties and non-current assets held-for-sale	**(1.4)**	(4.3)	(1.1)
Retirement benefit obligation	**(0.8)**	(0.1)	1.8
	4.6	16.9	11.9
Deferred tax liabilities:			
Lease income differential	**7.2**	43.7	33.5
Others	**(0.3)**	0.3	-
	6.9	44.0	33.5
Net deferred tax income	**P 11.5**	P 60.9	P 45.4

	Parent Company		
	2018	2017	2016
In profit or loss:			
Deferred tax assets:			
Allowance for impairment on:			
Loans and discounts	**P 5.6**	P 16.0	P 9.8
Accounts receivable	**1.2**	5.3	1.4
Investment properties and non-current assets held-for-sale	**(1.4)**	(4.3)	(1.1)
Retirement benefit obligation	**(0.8)**	(0.1)	1.8
	4.6	16.9	11.9
Deferred tax liabilities:			
Lease income differential	**7.2**	43.7	33.5
Others	**(0.3)**	0.3	-
	6.9	44.0	33.5
Net deferred tax income	**P 11.5**	P 60.9	P 45.4

	Group/Parent Company		
	2018	2017	2016
In other comprehensive income:			
Deferred tax income on:			
Net actuarial losses	**P 0.5**	P 7.3	P 2.9
Unrealized fair value gains on financial assets at FVOCI	**4.1**	-	-
Unrealized fair value gains on AFS financial assets	**-**	0.1	0.6
Net deferred tax income	**P 4.6**	P 7.4	P 3.5

The Group is subject to MCIT, which is computed at 2% of gross income, as defined under tax regulations or RCIT, whichever is higher. In 2018, 2017 and 2016, the Group claimed itemized deductions in computing for its income tax due.

The Group has not recognized deferred tax assets on certain temporary differences, NOLCO and other tax credits since management believes that the future income tax benefits will not be realized within the availment period, as defined under tax regulations.

The Subsidiary's NOLCO can be claimed as deduction from future taxable income within three years from the year the taxable loss was incurred. Also, the Subsidiary's MCIT can be applied against RCIT for the next three consecutive years after the MCIT was incurred.

22.3 Supplementary Information Required Under Revenue Regulation (RR) No. 15-2010

The Bureau of Internal Revenue (BIR) issued RR No. 15-2010 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.

23. EARNINGS PER SHARE

Basic earnings per share were computed as follows:

	Group		
	2018	2017	2016
Net profit	**P 330.7**	P 570.5	P 570.0
Divided by the weighted average number of outstanding common shares – net*	**2,162.0**	2,162.0	2,162.0
Basic earnings per share	**P 0.15**	P 0.26	P 0.26

	Parent Company		
	2018	2017	2016
Net profit	**P 330.7**	P 570.5	P 570.0
Divided by the weighted average number of outstanding common shares – net*	**2,162.0**	2,162.0	2,162.0
Basic earnings per share	**P 0.15**	P 0.26	P 0.26

* net of treasury shares

There were no outstanding dilutive potential common shares as of December 31, 2018 and 2017.

24. SELECTED FINANCIAL PERFORMANCE INDICATORS

The following are some of the financial performance indicators of the Group and the Parent Company:

	2018	2017
Current ratio	**41.96%**	38.11%
Debt-to-equity ratio	**677.47%**	687.20%
Return on equity	**6.13%**	10.57%
Return on assets	**0.78%**	1.40%
Loans-to-assets	**82.70%**	80.12%

25. CONTINGENT LIABILITIES AND COMMITMENTS

25.1 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 account under Operating Costs and Expenses in the statements of income amounted to P13.6 in 2018, P13.6 in 2017 and P19.6 in 2016.

Future minimum lease payments under these operating leases follow:

	2018	2017	2016
Within one year	**P 14.2**	P 12.5	P 12.5
After one year but not more than five years	**28.8**	42.6	42.4
More than five years	**-**	0.2	-
	P 43.0	P 55.3	P 54.9

25.2 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, 2018, management does not anticipate significant losses from these contingencies and commitments that would adversely affect the Group's financial position and results of operations.

BDO Leasing and Finance, Inc. and Subsidiary
SEC Supplementary Schedules
December 31, 2018

Table of Contents

BDO LEASING AND FINANCE, INC. AND SUBSIDIARY
(A Subsidiary of BDO Unibank, Inc.)
Schedule A - Financial Assets
December 31, 2018
(Amount in Philippine Pesos)

Name of issuing entity and association of each issue [(i)]	*Number of shares or principal amount of bonds or notes*	*Amount shown on the balance sheet* [(ii)]	*Valued based on the market quotation at balance sheet date* [(iii)]	*Income received and accrued*
Financial Assets at FVOCI				
Smart Communication Inc.	1,400,000,000	1,231,962,672	1,231,962,672	78,796,200
8990 Holdings Inc.	937,220,000	925,575,277	925,575,277	58,182,618
Sta. Lucia Land Inc.	200,000,000	194,126,269	194,126,269	13,430,000
San Miguel Corporation	8,461,600	634,620,000	634,620,000	48,389,775
San Miguel Corporation	7,966,600	605,461,600	605,461,600	47,799,600
Tagaytay Splendido	1	90,000	90,000	0
First Gen Corporation	0	0	0	30,977,778
Total Financial Assets at FVOCI		3,591,835,818	3,591,835,818	277,575,971

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, 2018
(Amount in Philippine Pesos)

Name and designation of debtor (1)	Balance at beginning of period	Additions	Deductions		Ending Balance		Balance at end of period
			Amounts collected (2)	Amounts written off (3)	Current	Not current	
Amounts Due from Related Parties:							
	-				-	-	-
	-	-	-	-	-	-	-
Loans to Officers and Employees:							
Kapuno, Rosalisa Bantog	P 467,396		P 377,831		P 89,565		P 89,565
Natividad, Joseph Jason Martinez	1,027,090		373,603		653,487		653,487
Agustin, Peter Blair Sarion	232,831		232,831		-		-
So, Jennifer Facunda	10,304		10,304		-		-
Tabanao, Dean Arvin D.	937,193		333,141		604,052		604,052
Gulane, Jennifer T.	401,101		200,939		200,162		200,162
Paguio, Rommel I.	297,166		193,342		103,824		103,824
Reyes, Luis Jr.	830,346		463,455		366,892		366,892
Handig, Joeven Y.	877,351		276,012		601,339		601,339
Magrata, Marlon F.	493,703		147,912		345,791		345,791
Zapata, Anne Marie Therese C.	775,265		775,265		-		-
Jimenez, Frieda Concepcion T.	1,156,965		359,908		797,057		797,057
Tad-y, Angelita C.		P 364,706	364,706		-		-
Cruz, Elmer J.		1,291,188			1,291,188		1,291,188
	7,506,711	1,655,894	4,109,249	-	5,053,357	-	5,053,357
Loans to Stockholders:							
	-				-	-	-
	-	-	-	-	-	-	-
Loans to Directors (not officer or employee)							
	-	-	-	-	-	-	-
	P 7,506,711	P 1,655,894	P 4,109,249	P -	P 5,053,357	P -	P 5,053,357

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, 2018

(Amount in Philippine Pesos)

			Deductions				
Name and Designation of debtor	**Balance at beginning of period**	**Additions**	**Amounts collected (i)**	**Amounts written off (ii)**	**Current**	**Non-current**	**Balance at end of period**
BDO Rental, Inc.	0		0				0
	0	0	0	0	0	0	0

BDO LEASING AND FINANCE, INC. AND SUBSIDIARY
(A Subsidiary of BDO Unibank, Inc.)
Schedule D - Intangible Assets - Other Assets
December 31, 2018
(Amount in Philippine Pesos)

Description [i]	*Beginning balance*	*Additions at Cost* [ii]	*Charged to cost and expenses*	*Charged to other accounts*	*Other changes additions (deductions)* [iii]	*Ending balance*
Computer Software	P 29,443,212	-	(P 13,944,124)	-	P -	P 15,499,088
	P 29,443,212	-	(P 13,944,124)	-	-	P 15,499,088

BDO LEASING AND FINANCE, INC. AND SUBSIDIARY
(A Subsidiary of BDO Unibank, Inc.)
Schedule E - Long-Term Debt
December 31, 2018
(Amount in Philippine Pesos)

Title of issue and type of obligation (i)	*Amount authorized by indenture*	*Amount shown under caption "Current portion of long-term debt" in related balance sheet (ii)*	*Amount shown under caption "Long-Term Debt" in related balance sheet (iii)*	*Interest Rate*	*Maturity Date*
Bills Payable - Others					
Bangko Sentral ng Pilipinas (BSP)					
Land Bank of the Philippines	750,000,000	500,000,000	250,000,000	7.100%	June 22, 2020
Land Bank of the Philippines	750,000,000	500,000,000	250,000,000	7.100%	June 26, 2020
Land Bank of the Philippines	312,500,000	288,461,538	24,038,462	3.100%	January 16, 2020
Development Bank of the Philippines (DBP)	26,496,500	26,496,500	0	3.200%	March 27, 2019
Development Bank of the Philippines (DBP)	3,712,500	3,712,500	0	3.200%	April 1, 2019
		-	-		
Total Bills Payable - Others	P 1,842,709,000	P 1,318,670,538	P 524,038,462		

(i) Include in the column each type of obligation authorized (I.e., loans, bonds, warrants, etc.)

(ii) This column is to be totalled to correspond to the related balance sheet caption.

(iii) 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, 2018

(Amount in Philippine Pesos)

Name of related party (1)	*Balance at beginning of period*	*Balance at end of period (2)*

- nothing to report -

BDO LEASING AND FINANCE, INC. AND SUBSIDIARY

(A Subsidiary of BDO Unibank, Inc.)

Schedule G - Guarantees of Securities of Other Issuers

December 31, 2018

(Amount in Philippine Pesos)

Name of issuing entity of securities guaranteed by the company for which this statement is filed	***Title of issue of each class of securities guaranteed***	***Total amount guaranteed and outstanding (2)***	***Amount owned by person for which statement is filed***	***Nature of guarantee(3)***

- nothing to report -

BDO LEASING AND FINANCE, INC. AND SUBSIDIARY
(A Subsidiary of BDO Unibank, Inc.)
Schedule H - Capital Stock
December 31, 2018
(Amount in Philippine Pesos)

Title of Issue (2)	*Number of shares authorized*	*Number of shares issued and outstanding as shown under the related balance sheet caption*	*Number of shares reserved for options, warrants, coversion and other rights*	*Number of shares held by*		
				Related parties (3)	*Directors, officers and employees*	*Others*
Preferred Shares	200,000	-	-	-	-	-
Common shares	3,400,000,000	2,162,475,312		1,914,711,807	152,915	247,610,590
BDO Unibank Inc.				1,914,711,807		

*Determination of number of shares and outstanding	
Number of shares issued	2,225,169,030.00
Less shares held in treasury	62,693,718.00
	2,162,475,312.00

Appendix I

BDO Leasing and Finance, Inc.
(A Subsidiary of BDO Unibank, Inc.)
Reconciliation of Retained Earnings Available for Dividend Declaration
December 31, 2018
(Amount in Philippine Pesos)

Unappropriated Retained Earnings Available for Dividend Declaration at Beginning of Year		P 2,626.8
Prior Year's Outstanding Reconciling Items , net of tax		
Deferred tax income	(P 127.6)	
Share in net profit of subsidiary and an associate	(20.5)	
Net interest income on retirement benefit asset	(3.2)	
Day-one gain	(1.3)	(152.5)
Unappropriated Retained Earnings Available for Dividend Declaration at Beginning of Year, as Adjusted		2,474.2
Net Profit Per Audited Financial Statements		330.7
Non -actual/unrealized income, net of tax		
Deferred tax income	(11.5)	
Impairment reversal	(10.4)	
Net interest income on retirement benefit asset	(1.3)	
Day-one gain	(4.5)	
Unrealized foreign exchange gain	(0.9)	(28.6)
Net income actually earned during the year		302.1
Other Transaction During the Year		
Dividend declared	(216.2)	
Appropriation of retained earnings	(4.4)	(220.6)
Unappropriated Retained Earnings Available for Dividend Declaration at End of Year		**P 2,555.8**

BDO LEASING AND FINANCE, INC.
(A Subsidiary of BDO Unibank, 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, 2018

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			✓	
Philippine Financial Reporting Standards (PFRS)				
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	✓		
	Amendments to PFRS 1: Deletion of Short-term Exemptions	✓		
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			✓
PFRS 3 (Revised)	Business Combinations	✓		
	Amendment to PFRS 3: Remeasurement of Previously Held Interests in a Joint Operation (*effective January 1, 2019)*			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, *Financial Instruments* , with PFRS 4, *Insurance Contracts*			✓
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	✓		
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments (2014)	✓		
	Amendments to PFRS 9: Prepayment Features with Negative Compensation* (*effective January 1, 2019)*			✓
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			✓
	Amendment to PFRS 11: Remeasurement of Previously Held Interests in a Joint Operation (*effective January 1, 2019)*			✓
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 15	Revenue from Contracts with Customers	✓		
PFRS 16	Leases* *(effective January 1, 2019)*			✓
PFRS 17	Insurance Contracts* *(effective January 1, 2021)*			✓
Philippine Accounting Standards (PAS)				
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	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events After the Reporting Period	✓		
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	✓		
	Amendment to PAS 12 - Tax Consequences of Dividends* (*effective January 1, 2019)*			✓
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 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	✓		
	Amendment to PAS 23: Eligibility for Capitalization	✓		
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	✓		
	Amendment to PAS 28: Measurement of Investment in Associates at Fair Value through Profit or Loss			✓
	Amendment to PAS 28: Long-term Interest in Associates and Joint Venture (*effective January 1, 2019*)			✓
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	✓		
PAS 40	Investment Property	✓		
	Amendment to PAS 40: Reclassification to and from Investment Property	✓		
PAS 41	Agriculture			✓
	Amendments to PAS 41: Bearer Plants			✓
Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)				
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 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 19	Extinguishing Financial Liabilities with Equity Instruments**	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies	✓		
IFRIC 22	Foreign Currency Transactions and Advance Consideration**	✓		
IFRIC 23	Uncertainty Over Income Tax Treatments (effective *January 1, 2019*)			✓
Philippine Interpretations - Standing Interpretations Committee (SIC)				
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 2018 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, 2018 and 2017
(Amounts in Millions of Philippine Pesos)

	2018	2017	**2018**	2017
I. Current/liquidity ratios				
Current ratio				
Total current assets	**12,347.8**	12,590.0	**0.42**	0.38
Total current liabilities	**29,427.3**	33,145.5		
Quick ratio				
Quick assets	**12,195.7**	12,387.5	**0.41**	0.37
Total current liabilities	**29,427.3**	33,145.5		
II. Solvency ratios; debt-to-equity ratios				
Solvency ratio				
(After tax net profit + Depreciation)	**1,212.2**	1,406.7	**0.03**	0.04
Total liabilities	**36,197.2**	37,399.3		
Debt-to-equity ratio				
Total liabilities	**36,197.2**	37,399.3	**6.77**	6.87
Total equity	**5,343.0**	5,442.3		
III. Asset-to-equity ratio				
Asset-to-equity ratio				
Total assets	**41,540.2**	42,841.6	**7.77**	7.87
Total equity	**5,343.0**	5,442.3		
IV. Interest coverage ratio				
Interest coverage ratio				
Earnings before interest and taxes	**1,590.5**	1,567.7	**1.36**	1.85
Interest expense	**1,170.2**	847.9		
V. Profitability ratios				
Net profit margin				
Net Profit	**330.7**	570.5	**10.28%**	18.07%
Interest income + Other operating income	**3,215.5**	3,156.5		
Return on equity				
Net profit	**330.7**	570.5	**6.13%**	10.57%
Average equity	**5,392.7**	5,395.9		
Return on assets				
Net profit	**330.7**	570.5	**0.78%**	1.40%
Average assets	**42,190.9**	40,871.0		

VI. Others

Total real estate investments to Assets

Total investment properties / Total assets	**354.5** / **41,540.2**	354.4 / 42,841.6	**0.85%**	0.83%

Loans to Assets

Total loans and other receivables / Total assets	**34,352.6** / **41,540.2**	34,324.7 / 42,841.6	**82.70%**	80.12%

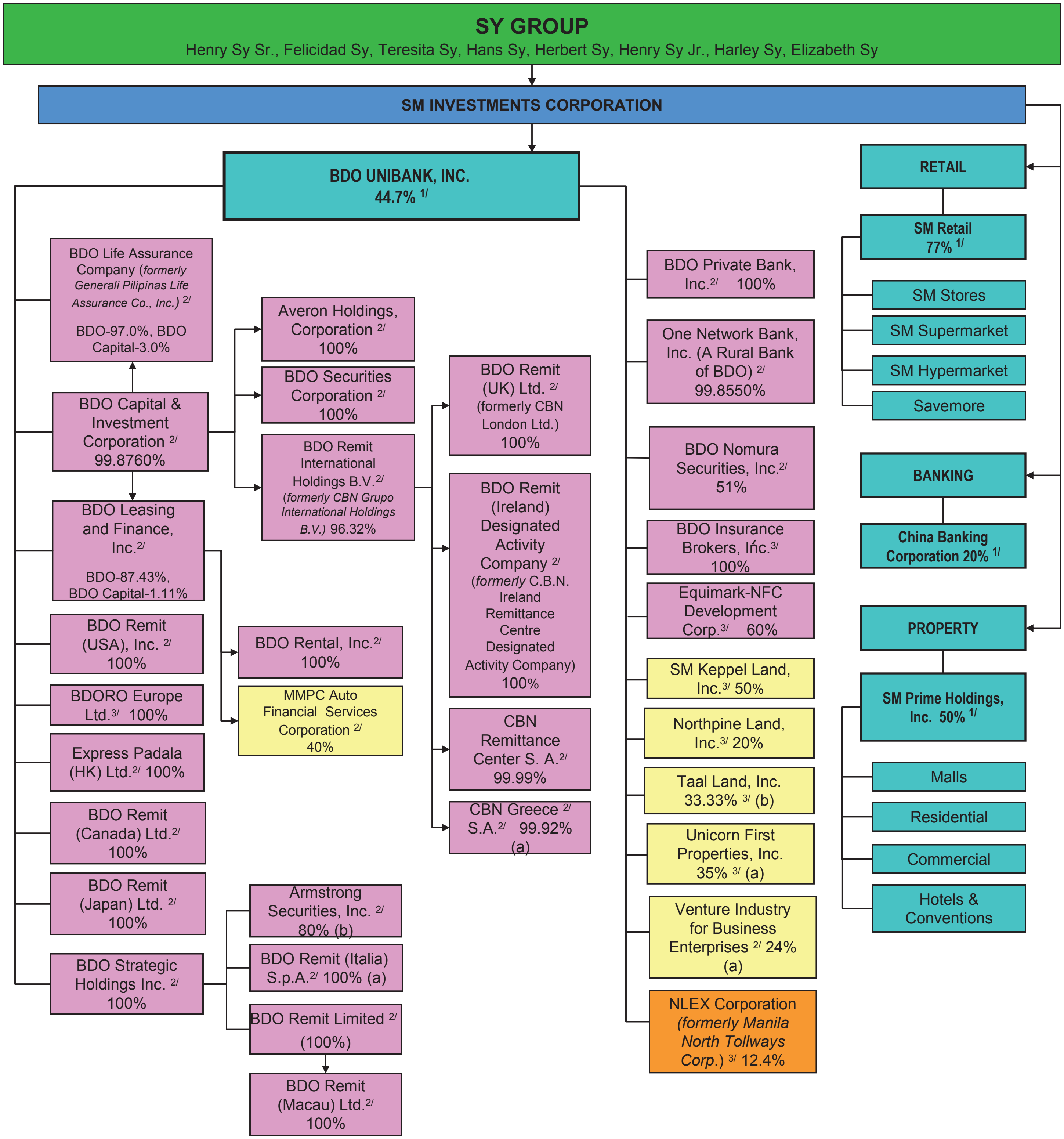
DOSRI to Net worth

Receivables from Directors, Officers, Stakeholders and Related Interests / Total equity	**5.1** / **5,343.0**	10.1 / 5,442.3	**0.10%**	0.19%

Amount of receivable from a single corporation to Total receivables

Loan to a single corporation / Total loans and other receivables	**882.3** / **34,352.6**	1,287.0 / 34,324.7	**2.57%**	3.75%

BDO Unibank, Inc. Group Map
As of December 31, 2018



1/ *SMIC Group's effective ownership interest (includes direct & indirect ownership)*
2/ *Financial entities*
3/ *Non-Financial entities*

(a) For dissolution
(b) For sale

- SMIC's Subsidiaries/Affiliates
- Stockholder of BDO
- Subsidiary
- Affiliate
- Other Related Party

BDO LEASING AND FINANCE, INC. AND SUBSIDIARY
(A Subsidiary of BDO Unibank, Inc.)
Use of Proceeds
December 31, 2018
(Amount in Philippine Pesos)

Gross/ Net Proceeds as disclosed in Final Prospectus	
Existing Commercial Paper Placements	12,194,200,000.00
Payment of Maturing Obligation	2,107,000,000.00
For Relending	687,241,375.00
Issuance and Distribution Expense	11,558,625.00
	15,000,000,000.00
Actual Proceeds - December 31, 2018	
Gross Proceeds	3,399,500,000.00
Net Proceeds	3,362,936,512.00
Expenditures	
Rollover	2,894,557,661.00
Relending	24,693,454.00
PN Payment	443,685,397.00
Balance - December 31, 2018	11,600,500,000.00

ANNEX "B"

MANAGEMENT REPORT

BDO LEASING AND FINANCE, INC.

MANAGEMENT REPORT TO STOCKHOLDERS

PART I- BUSINESS AND GENERAL INFORMATION

Marketing of Products/Services

BDO Leasing and Finance, Inc. (the "**Company**" or the "**Parent Company**") markets its products through its head office located at the 39th Floor 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 (5) 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, Inc. ("**BDO Rental**"), licensed by the Securities and Exchange Commission ("**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 (defined as BDO Unibank, Inc. ("**BDO Unibank**") and its subsidiaries), the Company enables 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 a limited number of suppliers/dealers for essential raw materials, equipment, energy or other items.

RELATED PARTY TRANSACTIONS

The Group (defined as the Company and BDO Rental) and Parent Company's related parties include BDO Unibank, related party under common ownership, key management personnel and the retirement benefit fund as described in the succeeding pages.

The summary of the Group and Parent Company's transactions with its related parties in 2018, 2017 and 2016 and the related outstanding balances as of December 31, 2018 and 2017 are shown in the succeeding pages.

Related Party Category	Notes	Amount of Transaction 2018	2017	2016
Ultimate parent company (BDO Unibank)				
Interest income on savings and demand deposits	*(a)*	**P 0.6**	P 0.8	P 0.7
Interest expense on bills payable	*(b)*	**120.6**	141.5	38.0
Rent expense	*(c)*	**13.6**	12.3	10.5
Management fees	*(d)*	**16.0**	13.8	2.4
Service charges and fees	*(e)*	**1.4**	-	-
Service fees	*(f)*	**0.1**	-	-
Employee stock option plan	2.18, 20	**8.7**	6.3	16.9
Subsidiary (BDO Rental)				
Dividend income	*(j)*	**35.0**	120.0	60.0
Management fees	*(d)*	**0.4**	0.4	0.4
Rent income	*(c)*	**0.1**	0.1	0.4
Under common ownership				
Service and charges fees	*(g), (k)*	**4.3**	5.0	5.5
Interest expense on bills payable	*(l)*	**145.0**	94.1	-
Operating lease income	*(n)*	**47.1**	-	-
Insurance expense	*(m)*	**0.3**	-	-
Key management personnel				
Short-term benefits	*(h)*	**58.6**	47.5	50.4
Loans to officers	*(h)*	**1.7**	3.8	5.0

Related Party Category	Notes	Outstanding Balance 2018		2017	
Ultimate parent company (BDO Unibank)					
Savings and demand deposits	*(a)*	**P**	**269.8**	P	453.0
Bills payable	*(b)*		**2,146.0**		4,782.9
Employee stock option plan	2.18, 20		**8.7**		-
Under common ownership					
Accounts receivable	*(k)*		**0.8**		0.8
Bills payable	*(l)*		**1,988.8**		3,901.0
Unearned rental income	*(n)*		**-**		4.6
Key management personnel					
Loans to officers	*(h)*		**5.1**		7.5
Retirement benefit fund					
Shares of stock	*(i)*		**1.1**		2.0

(a) The Group maintains savings and demand deposit accounts with BDO Unibank. As of December 31, 2018 and 2017, savings and demand deposit accounts maintained with BDO Unibank are included under Cash and Cash Equivalents account in the statements of financial position. These deposits generally earn interest at annual rates of 0.25% in 2018, 2017 and 2016. Interest income earned on these deposits in 2018, 2017 and 2016 is included as part of Interest and Discounts account under Revenues in the statements of income.

(b) The Group obtains short-term bills payable from BDO Unibank with annual interest rates ranging from 2.2% to 6.5% in 2018, 2.2% to 3.5% in 2017 and 2.2% to 3.0% in 2016. Total bill availments and payments amounted to P34,050.6 and P36,715.7, respectively, in 2018, P33,288.2 and P31,087.9, respectively, in 2017, and P21,532.7 and P22,205.6, respectively, in 2016. These bills payable are secured by certain financial assets at fair value through other comprehensive income (FVOCI) with fair value of P1,240.1 and P2,066.6 as of December 31, 2018 and 2017, respectively. The amount outstanding from borrowings as of December 31, 2018 and 2017 is presented under Bills Payable account in the statements of financial position. Interest expense incurred on these bills payable in 2018, 2017 and 2016 is included as part of Interest and Financing Charges account under Operating Costs and Expenses 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 by the Parent Company and BDO Unibank. Related rent expense incurred in 2018, 2017 and 2016 is presented as part of Occupancy and Equipment-related Expenses account 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 2018, 2017 and 2016 is presented as part of Other Income-net account in the Parent Company's statements of income. There are no outstanding receivables and payables on these transactions as of the end of 2018 and 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 are shown as part of Other Expenses account under 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-net account in the Parent Company's statements of income. There are no outstanding receivables and payables on these transactions as of the end of 2018 and 2017.

(e) In 2018, the Parent Company sold a portion of its receivables to BDO Unibank. The Parent Company charged BDO Unibank for service charges and fees which are presented as part of Other Income-net account in the statements of income. There are no outstanding receivables and payables on these transactions as of the end of 2018.

(f) In 2018, the Parent Company entered into an agreement with BDO Unibank on stock transfer where BDO Unibank will charge the Parent Company for stock transfer services. Service fees paid by the Parent Company to BDO Unibank are shown as part of Other Expenses account under Operating Costs and Expenses in the statements of income. There is no outstanding receivable and payable on these transactions as of the end of 2018.

(g) 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 P2.0 for 2018, P3.2 for 2017 and P4.0 for 2016 are included as part of Other Expenses account under Operating Costs and Expenses in the statements of income. There are no outstanding payables on this transaction as of the end of 2018 and 2017.

(h) Compensation of key management personnel (covering officer positions starting from Assistant Vice President and up) is included as part of Employee Benefits under Operating Costs and Expenses in the statements of income of the Group and Parent Company. Short-term employee benefits amounting to P58.6 in 2018, P47.5 in 2017 and P50.4 in 2016, include salaries, paid annual leave and paid sick leave, profit sharing and bonuses, and non-monetary benefits. On the other hand, retirement benefits expense amounted to P8.7 in 2018, P7.0 in 2017 and P5.7 in 2016.

The Group also granted loans to officers, which are secured by mortgage on the property, bear interest with a range a 7.0% to 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 December 31, 2018 and 2017.

Employees

As of December 31, 2018, the Company had 200 employees – 20 senior officers, 89 junior officers and 91 rank & file employees. Of the total personnel, Executive Office is composed of two (2) employees; one hundred thirty two (132) under the Marketing group; fifty two (52) under the Operations group (Comptrollership and Operations); nine (9) under Risk and Compliance; three (3) under Treasury; and two (2) under the Company's subsidiary, BDO Rental. In 2018, the Company anticipates two (2) 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 BDOEA-ALU, 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, 2018, 70% of the Company's leasing and financing portfolio consisted of exposure in firms in the following sectors: other community services, transportation, construction, financial services and entertainment. 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, 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 of Directors. The Board approves the overall institutional tolerance risk, including risk policies and risk philosophy of the Company.

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

Interest Rate Risk

The Company follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. The current composition of the Company's assets and liabilities results in significant negative gap positions for repricing periods under one 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 any time 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 ₱15 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

The Company is governed by the National Internal Revenue Code ("**NIRC"** or the "**Tax Code"**) and abides with all the relevant provisions of the NIRC. The following are the significant Revenue Regulations ("**RR")** that were issued in 2017 that apply to the Company.

a) In January 18, 2017, RR No. 1-2017 was issued which prescribes the regulations governing applications for Value-Added Tax (VAT) credit/refund filed under Section 112 of the Tax Code, as amended, prior to the effectivity of Revenue Memorandum Circular ("**RMC**") No. 54-2014;

b) RMC No. 28-2017, issued March 30, 2017, reiterates and updates the guidelines in the filing, receiving and processing of 2016 Income Tax Returns, including its attachments.;

c) In April 26, 2017, RMC No. 33-2017 was issued which allows the over-the-counter acceptance of certain tax returns/payments of internal revenue taxes due to unavailability of electronic Filing and Payment System;

d) In April 27, 2017, RMC No. 34-2017 was issued to clarify paragraph 6 of RMC No. 28-2017 re: guidelines in the filing, receiving and processing of 2016 Income Tax Returns, including its attachments;

e) RMC No. 35-2017 was issued in April 27, 2017 to clarify the imposition of Capital Gains Tax on the sale, exchange or other disposition of real properties;

f) In August 15, 2017, RMC No. 68-2017, clarifies the processing of applications for Permit to Use Loose-Leaf Books of Accounts/Invoices/Receipts and other accounting records;In December 29, 2017, RMC No. 104-2017 circularizes the copy of RA No. 10963 (Tax Reform for Acceleration and Inclusion [TRAIN] Act) and President Duterte's VETO message on the TRAIN Act.

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 Revenue Regulations (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.

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 39/F BDO Corporate Center Ortigas, 12 ADB Avenue, Ortigas Center, Mandaluyong City. In 2018 and 2017, the consolidated rent expense amounted to P13.6 million and P13.6 million, respectively. Cagayan de Oro, Davao, Iloilo, Pampanga, and Cebu branches also lease their premises from BDO Unibank .

These are the details of the branches' office premises:

Cagayan:

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

Iloilo:

- Operates at the 2nd Floor, BDO Corporate Center, BDO Valeria Branch, Valeria St., Iloilo City for a period of five (5) years and will expire on November 17, 2023. Monthly rental amounts to P11,708.00 with no escalation clause.

Davao:

- Operates at the 4th Flr., BDO Davao-Claveria No. 30 C.M. Recto Avenue, Poblacion, Davao City for a period of five (5) years and will expire on May 31, 2023. Gross monthly rental amounts to P58,836.00 with no escalation clause

Cebu:

- Operates at the Mezzanine Floor, BDO Bldg., Gorordo Ave., Lahug, Cebu City for a period of five (5) years and will expire on May 31, 2019 Monthly rental amounts to P46,122.00 with no escalation clause.

Pampanga:

- Operates at the 4th Flr., BDO Angeles-Balibago Branch Building, Ramon Tang Avenue, Diamond Subdivision, Balibago, Angeles City for a period of five (5) years and will expire on December 14, 2023. Gross monthly rental amounts to P82,496.00 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 – P42.6 million; Cebu – P0.7 million; Davao – P0.7 million; Cagayan – P1.3 million; Iloilo – P0.6 million; Pampanga – P1.5 million.

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.

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

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 price 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, 2018 was 62,693,718 shares or a total value of ₱81,776,628.

Dividends

In 2018, the Company declared and paid cash dividends of ₱0.10 per share for a total cash dividend payment to its stockholders of approximately ₱216.25 million. This was paid on March 27, 2018 to stockholders of record as of March 9, 2018.

In 2017, the Company declared and paid cash dividends of ₱0.20 per share for a total cash dividend payment to its stockholders of approximately ₱432.49 million. This was paid on March 29, 2017 to stockholders of record as of March 10, 2017.

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 Philippine Stock Exchange, Inc. ("**PSE**").

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

2019	High	Low	2018	High	Low
January	2.17	2.16	1st quarter	3.21	2.23
February	2.30	2.22	2nd quarter	2.84	2.83
			3rd quarter	2.58	2.57
			4th quarter	2.20	2.19
2017	**High**	**Low**	**2016**	**High**	**Low**
1st quarter	3.96	3.95	1st quarter	2.85	2.84
2nd quarter	4.05	3.90	2nd quarter	4.15	4.00
3rd quarter	4.08	4.05	3rd quarter	3.85	3.77
4th quarter	3.89	3.78	4th quarter	3.79	3.79

As at March 13, 2019 and December 31, 2018, the closing price of the Company's share were at P2.30 and P2.19, respectively.

Total number of stockholders as of January 31, 2019 was one thousand one hundred sixteen (1,116) and as of December 31, 2018 was one thousand one hundred sixteen (1,116). Common shares outstanding as of January 31, 2019 and December 31, 2018 totaled 2,162,475,312.

Holders

The Company's common stockholders with their respective shareholdings as of February 28, 2019 are as follows:

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

The top twenty (20) stockholders of the Company as of February 28, 2019 are as follows:

Name of Stockholders	Securities	Shares Held	Total Outstanding
BDO Unibank, Inc.*	Common	1,914,711,807	88.542597%
PCD Nominee Corporation (Filipino)	Common	246,273,365	11.387106%
Samuel Uy Chua	Common	21,000,000	0.971109%

[] Record and beneficial (BDO Unibank and subsidiary)

Equitable Computer Services, Inc A/C Cequit11	Common	12,320,000	0.569717%
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, 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%
Willington / Constantino Chua / George W. Chua Chua	Common	584,430	0.027026%
PCD Nominee Corporation (Foreign)	Common	559,714	0.025883%
Willington Chua	Common	508,530	0.023516%
Pablo Son Keng Po	Common	455,400	0.021059%
Wilson Go	Common	438,625	0.020283%
Lim Chin Ben	Common	425,040	0.019655%
Sysmart Corporation	Common	358,835	0.016594%

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.

PART III – FINANCIAL INFORMATION

Management's Discussion and Analysis or Plan of Operation

2018 Compared to 2017

Gross income for the year ended December 31, 2018 was P3,215.5 million, an increase of P59.0 million, or 1.9% from P3,156.5 million in 2017. Interest and discounts for the year ended December 31, 2018 were P1,967.1 million, up by P48.8 million or 2.5% from P1,918.3 million in 2017. Rent Income for the year stood at P938.3 million, an increase of P16.1 million or 1.7% from P922.2 million in 2017. The Company's leasing and financing portfolio as of December 31, 2018 was at P34.55 billion.

Interest and financing charges for 2018 amounted to P1,170.2 million, consisting mainly of finance charges from borrowings of P1,164.6 million and interest expense on lease deposits of P5.6 million. The increase of P320.1 million in financing charges is attributed to the increase in borrowing rate in 2018. Interest expense on leased deposits in 2018 amounted to P5.6 million or an increase of P1.7M from 2017's P3.9 million.

Total provision for impairment losses decreased from P63.5 million in 2017 to P1.0 million in 2018. This was due to the implementation of PFRS 9. Accounts written off in 2018 amounted to P0.3 million.

Taxes and licenses amounted to P345.2 million for the year ended December 31, 2018, an increase of P74.3 million, or 27.5% from the P270.8 million reported for the year ended December 31, 2017. The increase was mainly the result of higher Documentary Stamp Taxes in 2018 vis a vis 2017, attributed to the implementation of the TRAIN law.

Salaries and employee benefits expense amounted to P235.7 in 2018 as compared to P227.0 million in 2017. Occupancy and equipment related expenses for the year ended December 31, 2018 amounted to P911.8 million, an increase of P46.4 million, or 5.4% from December 2017's P865.4 million.

Litigation/assets acquired expenses amounted to P14.3 million in 2018, a decrease by P27.3 million from P41.6 million in 2017.

Other expenses decreased slightly to P117.0 million in 2018 as compared to P120.5 million in 2017.

The Company registered a net income of P330.7 million for the year ended December 31, 2018.

Total assets amounted to P41.5 billion in December 31, 2018, a decrease of P1.3 billion from P42.8 billion as of December 2017. Following PFRS 9, Available-for-sale securities (AFS) were reclassified to Financial assets at fair value through OCI (FVOCI) in 2018. FVOCI decreased from P3.52 billion (AFS) last year to P3.6 billion this year due to investment maturities. Leasing and Financing portfolio amounted to P34.6 billion. Property and Equipment-net amounted to P2.24 billion as of 2018, a slight decrease from last year's P2.26 billion. Investment properties-net slightly increased to P354.5. Other assets amounted to P711.7 million in 2018.

Income tax payable, accounts payable, and other liabilities decreased to P587.1 million from P932.4 million last year.

Lease deposits, amounting to P6.63 billion in 2018, increased by P643.7 million or 10.7% from last year's P5.99 billion.

Stockholders' equity decreased by P99.3 million or 1.8%.

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

	December 2018	December 2017
Current Ratio	0.42:1	0.38:1
Quick aset ratio	0.41:1	0.37:1
Debt to Equity Ratio	6.77:1	6.87:1
Net Profit Margin	10.29%	18.08%
Return on Equity	6.13%	10.57%

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 0.38:1 and 0.37:1, respectively. Debt to equity ratio, computed as total liabilities divided by total equity, decreased from 6.87:1 in 2017 to 6.77:1 in 2018. Net Profit Margin which is computed as net income over gross revenue, declined due to higher operating expenses. Return on Equity, which is net income over average equity, declined to 6.13% in 2018.

2017 Compared to 2016

Gross income for the year ended December 31, 2017 was P3.16 billion, an increase of P302.2 million, or 10.6% from P2.85 billion in 2016. Interest and discounts for the year ended December 31, 2017 were P1.92 billion, an increase of P157.6 million or 9% from P1.76 billion in 2016. Rent Income for the year ended December 31, 2017 were P922.2 million, an increase of P32.0 million or 3.6% from P890.2 million in 2016. The increase was due to higher operating lease income from its subsidiary, BDO Rental, Inc. The Company's leasing and financing portfolio as of December 31, 2017 was at P34.54 billion, a P2.73 billion increase, or 8.6% from P31.81 billion as of December 31, 2017 with leasing portfolio improving by 7.0% or an increase of P1.2 billion.

Interest and financing charges for 2017 amounted to P850.3 million, consisting mainly of finance charges from borrowings of P844.4 million and interest expense on lease deposits of P3.9 million. The increase of P176.8 million in financing charges is attributed to the increase in Bills Payable from P27.27 billion last year to P30.48 billion this year. Interest expense on leased deposits in 2017 amounted to P3.9 million or an increase of P0.7M from 2016's P3.2 million.

As of December 31, 2017, total provision for impairment losses stood at P50.0 million. There were accounts written off in 2017 amounting to P0.3 million.

Taxes and licenses amounted to P268.9 million for the year ended December 31, 2017, an increase of P23.4 million, or 9.5% from P245.5 million for the year ended December 31, 2016. The increase was mainly the result of higher Documentary Stamp Tax in 2017 vis a vis 2016, by P17.0 million.

Salaries and employee benefits expense amounted to P227.0 in 2017 as compared to P220.7 million in 2016. Occupancy and equipment related expenses for the year ended December 31, 2017 amounted to P865.4 million, an increase of P90.2 million, or 11.6% from December 2016's P775.2 million. This was brought about by the operating lease business of BDO Rental.

Litigation/assets acquired expenses increase by P11.6 or from P30.0 million in 2016 to P41.6 million in 2017.

Other expenses increased to P120.5 million in 2017 as compared to P108.7 million as of 2016.

The Company registered a net income of P570.5 million for the year ended December 31, 2017.

Total assets amounted to P42.8 billion in December 31, 2017, an increase of P3.9 billion from the P38.9 billion balance of December 2016. Available-for-sale securities increased from P3.52 billion last year to P4.64 billion this year brought about by new investments in a corporate issuance. Leasing and Financing portfolio increased by 9.4%, representing an increase of P2.94 billion from last year. Property and Equipment-net amounted to P2.26 billion as of 2017, a slight decrease from last year's P2.38 billion. Investment properties-net decreased to P354.4 million from 2016's P426.5 million. Other assets decreased slightly from P819.3 million in 2016 to P806.2 million in 2017.

Income tax payable, accounts payable, and other liabilities increased to P932.1 million from P702.0 million last year.

Lease deposits, amounting to P5.99 billion in 2017, increased by P407.9 million or 7% from last year's P5.58 billion. This was also due to the increase in volume of lease transactions of the Company.

Stockholders' equity increased by P92.9 million or 1.7%, due to Net Income for the year, after deducting cash dividends paid out to shareholders.

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

	December 2017	December 2016
Current Ratio	0.38:1	0.41:1
Quick aset ratio	0.37:1	0.41:1
Debt to Equity Ratio	6.87:1	6.27:1
Net Profit Margin	18.08%	19.97%
Return on Equity	10.57%	10.78%

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 0.41:1. Debt to equity ratio, computed as total liabilities divided by total equity, increased from 6.27:1 in 2016 to 6.87:1 in 2017 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 10.57% in 2017.

Policy on Revenue Recognition – Other Income

Income related to the administration and servicing of loans are recognized as revenue once the services are rendered. These are included under Other Income such as Service Fees, Gain on disposal of property, share in net income (loss) on equity investment, 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 Externals 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 investors. The Company is confident it can 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 by end 2019 will be at P40.3 billion, with Net Loans and Other Receivables projected at P33.4 billion. For 2019, total Revenue is estimated at P3.71 billion, with Interest and Financing Charges reaching P1.68 billion by the end of the year. Depreciation of assets under Operating Lease will be about P862 million.

Funding will be mainly sourced from the CPs, bank lines and collections. The Company was able to renew its license to issue P15 Billion worth of Short Term CPs for 2019.

Financial Statements

The financial statements of the Company included in the 2018 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.

INFORMATION ON INDEPENDENT ACCOUNTANT

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 three (3) fiscal years for professional services rendered by the external auditor was P1.009 million for the year 2018, P1.068 million for the year 2017 and P0.839 million for the year 2016. 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 2018, 2017 and 2016.

(b) Tax fees and other fees

No other fees were paid to the auditing firm of Punongbayan & Araullo, CPAs ("P&A") for the last three (3) 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 (a) 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 (b) 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.

(2) Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

In 2018 and 2017, 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.

CORPORATE GOVERNANCE

The Company has adopted a Manual of Corporate Governance, which was filed with and duly approved by the SEC. Pursuant to the Manual, the Company established an evaluation system to measure or determine the level of performance of the Board and top level management. The rating form, which is duly approved by the Board, is accomplished on an annual basis.

The Company requires its directors and senior officers to attend seminars conducted by reputable service providers and to conduct its own training and seminars to fully comply with the adopted leading practices on good governance.

There has been no deviation from the Company's Manual of Corporate Governance.

The Company will continue to send its directors and senior officers to attend training programs and seminars to further improve the corporate governance of the Company.

Recently, the SEC issued Circular No. 19, Series of 2016 establishing new principles on the Code of Corporate Governance for Publicly-Listed Companies ("**Code**"). These principles will promote and develop a strong corporate governance culture and keep abreast with recent developments in corporate governance. These principles are: Board Governance Responsibilities, Disclosure and Transparency, Internal Control System and Risk Management Framework; Cultivating a Synergic Relationship with Shareholders; and Duties to Stakeholders.

COMPLIANCE WITH LEADING PRACTICES ON CORPORATE GOVERNANCE

The practice of corporate governance in BDO Leasing and Finance, Inc. (the **"Company"**) is about effective oversight, voluntary compliance and sustainable value creation to promote the best interest of its various stakeholders. As a publicly-listed company and a financial institution, the Company affirms its deep commitment to a high standard of corporate governance practice firmly anchored on the principles of accountability, fairness, integrity, transparency and performance consistently applied throughout the institution that supports our corporate objective of delivering long-term value. The Company's good market reputation has been built on the solid foundation of an ethical corporate culture and responsible business conduct, underpinned by a well-structured and effective system of governance.

The Company has continued to comply with all the required provisions of the Code of Corporate Governance for Publicly-Listed Companies (the **"Code"**) of the Securities and Exchange Commission (**"SEC"**) and provisions of Bangko Sentral ng Pilipinas ("**BSP**") Circular 969 on Enhanced Corporate Governance Guidelines for BSP-Supervised Financial Institutions in its Corporate Governance Manual, which form part of its continuing commitment to comply with the latest rules and regulations. It has also continued to follow, where appropriate, the international best practices of corporate governance issued by globally recognized standards setting bodies such as the Organization for Economic Cooperation and Development (OECD) and the ASEAN Corporate Governance Scorecard which serve as essential points of reference.

Highlights of the Company's corporate governance practices throughout the financial year ended December 31, 2018 are as follows:

(a) Composition of the Board – The Company's Board is led by a Non-Executive Director with three Independent Directors, two Non-Executive Directors and five Executive Director one of which is the President. Independent Directors make up 27.3% of the members of the Board. Non-Executive Directors including Independent Directors now comprise 55% of board strength, more than the requirement of the BSP of at least majority of the Board. This provides independent and objective judgment on significant corporate matters and ensures that key issues and strategies are objectively reviewed, constructively challenged, thoroughly discussed and rigorously examined;

(b) Revision of Corporate Governance Manual – To align with the recommendations of the new Code and the regulatory requirements of BSP Circular 969 particularly on Definition and Term Limit of Independent Directors, Related Party Transactions Policy, Board Diversity Policy and the revision of the Terms of Reference of all Board committees, the Corporate Governance Manual of the Company was revised to comply with the new duties and responsibilities prescribed by the SEC and BSP;

(c) Composition of the Committees – Five board committees namely Audit, Risk Management, Corporate Governance, Nominations and Related Party Transactions were reconstituted by primarily designating Independent Directors as majority members including Chairmanship of these committees to align with new regulations;

(d) Audited financial statements – The Company released its audited financial statements to the public within 60 days from year end for three consecutive years; and

(e) Annual performance self-assessment – A yearly self-assessment is conducted on the performance of the Board of Directors, Board Committees and Senior Management through the Corporate Governance Committee using an approved set of questionnaires. The performance evaluation process begins with sending out customized Board Evaluation Questionnaire to each director and adviser. Each of them is required to complete the questionnaire explaining the rationale and objectives of the performance evaluation. Based on the returns from each respondent, the ratings and responses are tabulated and consolidated. The Corporate Governance Officer prepares the overall report and presents this to the Corporate Governance Committee for discussion and endorsement to the Board, including the recommended actions and focus areas to improve effectiveness. For 2018, the results of the self-assessment were presented to the Board including directors' recommendations to improve effectiveness in its governance functions. The overall assessment showed that the Board continues to operate to a very high standard of independence, committees function effectively and senior management has the relevant professional experience, necessary skills and ability to manage the Company while the directors have rigorously maintained independence of view and the relationships between Board and committee members remain strong.

This report sets out the main corporate governance practices of the Company in relation to the following OECD guiding principles:

Rights and Equitable Treatment of Stakeholders

Shareholders

The Company respects the inherent rights and recognizes the roles of various stakeholders in accordance with law. To this end, it has put in place various practices for the protection of shareholders' rights and promotion for exercising those right to buy, sell or transfer securities held, the right to receive dividend, the right to vote for the appointment of the external auditor, the right to participate in the decision-making for corporate matters, the right to propose agenda item in the shareholders' meeting and the right to attend the shareholders' meeting. In particular, for the convenience of shareholders to exercise their right to attend the stockholders' meeting, the Company announces in advance the venue, date, time and agenda of the annual meeting, and explains each agenda item requiring shareholders' approval, and the procedures in voting. Shareholders are given equal opportunities to raise questions, make suggestions and recommendations pertaining to the operations of the Company. They can assign proxies to vote on their behalves if shareholders could not attend the stockholders' meeting.

As a matter of policy, all stockholders on record are encouraged to attend personally or by proxy the annual stockholders' meeting to ensure their participation and active involvement in the affairs of the Company.

The Annual Stockholders' Meeting for 2018 was held on April 13, 2018 and was attended by the Board Chair, President, Directors and Chairperson of various Board Committees. The shareholders were allowed to cast their votes on each director and on each agenda item presented to them for approval. They were also given the opportunity to ask questions, express opinion and make suggestions on various issues. Please see the minutes of the 2018 Annual Stockholders' Meeting for detailed Questions and Answers, the voting results showing the Approving, Dissenting and Abstaining Votes cast by the shareholders on each agenda item in https://www.bdo.com.ph/leasing/company-disclosures.

Declaration of cash dividends is approved by the Board of Directors and is immediately disclosed to the Philippine Stock Exchange (**"PSE"**) and the SEC. This disclosure is readily available at the websites of the PSE and the SEC, as well as of the Company. During the Annual Stockholders' Meeting, the President reports to the stockholders the financial performance of the Company for the year. In addition, the Company files with the PSE and SEC quarterly reports on its financial performance.

The Company recognizes that all shareholders should be treated fairly and equally whether they are controlling or minority, local or foreign. To ensure this, the Amended By Laws of the Company provides that all shares in each class should carry the same rights and any changes in the voting rights to be approved by them. The Company accepts the votes cast by nominees and custodians in behalf of the beneficial owners as valid. Shareholders could exercise their right of appraisal in case of amendment to the Articles of Incorporation that has the effect of changing or restricting their rights.

The revision of the Company's policy on related party transactions is one of the most significant accomplishments in 2018. The revised policy encapsulates the entire process which spans from identification of related parties, processing, vetting and approval or confirmation by the Board of Directors, and reporting to the BSP. The Related Party Transaction Committee ensures that the revisions on the Company's policy are strictly implemented in the significant Related Party Transactions of directors, officers, stockholders and related interests (DOSRI), subsidiaries, affiliates and other related parties reviewed and endorsed for approval of the Board. The Company also reviewed and revised its Terms of Reference to align with the provisions of BSP Circular 969 for approval of the Board.

Investors

The Company adopts a pro-active relationship with its stockholders through Investor Relations' comprehensive engagement program and by directly addressing their concerns and queries. It has an Investor Relations Officer that has a comprehensive program that articulates the Company's strategic directions and manages relationships with investors, analysts, credit rating agencies, and other external stakeholders. The Investor Relations Officer actively cultivates relationships with current and potential investors by joining conferences and roadshows in the key global financial markets. It also conducts regular one-on-one meetings, conference calls and briefings with investors and analysts. Aside from meeting institutional investors, the Company also reaches out to retail investors both in Metro Manila and provincial areas by participating in retail conferences and roadshows organized by local brokers. Relevant information is also shared through official disclosures posted via PSE Edge and company website. In 2018, the following were the significant programs and events done by Investor Relations:

1. Meetings, Conferences and Roadshows;
2. Analyst briefings;
3. Media briefings/press conferences;
4. Regular feedback from investors and analysts to Senior Management and the Board; and
5. Coordination with other units for the disclosure of public information about the Company.

The Company directly liaises with its stock transfer agent on matters relating to stockholders' claim for cash dividends, updating of contact information and requests for documents and/or information regarding their stockholdings.

The Company also recognizes the need for accurate and updated information of the its financial condition and all matters affecting the Company by appropriate timely disclosures in the corporate website, regulators, annual reports and announcements. Shareholders could request relevant information from the Corporate Secretary or Investor Relations Officer through the contact details provided in the Company's official website. The minutes of the 2018 Annual Stockholders' Meeting is available in its corporate website at https://www.bdo.com.ph/leasing/company-disclosures.

Customers

Clients provide the Company the business for which it is most thankful. In return, the Company is committed to meet their needs by providing them with high quality customer service and relevant products and services. The Company is also committed to treat clients fairly. The minimum standards to ensure that clients are treated fairly are the following:

Communications are fair and not misleading;
Clients are given clear and concise information, including the risks involved, before they enter into financial products and services;
Products and service are suitable and appropriate, taking into account the needs of the clients, their financial and risk profile and objectives; and
Complaints should be handled in a prompt, friendly, fair and effective manner.

In compliance with BSP Circular No. 857, the Board of Directors approved in April 2018 the BDO Leasing & Finance Inc. (BDOLF) Guiding Principles on Consumer Protection which serves as its framework for defining its Consumer Protection Risk Management System (CPRMS). As specified in the CPRMS, consumer protection practices are embedded in the Company’s operations and that of its subsidiary, BDO Rental Inc. (**“BDORI”**), and are considered in the development and implementation of products and services.

The Company’s Code of Conduct and Business Ethics ("**Code of Conduct**") reflects the Company’s commitment in ensuring that its customers are always treated fairly and professionally. In December 2018, the Board of Directors approved the Company’s Revised Consumer Assistance Management System (CAMS) to substantially address consumer concerns. To achieve effective implementation, Consumer Assistance Officers were designated to ensure that the Company and its subsidiary follow standard handling procedures and service levels in addressing customer inquiries, requests, and complaints/problems. The said officers also monitor timely resolutions by various units of the Company and reports the summary to Senior Management and to the Board’s Risk Management Committee on a periodic basis.

Effective recourse is one of the five areas of BSP’s Consumer Protection Framework, and the Company has been devoting resources to ensure that customer issues are resolved in a timely manner. In 2018, CAMS logged over 76 customer cases of which, 32% were inquiries, 31% were requests, were 37% are complaints. A majority of the cases, or 88%, was received through emails, while 5% from Client meetings, 4% via phone calls, and 3% through emails. All 76 cases were addressed or resolved within the required turn-around-time.

In living BDO Unibank's “We Find Ways” service credo, the Company, as a subsidiary of BDO

Unibank, is committed to meet the clients' needs by providing them with high quality customer service and relevant products. Clients can look forward to a more convenient experience as the Company through BDO Unibank exerts efforts to leverage the use of digital technology in making available its products and services across various channels.

Creditors, Counterparties and Suppliers

The Company is committed to meet its contractual obligations with all creditors and counterparties based on the covenants agreed with them. In 2018, the SEC renewed the Company's license to issue Php15 Billion Commercial Paper (**"CPs"**) to provide additional liquidity support.

In the conduct of its business dealings, the Company undertakes to honor all binding trade-related agreements and conditions on the basis of widely accepted industry practices, mutual understanding and cooperation with counterparties. In accordance with law, they will be given priority in payment of the Company's obligations in the normal course of business and in the event of liquidation.

For suppliers, through BDO Unibank, it has established appropriate policies that govern the vendor accreditation, selection, bidding and approval processes. The Company strictly prohibits the solicitation and acceptance, directly or indirectly, of any gift (including entertainment services or activities), gratuity, commission or any form of payment from client, business partners, suppliers and third party service providers in exchange for any unnecessary favorable treatment.

Employees

The Company puts very high value to its human resources. To ensure the protection and well-being of the employees, the Company has implemented policies and programs that cover the following areas:

a. Code of Conduct and Business Ethics

The Company believes that practicing right conduct and ethical behavior inspires and strengthens the confidence of all our stakeholders. Its Code of Conduct outlines the principles and policies that govern the activities of the institution, sets forth the rules of conduct in our work place and the standards of behavior of its directs, officers and employees in their activities and relationship with external shareholders. These reflect the core values the institution subscribes to and promotes.

The Code of Conduct applies at all times to all members of the Board of Directors and BDO Unibank Group employees in their dealings with clients, suppliers, business partners and service providers. It covers the Company's commitment to a gender friendly workplace, concern for occupational health, safety and environment, transparency, integrity and accountability, compliance with laws and regulations, standards of behavior and personal conduct and ethics of doing business.

b. Training and Development

The Company, through the BDO Unibank Group Human Resources Division, provides various in-house programs such as orientation program for new hires, regular training, job specific training courses, management and leadership training programs to enhance the knowledge, working skills and managerial ability of its employees. The Company allocates every year a training budget for these developmental programs. In 2018, the Company continued to invest heavily on training and development. It also spends more on continuing education of officers and staff to ensure that they are well-equipped and effective in their functions. Culture and values, service excellence, regulatory requirements, job knowledge as well as leadership development were the focus in 2018.

The continuing education program for Directors is an ongoing process to ensure the enhancement of their skills and knowledge. All directors and key officers are given updates and briefings during the regular Board Audit Committee and Corporate Governance Committee meetings throughout the year, and are required to attend a corporate governance seminar on appropriate topics to ensure that they are continuously informed of the developments in the business and regulatory environments, including emerging opportunities and risks in the leasing industry and that they possess the knowledge required for their positions. In 2018, the annual corporate governance seminar for directors concentrated on Financial Technology.

c. Employee Welfare

The Company is committed to promote the physical, social and mental well-being of its employees. It aims to provide a workplace free from discrimination and all forms of physical, sexual and psychological abuse including harassment, bullying and intimidation. The Company established the Policy on Disclosure of Sensitive/Confidential Matters to Management to give employees the opportunity to communicate, with protection from reprisal, legitimate concerns about illegal, unethical or questionable practices in the workplace.

d. Health and Safety

The Company is committed to maintain a positive, harmonious and professional work environment with due importance accorded to occupational health and safety of the employees and related external constituencies.

The continuing activities to promote health and safety are the following:

No Smoking Policy in all head offices and branches is strictly enforced;
No firearms allowed in all offices and branch premises;
Use of CCTV as a deterrent to possible criminal activities such as hold-ups/robberies;
Fire prevention measures and safety/evacuation drills for fire and earthquakes;
Installation of access ramps for persons with disability in our buildings and branches to make our offices safe and accessible to Persons with Disability (PWDs);
Regular safety inspections in corporate offices and branches nationwide to rectify immediately all noted unsafe conditions; and
Emergency Response Teams to ensure availability of emergency response personnel in time of disaster.

In 2018, a BDO Group-wide initiative to improve the safety of employees and customers of BDO Unibank as well as its subsidiaries, including the Company's employees and customers, inside their respective premises was conducted:

1. Hired full-time DOLE-accredited Safety Practitioners to formulate and develop new strategies to improve the existing Bank's Health and Safety Programs in compliance with DOLE's prescribed Occupational Safety and Health Standards (OSHS) and other regulatory requirements. These full- time Safety Officers will be strategically assigned and distributed to different Corporate offices to provide safety services to all BDO installations/offices nationwide.

2. Apart from hiring full-time Safety Officers, SID (in coordination with concerned Business Units), spearheaded the designation and training of over 130 incumbent Bank officers - who recently participated in the DOLE prescribed 40-hour Basic Occupational Safety and Health (BOSH) training. These officers will serve as Part-time Safety Officers (two to three per Area) to perform safety-related tasks within their respective areas of responsibilities.

3. Conducted eight-hour Office Safety Training for Branch personnel (one per branch) currently designated as Branch Safety Marshall who shall perform safety related-tasks to ensure the safety of employees and other people at their respective workplaces.

4. Continued to conduct emergency preparedness (fire and earthquake) trainings to the Bank's Emergency Response Teams and emergency drills, particularly to multi-storey corporate offices in coordination with the Bureau of Fire Protection and concerned BUs of the Company.

In addition, there were various emergency preparedness-related activities conducted in various locations of the Company specifically on emergency drills for fire and earthquake, emergency response team training for building guards and bank employees handling evacuation control.

The following programs/activities were implemented by BDO in 2018 to promote the health and wellness of BDO Unibank as well as its subsidiaries, including the Company's employees:

- Maintains eight Medical Clinics located in:
    - Corporate Center Makati (CCM)
    - Corporate Center Ortigas (CCO)
    - Ortigas Avenue, Greenhills
    - Roosevelt Avenue, Greenhills
    - Binondo, Dasmariñas
    - Davao City
    - Karrivin Plaza, Makati
    - Gercon Building, Makati
- The Clinics are manned by OH (Occupational Health) Practitioners and/or Nurses.
    - For employees outside of Metro Manila, they could go to any of the facilities that are accredited by Maxicare Health Corporation and Valucare, the BDO Unibank Group's HMO providers;
- BDO Fitness Center for both Corporate Center Makati and Corporate Center Ortigas - use of gym facilities open to employees of BDO Unibank; with regular group classes such as zumba, hiphop and special activities like cardio pump workout, bootcamp, circuit / rope training etc.
- Pre-employment Medical Examination with drug testing for prospective new hires
- Mandatory Annual Medical Check-up for officers and staff employees;
- Random drug testing for employees during the Mandatory Annual Medical Check-up;
- Served as venue for Blood Letting Activities / Programs sponsored by various government institutions like Philippine Red Cross, Philippine General Hospital and Philippine Children's Medical Center. Conducted Corporate Wellness Lectures on various medical topics aligned with DOH and DOLE-OSHA Programs;
- Preventive Medical Programs – Vaccination for Flu, Pneumonia and other vaccine preventable diseases participated by 2,122 employees and their dependents; Partnered with Watson's Personal Care Stores (Phils.) Inc. to provide discounted vaccines to employees and their dependents
- Released Medical Advisories / Bulletins on relevant medical topics through bankwide Newsgram – Health Watch in the bankwide email facility
- Assisted the Groupwide Health and Safety Committee in implementing Emergency Preparedness Plan and conducting Evacuation Drills by providing medical assistance (e.g. Earthquake Drill in BDO Corporate Center Ortigas)

As a fitting recognition of these efforts, online recruitment site Jobstreet.com has named BDO Unibank as the top of mind employer among all financial institutions in the Philippines after it conducted a series of surveys and interviews among its more than 14,000 members, mostly fresh graduates and junior executives, on their preferred employer. BDO also earned its Certificate of Compliance on Occupational Safety and Health Standards in NCR and on General Labor Standards.

Society, Community and the Environment

Corporate Social Responsibility

As part of the BDO Unibank Group, the Company carries out its corporate social responsibility (CSR) through the BDO Foundation, the CSR arm of BDO Unibank that promotes initiatives based on BDO Unibank's long-standing record of support to social development. BDO Unibank's corporate social responsibility focuses on its disaster response advocacy that is achieved through three main interventions, namely, relief, rehabilitation and reconstruction, particularly in areas affected by natural or man-made disasters. BDO Unibank's CSR projects involve the following: relief operations in disaster-stricken provinces; rehabilitation/reconstruction of rural health centers; construction of houses in resettlement areas, multi-purpose halls and school buildings; and support for livelihood projects for families with disabled members (persons with disabilities). It has made significant strides and achieved its goals in the pursuit of its advocacy.

Environmental Initiatives

As part of the BDO Unibank Group, the Company imposes limits and monitors exposure to certain industries, e.g., Gaming, Tobacco and Alcohol, as well as restricts lending to other sectors under the Exclusion List (those deemed to have adverse or harmful effects to the community and the environment).

Through its Sustainable Energy Finance (SEF) Program in cooperation with IFC, BDO Unibank supports green energy investments in Energy Efficiency (EE) and Renewable Energy (RE) projects. Likewise in partnership with IFC, BDO Unibank has issued USD150 million in green bonds, the first of its kind in the Philippines, to exclusively finance climate-smart projects and help contribute to the development of climate finance market in the country. Further, the Bank has a tie-up with the Japan Bank for International Cooperation (JBIC) for the latter's Green Facility, a USD50 million relending credit facility open to RE, EE and Green building projects which reduce Greenhouse gas emissions.

BDO Unibank also maintained its **"Go Green Program"** to raise awareness on environmental issues promote good Environmental practices in the workplace, mobilize volunteers for conservation programs. Its Green initiatives focuses on energy conservation using LED lights, water management using waterless urinals, air quality by tree planting is support of "Grow a Million Trees" campaign, waste disposal and other clean-up projects.

BDO Corporate Center Ortigas (BDO CCO) wherein the Company's head office is located, has earned a certification on Leadership in Energy and Environmental Design (LEED), two years after the 47-storey office structure was formally unveiled. It is the first high-rise office-commercial building in the Philippines to achieve a LEED Gold "New Construction Category" Certification. Various sustainable methods were implemented in the construction of the building that steered its LEED accreditation. These include the installation of automated monitoring and control systems as CO2 sensors, occupancy sensors, daylight dimming and timer switches.

(i) With the help of the CO2 sensors, indoor pollutants are mitigated and help the building steer away from catching the sick building syndrome.

(j) By deciding to go automated, energy is saved from mechanically turning off or dimming the lights when it does not sense any human activity and when sufficient natural light enters the room.

(k) Sustainable effort was done by employing dual piping in the plumbing system. Grey water, harvested rainwater and condensate water are recycled and re-used for flushing. The combination of efficient water fixtures and grey water flushing were keys in reducing the total building potable water use by approximately 5,700,000 liters annually.

It has also continued its **Green Energy Investments**. It has renewed its Sustainable Energy Finance (SEF) Program in partnership with the International Finance Corporation (IFC), the private sector arm of the World Bank, as part of its efforts to impart to clients the best international practices on clean energy. This time, the renewal of the partnership focuses on further enhancing BDO Unibank's expertise and understanding of solar power generation and green building projects. Consequently, this will allow the Parent Bank to give the private sector appropriate financing for sustainable energy investments.

In the last eight years since BDO Unibank has started the program in 2010 and partnered with IFC, it was able to finance several hydro power plants, biomass power plants, wind power projects and energy efficiency investment projects, which contributed to the reduction of greenhouse gas emission.

In doing this program, BDO Unibank has been recognized as one of the six (6) Momentum of Change Lighthouse Activities for inspiring climate action in the financing for climate-friendly investments.

Sustainability, climate change and wildlife protection

Equally important to BDO Unibank is the commitment to enhance the sustainability of the environment thru information, education and advocacies. It is a Corporate Partner of the World Wide Fund for Nature (WWF) Philippines, a member of the World Wide Fund for Nature, the world's largest conservation organization. This has allowed BDO Unibank Group to support the organization's various programs since 2010 such as the Bancas for the Philippines, Earth Hour, environmental education, sustainable fisheries in Ilocos and Palawan, marine conservation and research in the Tubbataha Reefs, agroforestry in the Sierra Madre, whale shark ecotourism in Donsol, sustainable tourism in the fabled Ticao Pass in Masbate, and the Tamaraw Conservation Program in Mindoro

Business Competitors

The Company is committed to treat business competitors fairly and professionally in all dealings with them. It will avoid making references or discussions that may have a negative impact on the Company's competitors.

In 2018, the Company was a participant of the credit information system under the Credit Information Corporation which the government agency created under Republic Act 9510 otherwise known as the Credit Information System Act (CISA) to provide independent, reliable and accurate credit information in the Philippines. The Company will be a major source of these data that could be accessed by competitors and practitioners in the financial services industry.

Government and Regulators

The Company supports the compliance with the spirit, not just the letter, of the laws and regulations of the jurisdictions it operates. All business deals and transactions shall adhere to regulatory requirements and applicable laws particularly on confidentiality of deposits, data privacy and protection, anti-money laundering and other financial crimes, anti-corruption and bribery, insider trading and consumer protection. In 2018, the Company continued to be active in giving comments on the proposed changes in corporate governance rules pushed by regulatory authorities, particularly the Revised Guidelines on Related Party Transactions, Enhanced Corporate Governance Guidelines for BSP-Supervised Financial Institutions and the SEC Code of Corporate Governance.

Transparency and Disclosures

The Company is fully committed to provide its investors and other stakeholders full transparency and timely information disclosure through filing with the SEC and PSE, as found in the following:

a) General Information Sheet (GIS)
b) Definitive Information Sheet (DIS)
c) SEC form 17-A
d) SEC form 17-C (current reports- material information)
e) SEC form 17-Q (Quarterly Report)
f) SEC form 23-A/B (Statement of Beneficial Owners)
g) Audited Financial Statements (AFS)

Required disclosures relating to:

- Financial information is stated in the AFS, SEC Form 17-Q and the DIS
- Shareholder matters are provided in the DIS
- Executive compensation policy is stated in the DIS
- Directors' fees are found in the DIS
- Corporate actions, among others, are provided in the PSE official website www.pse.com.ph

In particular, the Company released the 2018 audited financial statements on March 1, 2018 or 60 days after close of the financial year to promote transparency and full disclosure of the results of the operations of the Company. In 2018, the Company did timely disclosures on items that were relevant and important for the public to know.

Other key information disclosed by the Company included the composition of the Board, role and activities of board committees, meetings held and attendance of directors, director continuing education records, remuneration policy, shareholding structure, annual performance self-assessment of Board of Directors as a collective body, directors, committees and senior management, Code of Conduct and Business Ethics, Corporate Governance Manual, SEC Annual Corporate Governance Report, the Company's organizational structure, and important corporate governance policies such whistle blowing, term limit of independent directors, personal trading, conflict of interest, dividend, Board diversity policy and related party transactions.

To ensure an even wider access by the investors and the public, these disclosures and other corporate information are also uploaded in the Company's official website www.bdo.com.ph/leasing/home (See "Investor Relations" and "Corporate Governance"). The details of established corporate governance policies are found in the Revised Corporate Governance Manual.

Evaluation System

The Company has required in its Corporate Governance Manual (the "Manual") that all Board level committees shall report regularly to the Board of Directors in compliance with the Manual's policies and procedures. The Company supports the principle and regulatory mandate of check and balances across the entire BDO Unibank Group by its observance of the segregation of powers, independence of audit, compliance and risk management functions. In the context of independent checks and balances, the Board has appointed the Chief Internal Auditor, Chief Risk Officer and Compliance Officer to assist the Board in its oversight functions.

As part of its continuing focus on good corporate governance, the Audit Committee is empowered by the Board to oversee the financial reporting process, internal control and risk management systems, internal and external audit functions, and compliance with governance policies, applicable laws and regulations. Their oversight function covers the following areas:

On financial reporting, the committee reviews the integrity of the reporting process to ensure the accuracy and reliability of financial statements and compliance with financial reporting standards and disclosure requirements set for listed companies.

On internal control and risk management, it monitors and evaluates the adequacy, soundness and effectiveness of the Company's established internal control and risk management systems, policies and procedures including implementation across all units of the Company to provide reasonable assurance against fraud or other irregularities and material misstatement or loss.

On internal and external audit, it recommends the appointment, reappointment and removal of the external auditors, remuneration, approval of terms of audit engagement and payment of fees. It reviews non-audit work, if any, ensuring that it would not conflict with their duties as external auditors or may pose a threat to their independence. It approves the annual audit plan and reviews audit results including the BSP Report of Examination focusing on significant findings with financial impact and its resolution. It reviews the implementation of corrective actions to ensure that these are done in a timely manner to address deficiencies, non-compliance with policies, laws and regulations.

On compliance, it reviews and evaluates the effectiveness of the regulatory compliance framework and governance policies and practices of the Company to ensure that these are consistently applied and observed throughout the institution.

In this context, the following were done during the year:

On financial reporting, the Committee reviewed and recommended for approval to the Board the quarterly unaudited and annual audited financial statements ensuring compliance with accounting standards and tax regulations. On February 21, 2018, it endorsed for approval of the Board the audited financial statements as of December 31, 2017 including the Notes to the Financial Statements. This was approved by the Board and disclosed to the public on February 28, 2018, 59 days from the financial year-end following the best practice requirement of the ASEAN Corporate Governance Scorecard (ACGS). It believes that the financial statements are fairly presented in conformity with the relevant financial reporting standards in all material aspects. The related internal controls on financial reporting process, compliance with accounting standards, more specifically the adoption of the Philippine Financial Reporting Standards 9, were likewise reviewed.

In overseeing the internal audit function, it reviewed and approved the Internal Audit Charter and risk-based audit plan after a thorough review of its scope, audit methodology, risk assessment and rating processes, financial budget, manpower resources, as well as changes to the plan during the year. It reviewed audit reports focusing on high and moderate risk findings relating to operational, financial and compliance controls including risk assessment systems with impact to financial, reputation and information security. It regularly tracked the timely resolution of findings and asked for Management's action plans on items that need to be addressed. It ensured the Internal Audit's independence and unfettered access to all records, properties and information to be able to fully carry out its function. It also assessed the performance of the Chief Internal Auditor and key audit officers. The committee is satisfied that the internal audit function has adequate resources to perform its function effectively.

On external audit, it ensured the independence, qualification and objectivity of the appointed external auditor, which is accredited by the BSP. It reviewed and discussed the content of the engagement letter, audit plan, scope of work, focus areas, composition of engagement team among others, prior to the commencement of audit work. It comprehensively discussed the external audit reports, focusing on internal controls, risk management, governance and matters with financial impact including changes in accounting and reporting standards. It reviewed Management's Letter as well as Management's response and action taken on the externals auditor's findings and recommendations.

On regulatory compliance, it reviewed and approved the annual plans and independent compliance testing roadmaps of the Compliance and Anti-Money Laundering (AML) units. It endorsed for approval of the Board of Directors the revised Regulatory Compliance and Management Manual and

Money Laundering Prevention Program Manual of the Company which incorporates new and amended regulations. It monitored the progress and reviewed the results of the independent compliance and AML testing, timely submission of regulatory and prudential reports, compliance to mandatory ratios, as well as continuous improvement of the compliance and AML systems. It discussed in detail the BSP Report of Examination and reviewed Management's replies thereby ensuring implementation of corrective actions. It also reviewed legislation and regulatory compliance reports to ensure that the Company complies with the relevant regulatory requirements.

Reports on cases in operations, whistle blower accounts as well as non-loan related cases with impact to financials, internal controls, information systems and reputation were deliberated focusing on risk assessment, legal handling, and fraud prevention.

As part of its commitment to excellent corporate governance, the Committee conducted a self-assessment for its 2018 performance based on its Terms of Reference. The Board Audit Committee ("**BAC**") likewise evaluated the performance of Internal Audit, Compliance and Anti-Money Laundering Units and External Audit to ensure their effectiveness and achievement of objectives.

The BAC reports its evaluation of the effectiveness of the internal controls, financial reporting process, risk management systems and governance processes of the Company based on the report and unqualified opinion obtained from the External Auditor, the overall assurance provided by the Chief Internal Auditor and additional reports and information requested from Senior Management, and found that these are generally adequate across the Company.

The BAC is headed by Ma. Leonora V. De Jesus (Independent Director). Its other members are Jesse H. T. Andres and Vicente S. Perez, Jr. The Committee held 13 meetings in 2018 with Ma. Leonora V. De Jesus and Jesse H.T. Andres attended all meetings while Vicente S. Perez, Jr. attended 10 meetings.

The Corporate Governance Committee (**"CGC"**) is primarily tasked to assist the Board in formulating the governance policies and overseeing the implementation of the governance practices of the Company as well as its subsidiary and affiliate. Annually, it also conducts the performance evaluation of the Board of Directors, its committees, executive management, peer evaluation of directors, and conducts a self-evaluation of its performance. It provides an assessment of the outcome and reports to the Board the final results of the evaluation including recommendations for improvement and areas to focus to enhance effectiveness. It also oversees the continuing education program for directors and key officers and proposes relevant trainings for them.

The Company was awarded in July 2018 as one of the Top 20 publicly-listed companies in the Philippines that earned high scores in the 2017 ASEAN Corporate Governance Scorecard based on the local assessment conducted by the Institute of Corporate Directors (ICD), an SEC-appointed domestic ranking body. Of the five publicly-listed companies which garnered awards from the banking sector. The Company is the only financing company while the four others are universal banks led by BDO Unibank.

During the year, the CGC spearheaded the annual Board evaluation survey, which covers the performance of the Board of Directors, Board Committees, Senior Management, each Director, and Board Adviser. There results were tabulated, noted and referred to the Board. Focus in 2018 was directed on the review of the Company's Integrated Annual Corporate Governance Report that was submitted to the Securities and Exchange Commission, and the independent validation of the Company's representations in the ASEAN Corporate Governance Scorecard. It also recommended the amendment of the Company's Corporate Governance Manual. It facilitated the compliance of the directors of the Company and its subsidiary to the regulatory requirement for an annual corporate governance seminar for Directors.

The CGC is chaired by Jesse H.T. Andres and the other members are Ma. Leonora V. de Jesus and Vicente S. Perez, Jr. The Committee held 5 meetings in 2018 with Jesse H.T. Andres and Leonora V. de Jesus attended all meetings and Vicente S. Perez, Jr. attended 3 meetings.

Measures on leading practices of good corporate governance

The Company is constantly aligning its corporate governance system with the international practice taking into account the continuous developments in national regulations. The Board approved the series of revisions of the Corporate Governance Manual on January 10, 2018, April 13, 2018 and November 7, 2018 to incorporate the recommendations of the Code and the provisions of BSP Circular 969 on Enhanced Corporate Governance Guidelines for BSP-Supervised Financial Institutions in its Corporate Governance Manual, which form part of its continuing commitment to comply with the latest rules and regulations. It has also continued to follow, where appropriate, the international best practices of corporate governance issued by globally recognized standards setting bodies such as the Organization for Economic Cooperation and Development (OECD) and the ASEAN Corporate Governance Scorecard which serve as essential points of reference.

Any Deviation from the Manual

None.

Improvement on Corporate Governance

The Company is now entering the era of digital transformation and surely, we are looking at ways to optimize the use of the new technologies to strengthen further our corporate governance practices while remaining vigilant on the risks of digitization to our business operations. In ensuring that the Company stays as the market leader in the Philippine financial services industry, we are focused on maximizing the effectiveness of our corporate governance practices as a business enabler and driver of our performance in the proper context of risks and rewards, opportunities and prospects for the Company in this new era. This is essential in going forward into the future as we continue to compete and remain relevant to our various stakeholders.

UNDERTAKING TO PROVIDE ANNUAL REPORT

The Registrant undertakes to provide, without charge, each stockholder with a copy of its Annual Report upon written request to the Company addressed to:

ATTY. JOSEPH JASON M. NATIVIDAD
OFFICE OF THE CORPORATE SECRETARY
14TH FLOOR, NORTH TOWER
BDO CORPORATE CENTER
7899 MAKATI AVENUE
MAKATI CITY 0726 PHILIPPINES

ANNEX "C"

MINUTES OF THE 2018 ANNUAL MEETING OF STOCKHOLDERS

MINUTES OF THE ANNUAL MEETING OF STOCKHOLDERS

BDO LEASING AND FINANCE, INC.

HELD ON FRIDAY, APRIL 13, 2018, AT 10:10 A.M. AT THE FRANCISCO SANTIAGO HALL, MEZZANINE FLOOR, SOUTH TOWER BDO CORPORATE CENTER, 7899 MAKATI AVENUE, MAKATI CITY

NUMBER OF SHARES HELD BY SHAREHOLDERS:

Number of Total Outstanding Shares	-	2,162,475,312
Present In Person or Represented By Proxy, and Participant Brokers	-	1,840,392,635
Percentage of the Total Shares Represented By Proxies & In-Person	-	85.11%
Absent	-	322,082,677

DIRECTORS PRESENT:

Ms. Teresita T. Sy	Chairperson
Mr. Roberto E. Lapid	Vice Chairman & President
Atty. Jesse H. T. Andres	Independent Director
Mr. Antonio N. Cotoco	Director
Ms. Ma. Leonora V. De Jesus	Independent Director
Mr. Jeci A. Lapus	Non-Executive Director
Mr. Vicente S. Pérez, Jr.	Independent Director
Mr. Luis S. Reyes, Jr.	Director & Treasurer
Mr. Nestor V. Tan	Director
Mr. Exequiel P. Villacorta, Jr.	Non-Executive Director
Mr. Walter C. Wassmer	Director

ALSO PRESENT:

Atty. Edmundo L. Tan	Adviser to the Board
Atty. Joseph Jason M. Natividad	Corporate Secretary
Atty. Ma. Cecilia S. Santos	Assistant Corporate Secretary
Mr. Agerico Melecio S. Verzola	First Vice President/Marketing Head
Ms. Angelita C. Tad-y	First Vice President/Chief Risk & Compliance Officer
Ms. Rosalisa B. Kapuno	Vice President/Comptrollership
Mr. Leonardo D. Cuaresma, Jr.	Engagement Partner, P&A Grant Thornton
Mr. Renato P. David, Jr.	Engagement Manager, P&A Grant Thornton
Ms. Khriselle Anne Recella	Lead Engagement In-Charge, P&A Grant Thornton

I. Call to Order

Ms. Teresita T. Sy, Chairperson, called the Annual Stockholders' meeting to order at 10:10 in the morning. On behalf of BDO Leasing and Finance, Inc. (the "Corporation") and Management, she expressed her gratitude to the stockholders for their continued support to the Corporation. The Chairperson then requested Mr. Nestor V. Tan to act as Chairman of the Meeting and to preside over the same.

Atty. Joseph Jason M. Natividad, Corporate Secretary, recorded the minutes of the meeting.

II. Certification of Notice and Quorum

The Chairman of the meeting verified with the Corporate Secretary whether notices of the annual meeting of the stockholders had been sent to the Corporation's stockholders. Atty. Joseph Jason M. Natividad, Corporate Secretary, replied that notices of the meeting, together with the agenda and the Definitive Information Statement, were sent by mail or courier beginning March 19, 2018 to the stockholders of record as of February 28, 2018, in accordance with Article II, Section 2 of the By-Laws in relation to Paragraphs 3 and 11 of SRC Rule 20 of the Amended Implementing Rules and Regulations of the Securities Regulation Code.

The Corporate Secretary certified that based on the record of attendance, present for the meeting were stockholders, in person or by proxy, and participant brokers, holding a total of 1,840,392,635 shares, equivalent to 85.11% of the total 2,162,475,312 outstanding shares of the Corporation, and that one common share carries one vote. The Corporate Secretary therefore certified that there was a quorum present and that the meeting was regularly and lawfully convened for the transaction of business for which it was called. He recorded the minutes of the proceedings

The Corporate Secretary likewise manifested that Punongbayan & Araullo, Grant Thornton (P&A), represented by Mr. Leonardo D. Cuaresma, Jr., Partner, had been appointed to count and validate the votes cast at the meeting, in accordance with the voting procedures disclosed in the Definitive Information Statement provided to the stockholders as of record date.

III. Approval of the Minutes of the Annual Stockholders' Meeting held on April 7, 2017

The Chairman of the meeting stated that the next item in the agenda was the reading and approval of the minutes of the annual meeting of shareholders held on April 7, 2017. He manifested that copies of the Minutes were included in the Definitive Information Statement (DIS) distributed to all stockholders of record, and have been made available for examination during office hours at the Office of the Corporate Secretary and at the Corporation's website www.bdo.com.ph/subsidiaries/leasing/company disclosures.

Upon motion duly made and seconded, the minutes of the annual stockholders' meeting held on April 7, 2017 had been approved and the following resolution had been passed and adopted:

Stockholders' Resolution No. 2018-01

> **RESOLVED,** That the Stockholders of BDO Leasing and Finance, Inc. approve, as they hereby approve, the Minutes of the Annual Stockholders' Meeting held on April 7, 2017.

The Chairman of the meeting then instructed the Corporate Secretary to have the minutes of the meeting reflect the tabulation of all votes cast, including proxies that have cast their votes in favor of the approval of the minutes of the last annual stockholders' meeting, and to note the stockholders that have chosen to abstain on voting for, or have chosen to vote against, the approval of the said minutes.

Based on P&A's tabulation, the following were the results of the voting by poll, showing the number of votes cast and received on the approval of the Minutes of the Annual Stockholders' Meeting held on April 7, 2017:

Total Outstanding Shares	Total Votes Cast	Votes in favor	Votes against	Abstentions
2,162,475,312	1,840,392,635	1,840,392,635 (100%)	0	0

Accordingly, shareholders owning 1,840,392,635 voting shares or 100% of the total number of voting shares represented at the meeting, approved the Minutes of the Annual Stockholders' Meeting held on April 7, 2017, no shareholder voted against or abstained in the approval.

IV. President's Report and Approval of the Audited Financial Statements of the Corporation as of December 31, 2017

The Chairman of the meeting then gave the floor to the Vice Chairman & President, Mr. Roberto E. Lapid, to present his report on the Corporation's results of operations for the year 2017, and the programs and prospects for 2018.

Mr. Roberto E. Lapid, Vice Chairman & President, rendered his report to the Stockholders.

In 2017, the Corporation's total assets grew by 10% to ₱42.8 Billion. This was led by the 9% growth in net lease and loan portfolio to ₱34.3 Billion. The growth in the lease and loan portfolio was driven by the Corporation's strategically-located branch network which benefited from the broad-based economic growth experience last year.

Over the past five (5) years, the net portfolio of the Corporation grew from ₱21 Billion in 2013, to ₱34.3 Billion by end of 2017, registering a compounded annual growth rate of 13%.

Mr. Lapid also presented the other Key Financial and Operating Highlights of BDOLF for the year 2017, as follows:

- Total revenues of ₱3.16 Billion represented an increase of 11% Year-on-Year. This was driven mainly by a 9% growth in interest income from lease/loan portfolio. Rental income also grew in 2017 albeit at a lower rate of 4%;

- The Corporation's greatest challenges during the year were rising funding costs which increased by 26% in 2017 due to higher borrowing rates, and the share in the losses of the Corporation's affiliate, the MMPC Auto Financial Services Corp. (MAFS), which incurred some growing pains as a start-up venture;
- Net income of ₱570.5 million, which is at par with 2016 results.

Other significant accomplishments in 2017 were as follows:

- The Corporation maintained its higher issuer credit rating of "PRS AA" from the Philippine Ratings Services Corp., further recognizing the Corporation's financial strength and stability in meeting existing and future financial obligations;

- From it's 2015 rating of 93% in the ASEAN Corporate Governance Scorecard, the Corporation further improved its score to 97% for the year 2016. This score positions BDOLF as having the highest rating among the top publicly listed companies with capitalization below ₱50 Billion. BDOLF was also among the top publicly listed companies under the Financial Institutions Sector.

Programs and Prospects for 2018

Mr. Lapid next presented to the shareholders the following goals of the Corporation for 2018:

- Targeting a 10% growth in the Corporation's ADB lease/loan portfolio. This projection would be driven largely by the continuing leverage on BDO Unibank's extensive market reach and intensify its provincial thrust to tap fast-growing and rapidly urbanizing areas outside Metro Manila;

- With a GDP growth expectations of 6.8% to 7.0%, the Corporation shall capitalize on the government's infrastructure development program by providing stakeholders access to financial services;

- The Corporation will continue to embark on an awareness campaign to promote the value proposition of leasing as an alternative means of medium-term financing of equipment, and explore additional vendor tie-ups; and

- The Corporation made a dividend payout totaling ₱216.2 Million, or ₱0.10 per share to the Corporation's shareholders.

The report is hereto attached as Annex "A" and made an integral part hereof.

V. Open Forum

After the Vice Chairman & President's presentation, the Chairman of the meeting opened the floor to give the stockholders the opportunity to ask questions or give comments regarding Mr. Lapid's Report, the Financial Statements of the Corporation, or related matters.

Mr. Arlo C. Atentar, proxy holder, inquired on what the opportunities are for the Corporation under the "Build, Build, Build" Thrust of the Duterte Administration. Mr. Lapid replied that program of the Duterte Administration aims to expedite, facilitate and sustain the economic growth of the Philippines by way of building more roads, highways, railways, bridges, airports, seaports to bolster and improve the turnaround time of trade and industries. BDO Leasing's loans and leasing products would be able to address the capital expenditure requirements of construction companies and contractors for the purchase of additional heavy and construction equipment, trucks and similar faciities.

Another proxy holder, Mr. Manolo O. Diaz, inquired how BDOLF was able to triple its portfolio for the past ten (10) years despite not expanding its branch network. He also asked if there are plans to increase the BDOLF branches in the next few years.

Mr. Lapid explained that the majority of the branches of BDO Leasing are located in the major BDO business centers in the country. The increased demand for leasing facilities and loan products in the provincial areas has been the primary driver for the growth of the marketing plantilla to handle the demand; BDOLF hired more marketing officers instead of increasing the number of branches. Mr. Lapid added that the Corporation's thrust was to concentrate on the corporate accounts of BDO Unibank and this resulted to the substantial growth in BDOLF's lease/loan portfolio in the past 10 years. As earlier reported, the compounded annual growth rate (CAGR) of the portfolio was 13% for the past 5years.

Mr. Russel S. Yu, proxy holder, inquired on how the Corporation could ride on the digitalization trend. Mr. Lapid explained that digitalization has evolved tremendously and has affected all aspects of life not only in business. This is one growth area of opportunity for loans/leases to help the acquisition by clients of data storage, security, medical/hospital equipment, manufacturing, biometrics and similar equipment/facilities since almost all industries have been shifting from analog to digital. Internally, the Corporation would need to adopt digital IT infrastructure to be able to address the complex needs of the clients. As a start, BDOLF would need to make its website more user-friendly and install interactive features.

Ms. Melanie Ann C. Cuevas, proxy holder, inquired how BDOLF, given the focus on provincial expansion, plans to meet competition such as Orix which has a strong presence outside Metro Manila, and which reportedly could process approvals much faster?

Mr. Lapid replied that the thrust of BDO Leasing is on corporate and commercial accounts particularly existing clients of BDO Unibank while Orix's niche market are the retail borrowers located in their provincial branches which accounts for almost 80% of its business. Internally, regular coordination meetings between marketing and operating units were being held to continuously achieve streamlining of BDOLF's processes and procedures to improve turnaround time in obtaining approvals on lease/loan applications, as well as, in the documentation and release of proceeds.

Mr. Guillermo F. Gili, Jr., stockholder, inquired about the change of stock transfer agent of BDO Leasing. Mr. Lapid replied that there was indeed a change in the stock transfer agent of BDO Leasing from Securities Transfer Services, Inc. (STSI) to BDO Trust and Investment Group. The change took effect on January 1, 2018. The change was brought about by the notice of termination of STSI due to its business rationalization/reorganization.

After the discussions were concluded, there being no other questions from the floor, Mr. Randy P. Borbe, proxy holder, moved for the notation and approval of the Report on the Results of the Operations of the Corporation for the year ended December 31, 2017, and the Audited Financial Statements for the same period.

Ms. Zarah Katrina A. Lacaya, proxy holder, seconded the motion. There being no objection, the Stockholders adopted the following resolution:

Stockholders' Resolution No. 2018-02

> **RESOLVED,** That the Stockholders do hereby note and approve the Report on the Results of the Operations of BDO Leasing and Finance, Inc. (BDOLF) for the year ended December 31, 2017, and the Audited Financial Statements as of December 31, 2017.

The Chairman of the meeting directed the Corporate Secretary to have the minutes reflect the tabulation of all votes cast, including proxies that have cast their vote in favor of the approval of the Report on the Results of Operations of BDOLF for the fiscal year ended December 31, 2017, and the Audited Financial Statements for the same period, to note the stockholders that have chosen to abstain on voting for, or have voted against, the approval of the aforesaid Reports and the Audited Financial Statements.

Based on P&A's tabulation, the following were the results of the voting by poll, showing the number of votes cast and received on the approval of the Report on the Results of Operations of BDOLF for the fiscal year ended December 31, 2017, and the Audited Financial Statements for the same period:

Total Outstanding Shares	Total Votes Cast	Votes in favor	Votes against	Abstentions
2,162,475,312	1,840,392,635	1,840,392,635 (100%)	0	0

Accordingly, shareholders owning 1,840,392,635 voting shares or 100% of the total number of voting shares represented at the meeting, noted and approved the President's Reports and the Audited Financial Statements of the Corporation for the fiscal year ending December 31, 2017, no shareholder voted against or abstained in the approval.

VI. Approval and Ratification of All Acts and Proceedings of the Board of Directors, the Board Committees and Management during their Respective Terms of Office

The next item in the agenda was the approval and ratification of all acts and proceedings of the Board of Directors, the Board Committees and Management, including significant related party transactions, for the year 2017 until the date of the 2018 Annual Stockholders' Meeting.

Mr. Eugene O. Arintok, proxy holder, moved that all the acts, including approvals of significant related parties' transactions, proceedings of the Board of Directors, the acts of the duly constituted committees, the acts of the Management, and the acts of the officers of the Corporation, up to the date of the 2018 Annual Stockholders' Meeting be, in all respects, confirmed, ratified and approved.

Thereafter, Ms. Julienel E. Teodoro, proxy holder, seconded the motion. There being no further questions or objection, the Stockholders adopted the following resolution:

Stockholders' Resolution No. 2018-03

> **RESOLVED,** That all the acts, including approvals of significant related parties' transactions, and proceedings of the Board of Directors, the acts of the duly constituted committees, the acts of the Management and the officers of BDO Leasing and Finance, Inc. (the "Corporation") in carrying out and promoting the purposes, objects, and interests of the Corporation, up to the date of the Annual Stockholders' Meeting (April 13, 2018), are confirmed, ratified and approved and hereby made the acts and deeds of the Corporation.

The Chairman of the meeting directed the Corporate Secretary to have the minutes reflect the tabulation of all votes cast, including proxies that have cast their votes in favor of the ratification and confirmation of all the acts and proceedings of the Board of Directors, its duly constituted committees, the acts of Management and officers of BDOLF, including approvals of significant related parties' transactions, up to the date of the Annual Stockholders' Meeting, and to note the proxies that have chosen to abstain on voting for, or have voted against, the ratification and confirmation of all the acts and proceedings of the Board of Directors, its duly constituted committees, the acts of Management and officers of BDOLF, including approvals of significant related party transactions, up to the date of the Annual Stockholders' Meeting (April 13, 2018).

Based on P&A's tabulation, the following were the results of the voting by poll, showing the number of votes cast and received on the ratification and confirmation of all the acts, including approvals of significant related parties' transactions, and proceedings of the Board of Directors, its duly constituted committees, the acts of Management and officers of BDOLF up to the date of the Annual Stockholders' Meeting:

Total Outstanding Shares	Total Votes Cast	Votes in favor	Votes against	Abstentions
2,162,475,312	1,840,392,635	1,840,392,635 (100%)	0	0

Accordingly, shareholders owning 1,840,392,635 voting shares or 100% of the total number of voting shares represented at the meeting, approved and ratified all the acts of the Board of Directors, its duly constituted committees, and Management, including approvals of significant related party transactions, during their respective terms of office, no shareholder voted against or abstained in the approval.

VII. Election of the Board of Directors

The Chairman of the meeting then announced that the next item on the agenda was the election of the regular and independent members of the Board of Directors for the ensuing year and until the next succeeding annual stockholders meeting of the Corporation. The Chairman of the meeting also informed all the stockholders in attendance of the mandatory requirement of electing independent directors.

Atty. Jesse H. T. Andres, Independent Director and Chairman of the Nominations Committee (the "Committee") of the Corporation, informed the stockholders that the following nominations have been received and passed upon by the Committee during the prescribed nomination period, and that the Committee found the following nominees to possess all the qualifications and none of the disqualifications for election as regular and independent directors, respectively, of BDOLF:

Nominees for Regular Directors

1. Antonio N. Cotoco
2. Roberto E. Lapid
3. Jeci A. Lapus
4. Luis S. Reyes, Jr.
5. Teresita T. Sy
6. Nestor V. Tan
7. Exequiel P. Villacorta, Jr.
8. Walter C. Wassmer

Nominees for Independent Directors:

9. Jesse H. T. Andres
10. Ma. Leonora V. De Jesus
11. Vicente S. Pérez, Jr.

BDO Unibank, Inc. nominated the regular directors, while Ms. Mannette D. Vicente, a stockholder of the Corporation, nominated the three (3) Independent Directors.

Mr. Randy P. Borbe, proxy holder, manifested that since the nomination period had expired and closed, and there were eleven (11) nominees for the eleven (11) seats in the Corporation's Board of Directors, he moved that the Corporate Secretary be directed to cast all unqualified votes in favor of the foregoing individuals respectively nominated as regular and independent directors.

Ms. Zarah Katrina A. Lacaya, proxy holder, seconded the motion. Thereafter, there being no further question or objection, the Stockholders adopted the following resolution:

Stockholders' Resolution No. 2018-04

RESOLVED, That the following be, as they are hereby elected directors of BDO Leasing and Finance, Inc. for a period of one (1) year, and to act as such until their successors are duly elected and qualified:

Regular Directors:

1. Antonio N. Cotoco
2. Roberto E. Lapid
3. Jeci A. Lapus
4. Luis S. Reyes, Jr.
5. Teresita T. Sy
6. Nestor V. Tan
7. Exequiel P. Villacorta, Jr.
8. Walter C. Wassmer

Independent Directors:

9. Jesse H. T. Andres
10. Ma. Leonora V. De Jesus
11. Vicente S. Pérez, Jr.

The Chairman of the meeting congratulated all the elected Directors and directed the Corporate Secretary that the minutes reflect a tabulation of all votes cast, including the votes of the stockholders who have chosen to vote for, or abstain on voting for, or have chosen to vote against, the above-named nominees as regular and independent directors, respectively, of the Corporation.

Based on the tally made by P&A, the following were the results of the voting by poll, showing the number of the votes cast and received by the nominees:

Nominees	Total Outstanding Shares	Votes in favor	Voted against	Abstentions
Teresita T. Sy	2,162,475,312	1,840,392,635	0	0
Roberto E. Lapid	2,162,475,312	1,840,392,635	0	0
Jesse H. T. Andres	2,162,475,312	1,840,392,635	0	0
Antonio N. Cotoco	2,162,475,312	1,840,392,635	0	0
Ma. Leonora V. De Jesus	2,162,475,312	1,840,392,635	0	0
Jeci A. Lapus	2,162,475,312	1,840,392,635	0	0
Vicente S. Pérez, Jr.	2,162,475,312	1,840,392,635	0	0
Luis S. Reyes, Jr.	2,162,475,312	1,840,392,635	0	0
Nestor V. Tan	2,162,475,312	1,840,392,635	0	0
Exequiel P. Villacorta, Jr.	2,162,475,312	1,840,392,635	0	0
Walter C. Wassmer	2,162,475,312	1,840,392,635	0	0

VIII. Appointment of External Auditor

The next item in the agenda was the appointment of the external auditor of BDOLF for the year 2018.

The Chairman of the meeting informed the stockholders that the Board Audit Committee of BDOLF had recommended the re-appointment of the Accountancy and Auditing Firm of Punongbayan & Araullo, Grant Thornton (P&A) as external auditor of BDOLF for the year 2018.

Ms. Rethel Anne L. Uy, proxy holder, moved that the Accountancy and Auditing Firm of Punongbayan and Araullo, Grant Thornton (P&A) be appointed as the external auditor of BDOLF for the year 2018, and that the Board of Directors be authorized to determine the terms of said external auditor's professional engagement.

Ms. Vanessa C. Benavidez, proxy holder, seconded the motion. There being no objection, the Stockholders adopted the following resolution:

Stockholders' Resolution No. 2018-05

RESOLVED, That the Accountancy and Auditing Firm of Punongbayan & Araullo, Grant Thornton (P&A), be, as it is hereby appointed as the external auditor of BDOLF for 2018;

RESOLVED FURTHER, That the Board of Directors of BDOLF or such person or persons duly authorized by the Board, be, as it/he is hereby authorized to determine the terms of engagement of the external auditor, to sign, execute and deliver the agreement and other documents pertaining to such engagement, and generally, to perform all acts necessary or appropriate to carry out the foregoing resolution and the intent hereof.

The Chairman of the meeting then directed the Corporate Secretary to have the minutes reflect the tabulation of votes cast, including proxies that have cast their votes in favor of the appointment of Punongbayan & Araullo, Grant Thornton (P&A) as external auditor of BDOLF for the year 2018, and to note the stockholders that have chosen to abstain on voting for, or have voted against, the appointment of Punongbayan & Araullo, CPA (P&A), as external auditor of BDOLF for the year 2018.

Based on P&A's tabulation, the following were the results of the voting by poll, showing the number of votes cast and received on the appointment of Punongbayan & Araullo, CPA (P&A), as external auditor of BDOLF for the year 2018:

Total Outstanding Shares	Total Votes Cast	Votes in favor	Votes against	Abstentions
2,162,475,312	1,840,392,635	1,840,392,635 (100%)	0	0

Accordingly, shareholders owning 1,840,392,635 voting shares or 100% of the total number of voting shares represented at the meeting, approved the appointment of Punongbayan & Araullo, Grant Thornton (P&A) as the Corporation's external auditor for 2017, no shareholder voted against the approval.

IX. Adjournment

There being no further business to transact, Mr. Eugene O. Arintok, proxy holder, moved to adjourn the meeting.

Ms. Julienel E. Teodoro, proxy holder, seconded the motion.

There having been no objection to the motion, the meeting was thereupon adjourned at 10:40 in the morning.

CERTIFIED CORRECT:

JOSEPH JASON M. NATIVIDAD
CORPORATE SECRETARY

ATTESTED:

TERESITA T. SY
CHAIRPERSON

1. Definition of Related Party

Related Party[1] shall refer to:

A. DOSRI

1. Directors of BDOLF, as defined in MORB Subsec. X141.1

2. *Officers* of BDOLF, as defined in MORB Subsec. X142.1[2]

3. *Stockholder*[3] of BDOLF owning at least 1% of the Company's subscribed capital stock, singly or collectively with: i) spouse and/or relatives within the first degree of consanguinity or affinity, or relative, by legal adoption; ii) a partnership in which the stockholder and/or the spouse and/or any of the aforementioned relatives is a general partner; iii) a corporation, association or firm more than fifty percent (50%) of which is owned by the stockholder and/or his spouse and/or other first degree relatives by consanguinity, affinity or legal adoption.

4. *Related Interest* which shall refer to any of the following:

   4.1. Spouse or relative within the first degree of consanguinity or affinity, or relative by Legal adoption, of a director, officer or stockholder of BDOLF;

   4.2. Partnership of which a director, officer, or stockholder of BDOLF or his spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, is a general partner;

   4.3. Co-owner with the director, officer, stockholder or his spouse or relative within the first degree of consanguinity or affinity, or relative by legal adoption, of the property or interest or right mortgaged, pledged or assigned to secure the loans or other credit accommodations, except when the mortgage, pledge or assignment covers only said co-owner's undivided interest;

   4.4. Corporation, association or firm of which any or a group of directors, officers, stockholders of the BDOLF and/or their spouses or relatives within the first degree of consanguinity or affinity, or relative by legal adoption, hold or own at least twenty percent (20%) of the subscribed capital of such corporation, or of the equity of such association of firm;

   4.5. Corporation, association or firm wholly or majority-owned or controlled by any related entity or a group of related entities mentioned in items *4.2* and *4.4*;

   4.6. Corporation, association or firm which owns or controls directly or indirectly whether singly or as part of a group of related interest at least twenty percent (20%) of the subscribed capital of a substantial stockholder of the lending Company or which controls majority interest of BDOLF pursuant to MORB Subsec. X303.1;

1 Related Parties (RP) refer to the following : DOSRI, Subsidiaries, Affiliates and Other Related Parties acting for themselves, as representative or agent for others,or as guarantors, sureties, endorsers, mortgagors, pledgers, assignors, or in any capacity in which (i) they become obligated or may become obligated to BDOLF to pay money or its equivalent or by any means whatsoever or (ii) there is a transfer of resources, services or obligations between BDOLF and the RP.

2 BDO Officers that are seconded to BDOLF shall be classified as Officer of both BDO and the host subsidiary. Checking with BDO HR shall be required to confirm if an officer of a subsidiary is seconded.

3 Stockholder shall refer to any stockholder of record in the books of the Company, acting personally, or through an attorney-in-fact; or any other person duly authorized by him or through a trustee designated pursuant to a proxy or voting trust or other similar contracts. Stockholder shall also refer to a juridical person such as corporation, association or firm.

4.7. Corporation, association or firm which has an existing management contract or any similar arrangement with the parent corporation of BDOLF; and

4.8. Non-governmental organizations (NGOs)/foundations that are engaged in retail Microfinance operations which are incorporated by any of the stockholders and/or directors and/or officers of the BDOLF or any related Company.

B. *Subsidiary*[4] shall refer to a corporation or firm more than fifty percent (50%) of the outstanding voting stock of which is directly or indirectly owned, controlled or held with power to vote by BDOLF.

C. *Affiliates* shall refer to an entity linked directly or indirectly to BDOLF by means of:

1. Ownership, control as defined under MORB Subsec. X146.1, or power to vote of at least twenty percent (20%) of the outstanding voting stock of the borrowing entity/counterparty, or vice versa;

2. Interlocking directorship or officership, where the concerned director or officer owns; controls, as defined under MORB Subsec. X146.1; or has the power to vote of at least twenty percent (20%) of the outstanding voting stock of the borrowing entity/counterparty;

3. Common stockholders owning at least ten percent (10%) of the outstanding voting stock of BDOLF and at least twenty percent (20%) of the outstanding voting stock of the borrowing entity/counterparty;

4. Management contract or any arrangement granting power to BDOLF to direct or cause the direction of management and policies of the borrowing entity/counterparty; or

5. Permanent proxy or voting trusts in favor of BDOLF constituting at least twenty percent (20%) of the outstanding voting stock of the borrowing entity/counterparty, or vice versa;

Note: In cases where the borrowing entity/counterparty is linked to BDOLF both as DOSRI & as a Subsidiary or Affiliate, the DOSRI rules shall apply.

D. *Other Related Party*[5] which shall refer to any of the following:

1. An entity linked directly or indirectly to BDOLF by means of:

   a. Ownership, control or power to vote, of ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity/counterparty, or vice versa;

   b. Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations or directors holding nominal shares in the borrowing corporation/counterparty;

   c. Common stockholders owning at least ten percent (10%) of the outstanding voting stock of BDOLF, and ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity/counterparty;

   d. Permanent proxy or voting trusts in favor of BDOLF constituting ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity/counterparty.

4 As defined in Section 1 of BSP Circular No. 914, Series of 2016
5 As defined in Section 6 of BSP Circular No. 914, Series of 2016

2. Second degree relatives by consanguinity (grandparents, grandchildren, brothers and sisters) or affinity (grandparents-in-law, brothers-in-law and sisters-in-law), legitimate or common-law[6], of Directors and select Senior Officers of BDOLF (SVP or higher who has the ability to exercise significant influence on the outcome of the transaction[7]);

3. Directors, Officers[8] and Stockholders[9] (DOS) of the affiliated[10] companies of BDOLF ;

4. Spouse, and those relatives up to the second degree, by consanguinity (parents, children, grandparents, grandchildren, brothers and sisters) or affinity (parents-in-law, children-in-law, grandparents-in-law, grandchildren-in-law, brothers-in-law and sisters-in-law), legitimate or common-law, of Directors, and Officers[11] in affiliated companies of BDOLF.

5. Persons/juridical entities that do not qualify as Other Related Party based on above definitions, but which the business unit / delegated approver, with abundance of caution, opted to classify as such, subject to the evaluation and approval of the Related Party Transactions Committee (RPTC).

2. The Company shall maintain a central Related Party Database[12] to be used as reference by business units.

3. Transactions of the Company with a Related Party shall be allowed. However, business units shall ensure that such transactions are conducted on an arm's length basis, or in the ordinary course of business.

4. Coverage of the Related Party Transactions (RPT) Policy

   a. The policy on RPTs shall cover the following:

Credit Transactions	Non-credit Transactions
1. Credit lines / facilities (on- and off-balance sheet)	1. Services - consulting, professional, agency & other service arrangements / contracts - construction arrangements / contracts
2. Write-off of related party transactions	2. Goods & Materials - sale, purchase or supply of any goods or materials
3. Borrowing, commitments, fund transfers (representing advances / loan accommodations) and guarantees and sureties	3. Lease arrangements / contracts (as Lessor or Lessee) 4. Assets - purchases & sales of assets including transfer of of technology & intangible items (research & development, trademarks & license agreements)

6 Relatives arising from a relationship between a man and a woman who live exclusively with each other as husband and wife without the benefit of marriage.
7 Per BOD-approved guidelines dated June 25, 2016
8 Officer of the affiliated company" shall refer to: President, Chief Executive Officer, Chief Financial Officer, or Treasurer.
9 "Stockholder of an affiliated company" shall refer to an individual stockholder of an affiliated company and/or his relatives within the first degree of affinity or consanguinity **holding more than 50%** of the subscribed capital of the affiliated company.
10 Affiliated companies shall refer to the following: a. juridical/corporate Related Interests (RI); b. subsidiaries & affiliates of BDOLF; c. Any party that BDOLF exerts direct/indirect control over (as provided in item H1.a.1 of the RP Checklist) , or that exerts direct/indirect over BDOLF (as provided in item H.1.a.2 of the RP Checklist).
11 "Officer of the affiliated company" shall refer to: President, Chief Executive Officer, Chief Financial Officer, or Treasurer.
12 Posted in the designated BDOLF Shared Folder. For Officers, the BDO Employee Self-service shall be used as reference.

	5. Investments - investments and/or subscriptions for debt/equity issuances **not** traded in an active market - establishment of joint venture activities 6. Trading & derivative transactions **not** traded in an active market 7. Guarantees, sureties and other grant of security interest issued by a related party for any of the above transactions

b. Transactions excluded from the materiality threshold & reporting requirements shall include, but not limited, to the following:

1. regular trade transactions involving purchases and sales of financial instruments traded in an active market

2. those granted under BSP-approved fringe benefits program

Business units shall be responsible for identifying other transactions which may be excluded from the RPT approval & reporting requirements, providing justification, coordinating such with Compliance, and securing the necessary approval from RPTC & BOD once clearance from Compliance is obtained.

Note: Please refer to ***Annex 1*** for the sample memo to RPTC & BOD.

c. Related Party Transactions (RPTs) shall include not only transactions which are entered into with related parties, but also outstanding transactions which were entered into with an unrelated party that subsequently became a related party.

Note: Please refer to item II.9 for the detailed guidelines on handling changes in relationships.

5. The Related Party Transactions Committee or RPTC shall be primarily responsible for the assessment of material RPTs, and the regular reporting to the Board of Directors of the status and aggregate exposures to related parties.

6. Review and Approval of Related Party Transactions (RPTs)

a. The following general approval matrix shall be observed to ensure the proper review and approval of transactions between the Company and a Related Party:

Related Party Transactions[13]	Related Party	DISPOSITION		
		Transaction Approval	Approval / Endorsement	Approval
		Delegated Authority[14]	RPTC[15]	BOD[15]
1. All transactions within / above materiality threshold (material RPTs), including select <u>aggregated non-material non-credit</u> RPTs breaching materiality threshold[16]	All	✓	✓	✓
2. Transactions below materiality threshold (non-material RPTs) involving:				
- Credit transactions	DOSRI, Subsidiaries & Affiliates	✓		✓
- Write-off	All	✓		✓
3. Non-material RPTs except those cited in item 2 above	All	✓		

Note: Above approval, matrix shall also apply to updating of terms of conditions. Prior approval shall be required for updating of terms & conditions of RPTs previously approved by the RPTC & BOD, and those, which will result in breach of materiality threshold based on company's aggregated exposure to the borrower / counterparty. Please refer to ***Annex 2*** for the specific approval matrix.

b. RPTs for review / approval shall be evaluated based on the following factors:

b.1. whether the terms of the transaction are fair or not more favorable than similar transactions with non-related parties;

b.2. whether the outcome of the transaction would pose any potential reputational risk issues;

b.3. whether the transaction would present an improper conflict of interest for any director or senior officer of the Company;

b.4. the availability of other sources of comparable products or services;

13 Existing DOSRI rules (such as but not limited to the following: BSP Circular No. 423 re Ceilings on Loans/Credit Accommodations to DOSRI; BSP Circular No. 560 re Ceilings on Loans/Credit Accommodations to Subsidiaries/Affiliates; BSP Circular No. 737 re Real Estate and Chattel Transactions with DOSRI/Employees; BSP Circular No. 749 re Guidelines on Corporate Governance) shall apply. Guarantees, sureties and other grant of security interest issued by a related party for the covered transactions shall likewise be subject to the requirements of the policy.

14 based on the latest approval matrix

15 To be coursed thru the Office of the Corporate Secretary; existing procedures on the endorsement of transaction for review & approval/confirmation of the designated reviewing committee / Board of Directors shall continue to be observed.

16 Applicable to sale of assets, sale/purchase of goods & materials, and leases; prior to RPTC/BOD approval shall be required if aggregated YTD RPT shall reach the Php 10M materiality threshold for credit and Php 1M materiality threshold for non-credit.

b.5. the material facts of the proposed transaction, including its aggregate value vis-a-vis the Company's aggregate exposure limits

b.6. any other information (e.g., price discovery mechanism, etc.) deemed relevant to allow determination if terms are comparable to those given to unrelated parties or reasonable under the circumstances

c. To facilitate the approval and/or confirmation of RPTs, and the subsequent reporting of material RPTs to BSP, the secretariat / designated personnel of the delegated approving authority shall sort the approval media of proposed RPTs, and prepare the corresponding report. *(Exhibit 1-1A).*

d. Any member of the reviewing committee / Board of Directors who has a potential interest in any proposed RPT shall abstain from the discussion or deliberation.

7. Role of Business Units

To facilitate the proper evaluation of related party transactions (RPT), concerned business units shall perform the following:

a. Identification of a related party (RP) account, and determination of the appropriate RP classification

b. Tagging of the appropriate RP code in the respective system or database (i.e., Ambit Asset Finance [AAF], Factors Management System [FaMS], Fund Management System [FMS], and/or ICBS-CIF)

Note: Business units which are non-CIF owners / without access to ICBS shall endorse the account for tagging to the respective CIF owner.[17] Endorsement shall be made via e-mail and shall include the established RP classification of the account.

c. Obtaining data to show that terms and conditions granted to related borrower / counterparty are not more favorable than similar transactions with non-related parties, or are comparable with similar transactions of other companies/entities

d. Disclosure of the required data in the applicable transaction document (e.g., Credit Proposal, Request for Booking, Purchase Order, etc.)

Please refer to ***Annex 3*** for the Duties and Responsibilities of all concerned units on RPT processing & reporting.

8. Guide in Determining a Related Party & Tagging of Accounts

a. Business units shall make use of the applicable information sheet (e.g., Customer Information Record / equivalent document & Related Party Questionnaire *(Exhibit 3)* for individual[18], General Information Sheet for non-individual[19]) to determine whether a client / counterparty is a related party.

b. To determine client's / counterparty's classification[20] with finality, business units shall be required to **accomplish & print** the Related Party Checklist *(Exhibit 2)*.

17 CIF owner shall be determined based on the client's/counterparty 's existing relationship with the Company.
18 includes sole proprietorship, for RPT purposes
19 or the equivalent document for other type of entities
20 Includes 'Non-Related Party' please refer to BSD M2016/0145 (re: Updated RP Code Field in ICBS-CIF) for the updated list of RP classification & respective codes

However, for counterparties initially identified as Director & spouse / relatives up to 1st degree of Directors, Officer & spouse/relatives up to 1st degree of Officers , Stockholder (owning at least 1%), or Subsidiary based on the accomplished / submitted information sheet, use of RP Checklist shall no longer be required. Confirmation of RP classification shall be done as follows:

Identified RP Classification	Reference
Director, Stockholder (owning at least 1%) or Subsidiary, and spouse/relatives up to 1st degree of Directors & Officers	Related Party (RP) Database[21]
Officer	Employee Self-service (ESS)

Business units shall document verification made by affixing the following details in the corresponding information sheet (i.e., RP Questionnaire for individual & GIS for non-individual):

1. RP classification (i.e., Director, Officer, Stockholder, or Subsidiary, or Related Interest (for spouse/relatives up to 1st degree of BDOLF Directors /Officers)
2. Date of verification
3. Signature of reviewing & approving personnel

c. Business units shall ensure that accounts identified and confirmed to be a related party are properly tagged in the respective transaction system/database (AAF, FaMS, FMS, and/or ICBS-CIF)

To determine if the client / counterparty has already been tagged in ICBS, business units shall refer to the RP Database. Tagging of accounts in ICBS shall be done on the following instances:

- if client's / counterparty's name is found in the database but without a Logical Branch Code
- if client's / counterparty's name is found in the database but RP classification is incorrect / not updated
- if client's / counterparty's name is not found in the database.

Notes:

- To facilitate updating of RP Database, both the newly-identified related parties and non-related parties[22] shall be tagged in AAF, FaMS, FMS,and/or ICBS accordingly.
- Please refer to BSD M2016/0145 (Updated RP Code Field in ICBS-CIF) for the updated RP Codes
- For names without indicated CIF owner / Logical Branch Code[23] & names not found in the database, CIF owner shall be identified based on the client's / counterparty's existing relationship with the Company, as disclosed in the Customer Information Sheet (CIS) or equivalent document.
- In exception cases where identified RPs do not have any transaction captured in AAF, FaMS, FMS and/or ICBS (e.g. Lessors who may not be maintaining an account with the Company), business units shall request inclusion in the RP Database by sending an e-mail to Compliance.[24]

d. Details of verification against the RP Database, and subsequent tagging in the AAF, FaMS, FMS and/or ICBS-CIF or endorsement to Compliance shall be recorded in the applicable information sheet (e.g., RP Questionnaire, GIS or RP Checklist).

21 posted in the designated BDOLF Shared folder. For Officers, the BDO Employee Self-Service shall be used as reference.
22 to cover those accounts previously identified/tagged as RP but subsequently became a non-RP
23 Identified as RP based on available information with the Office of the Corporate Secretary
24 Specific e-mail address to be announced by Compliance separately

e. Concerned CIF Owner and Compliance shall send an e-mail confirmation on successful tagging in ICBS, AAF, FaMS, and FMS and inclusion in RP Database, respectively, to the requesting business unit within three (3) banking days upon receipt of request.

f. Compliance Office shall be responsible for the periodic updating of the RP Database, as follows:

RP Classification	Schedule of Updating
Directors, Stockholders & Subsidiary[25]	Monthly or as necessary
Related Interests[26], Affiliates[27] & Other Related Party[28]	
Directors, Officers[29] & Stockholders[30] of Select Affiliated[31] Companies	Quarterly or as necessary

*The List of Select Senior Officers of BDOLF (SVPs & up with significant influence)[32] shall be updated as necessary.

The RP Database shall bear the notation '*Updated as of (date)*' for the guidance of the business units.

9. To capture subsequent changes in relationships (i.e., unrelated party becoming a related party & vice versa, and changes in RP classification), business units shall require existing clients / counterparties to accomplish the Related Party Questionnaire[33] *(Exhibit 3)* (for individual) or submit updated General Information Sheet (for non-individual) on the following instances:

- upon renewal of the credit facility / agreement / contract;
- upon re-accreditation of vendor / service provider or renewal of contract, whichever comes first;
- upon updating of terms & conditions;
- upon client's voluntary disclosure of information (for client-initiated updating)

The RPT approval & reporting requirements shall apply based on the client's updated/latest RP classification (i.e. to be determined upon accomplishment of RP Questionnaire / Checklist, or verification of information against the RP Database[34]), and the amount involved in the transaction. Please refer to **Annex 2** for the Approval Matrix.

Note: To ensure that the RP Database is up-to-date, immediate updating of RP code tagging in AAF,FaMS, FMS and/or ICBS-CIF following the account's change in classification shall be done.

25 Identified as RP based on available information with the Office of the Corporate Secretary
26 via extract file from AAF, FaMS, FMS or ICBS-CIF
27 Compliance Office shall consolidate data from the Office of the Corporate Secretary and those extracted from AAF, FaMS, FMS and/or ICBS-CIF, prior to posting in the RP Database. The list is partial or non-exclusive in nature. Business units shall look at the ownership structure of the concerned entity and conduct due diligence to determine if it is an affiliate of BDOLF as defined in item II.1.C.
28 Compliance Office shall consolidate data from the Office of the Corporate Secretary and those extracted from AAF, FaMS, FMS and/or ICBS-CIF, prior to posting in the RP Database.
29 "Officer of the affiliated company" shall refer to**:** President, Chief Executive Officer, Chief Financial Officer, or Treasurer.
30 "Stockholder of an affiliated company" shall refer to an individual stockholder of an affiliated company and/or his relatives within the first degree of affinity or consanguinity **holding more than 50%** of the subscribed capital of the affiliated company.
31 Affiliated companies shall refer to the following: a. juridical/corporate Related Interests (RI); b. subsidiaries & affiliates of BDOLF; c. Any party that the bank exerts direct/indirect control over, or that exerts direct/indirect control over BDOLF
32 one of the references in identifying Other Related Parties
33 The handling Account Officer/frontliner may accomplish the questionnaire based on interview with the client / highly- reliable sources, in exception cases where it is not practicable for the client to accomplish such.
34 Posted in the designated BDOLF Shared Folder; for Officers, reference will be the BDO's Employee Self-service (ESS)

10. Disclosure Requirements for Related Party Transactions

    a. Transaction approval documents shall bear the following information:

        a.1. related party classification of client / counterparty, and the basis for such classification
        a.2. comparative terms and conditions (vs. non-RPTs of the company, or other company's similar transaction)

        Notes:

        1. In cases where relevant pricing terms are not available at the time of approval (such as interest rate which shall be determined upon loan booking and not upon initiation of credit proposal), disclosure on the timing and documentation of such shall be done on the appropriate transaction media (e.g., Credit Proposal). To illustrate, the following notation shall be indicated on the Credit Proposal upon credit initiation for BDOLF Marketing Units:

            "The actual interest rate to be charged at booking date shall be comparable to similar transactions of non-related parties similarly situated or risk-rated, and will be substantiated/documented in the Request for Booking."

        2. Transaction documents not bearing the required disclosures shall be returned by the designated personnel / secretariat of the delegated authority to the concerned business unit.

    b. To further aid RPTC/BOD in determining whether the transaction is fair or not more favorable than similar transactions with non-related parties, the prescribed benchmarking template *(Exhibit 1-E for credit transaction & Exhibit I-F for non-credit transactions)* shall be accomplished by business units <u>for all RPTs</u>.

        Note: For credit transactions, the interest rate[35] charged at booking date shall be reported to RPTC by re-submitting the corresponding benchmarking template used for the approved credit facility, with the actual interest rate likewise benchmarked against non-RPT accounts. Deviations from the rates approved by the management shall require disclosure.

    c. Disclosure of details[36] of material related party transactions shall be made by the Company in its Annual Stockholders' Meeting, and in the Annual Report, as necessary. Likewise, the Company's updated policy regarding related party transactions shall be disclosed in the website & in the Annual Corporate Governance Report.

11. Reporting of Related Party Transactions

    In addition to the required reports on transactions with DOSRI, Subsidiaries & Affiliates, the following reports shall be prepared:

35 Determined following BDOLF's Guidelines on Pricing of Loans reviewed and approved by the RPTC

36 Nature, terms and conditions, as well as original and outstanding individual and aggregate balances, including off-balance sheet commitments.

a. Reports for BSP

Report Name	Purpose	Unit Responsible for Manual Preparation/ Extraction	Unit Responsible for Consolidation / Submission to Designated Recipient	Schedule of Submission
1. Report on Material Related Party Transactions *(Annex A)*	Compliance to regulatory requirement	- Comptrollership-Subsidiaries Accounting *(based on Exhibit 1/1A prepared by the Secretariat of the delegated approving authority)* Notes: a. The parent bank's report shall contain <u>all the company's transactions with any related party,</u> (i.e., including all subsidiaries & affiliates, whether BSP-supervised or not). b. In case both the company and the counterparty are supervised by BSP, only the lessor, in case of a lease contract, or the party engaging/requesting the services, in case of other contracts, shall do the reporting of the transaction. c. Please refer to *Exhibits 1 & 1A* for the report template.	Comptrollership-FRCD Note: The Annex A to be submitted to BSP by Comptrollership - FRCD shall also include the RPTs to be reported by BSP-supervised non-bank financial subsidiaries of BDO.	Submission by the Office of the Corporate Secretary / Comptrollership-Subsidiaries Accounting to Comptrollership - FRCD: <u>Within fourteen (14) calendar days after the reference quarter</u> Submission by Comptrollership - FRCD to BSP: <u>Within twenty (20) calendar days after the reference quarter</u>

b. Internal Reports

Report Name	Purpose	Unit Responsible for Preparation/ Extraction (for automated reports)	Unit Responsible for Consolidation / Submission to Designated Recipient	Schedule of Submission
1. Report on Material RPTs (Exhibit 1-1A)	To secure RPTC / BOD's approval	Designated Unit / Concerned Business Unit		Prior to execution of transaction
2. Report on Aggregated Non-material, Non-credit RPTs Breaching the Materiality Threshold (Exhibit 1B)				
3. Monthly Report on Outstanding Exposures to Related Parties *(Annex B)*	For use by RPTC in monitoring credit exposures (as to status, total exposures per related party group, & aggregate exposures to all related parties)	BDOLF Comptrollership		Within eight (8) banking days after the reference month
4. Annual Report on Non-Material RPTs (Aggregated per RP) Exhibit 1C-1D	To facilitate monitoring of exposure, & for RPTC/BOD's confirmation/notation	Designated Unit / Concerned Business Unit[37]		Within ten (10) calendar days after year-end
5. Quarterly Report on Conglomerate Structure	For use by RPTC in monitoring changes in relationship	Office of the Corporate Governance		Within five (5) banking days prior to the next scheduled RPTC meeting

12. Stress Testing of Exposures

a. On an annual basis, BDOLF RMU - Risk Management Unit (RMU) shall conduct a stress testing exercise on the company's related party exposures to determine its impact on capital adequacy ratios

b. The RPTC shall be furnished by RMG-RASCU with the results of the stress testing exercise.

13. Handling of Abusive RPTs[38]

a. Abusive RPTs shall be handled as follows:

37 For RPTs not coursed thru / reported by the Secretariat of the delegated approving authority (e.g. credit transactions, leases)
38 An RPT not conducted at arms's length

Personnel involved in the Complaint	Unit Responsible for Investigation
Employee	Cases Review Committee (CRC)-Secretariat
Director	Corporate Governance Committee[39]

b. Any member of the investigating committee who is a subject of the complaint shall recuse himself/herself from participating in the handling of the case.

c. Reporting and investigation of abusive RPTs shall be handled following the Company's existing code of conduct and Whistleblowing Guidelines, while restitution of losses and remedies for abusive RPTs shall be handled following the Company's Cases Review Guidelines (for employees) and applicable guidelines (for Directors)

14. RPT Awareness Training

a. Compliance shall coordinate with HR- Training for the inclusion and updating of the RPT module in the company's training program for employees.

15. Roles of Internal Audit and Compliance

a. Internal Audit shall perform a periodic review of the effectiveness of the Company's system, controls and policies governing related party transactions, and shall report findings in the RPTC meeting following the issuance of the final report to concerned business unit.

b. Compliance shall ensure that the Company's policies are up-to-date. It shall also conduct compliance test review of related party accounts/transactions to check concerned unit's compliance with RPT requirements, and shall report findings in the RPTC meeting following the issuance of the final report to concerned business unit.

39 Thru the Office of the Corporate Governance

I. Overview

This Supplemental Policy establishes the guidelines to be observed in handling material related party transactions as defined in the Securities & Exchange Commission (SEC) Memorandum Circular No. 10, Series of 2019.

All other guidelines specified in BDOLF Related Party Transaction Policy shall remain to be in force.

II. Definition of Terms

A. Related Party - refers to the related parties defined in BDOLF Related Party Transaction Policy (i.e., Director, Officer, Stockholder, Related Interest, Subsidiary, Affiliate, Other Related Party (ORP)) **and** Extended ORP**.**

B. Extended ORP - 3rd to 4th degree relatives, by consanguinity or affinity, legitimate or common-law[1], of Directors and select Senior Officers of BDOLF (i.e., SVP or higher who has the ability to control or to exercise significant influence on the outcome of the transaction).

C. Related Party Transaction (RPT) - a transfer of resources, services or obligations between BDO and a related party, regardless of whether a price is charged. ***(For the list of covered transactions, please refer* to 4.a of BDOLF Related Party Transaction Policy).**

D. SEC Materiality Threshold - ten percent (10%) of BDOLF's total assets based on the latest audited financial statement.

E. Material RPT - any RPT, either individually, or in aggregate over a twelve (12)-month period with the same related party, amounting to ten percent (10%) or higher of BDO's total assets.

III. General Guidelines

A. Determination of SEC-defined Material RPTs

1. Borrowers/counterparties with the following transactions shall be subjected to the Expanded Related Party Checklist *(Exhibit 1)*:

   a. single transaction breaching the SEC materiality threshold[2]

   b. aggregated credit availments for the past 12 months that breached the internal materiality threshold[3]

   If the borrower/counterparty is determined as an Extended ORP, the concerned business unit shall advise the Compliance Office to include such related party in the Related Party Database.

1 relatives arising from a relationship between a man and a woman who live exclusively with each other as husband and without the benefit of marriage
2 Currently set at PHP**4.1** B; subsequent threshold shall be advised by Comptrollership based on the latest year-end audited financial statements
3 Equivalent of **90%** of the **SEC** materiality threshold

2. Transaction of borrowers/counterparties confirmed to be a related party shall be handled by the concerned Account Officer (AO)/Processor, as follows:

Transaction	Disposition
Single transaction breaching the **SEC** materiality threshold	For referral to external independent party[4] and approval of designated authorities (per Section B)
Aggregated credit availments for the past 12 months that breached the internal materiality threshold	For notification to the designated unit[5]
Aggregated transactions (credit and non-credit) for the past 12 months that breached the SEC materiality threshold	For referral to external independent party[6] and approval of designated authorities (per Section B)

3. Aggregated credit availments that breached the internal materiality threshold shall be handled as follows:

   a. Upon receipt of notification from AO, designated unit shall issue an advisory to the concerned business units to trigger reporting of covered transactions of the concerned related party.

   b. Concerned business units shall report the following to the designated unit for consolidation:

      -transactions for the past 12 months reckoned from the date of notification
      -subsequent transactions

   c. The designated unit shall disseminate/post the list of related parties and corresponding covered transactions as a guide for concerned units in handling subsequent transactions.

   d. The concerned business unit with the latest transaction that will breach the internal materiality threshold shall automatically request evaluation of an external independent party.

B. Review and Approval of Material RPTs

1. Identified material RPTs shall be evaluated by an external independent party appointed by the Board of Directors (BOD).

2. As a general rule, terms and conditions of material RPTs subjected to external evaluation shall be applied to subsequent transactions. Otherwise, the latter shall require another round of evaluation.

3. Material RPTs shall be approved as follows:

4 May include, but not limited to, auditing/accounting firms and 3rd party consultants who will handle evaluation of the material RPTs
5 Unit to consolidate data submitted by business units
6 May include, but not limited to, auditing/accounting firms and 3rd party consultants who will handle evaluation of the material RPTs

Transaction	Related Party	DISPOSITION		
		Transaction Approval	Approval / Endorsement	Approval
		Delegated Authority	RPTC	BOD
Single material RPT	DOSRI, Subs, Affiliates, Other Related Party (ORP), & Extended ORP	✓	✓	✓
Aggregated credit availments for the past 12 months that breached the SEC materiality threshold				

Note: SEC-defined material RPTs shall be approved by at least 2/3 vote of the BOD, with at least a majority of the independent directors voting to approve the proposed transaction. In case a majority of the independent directors' vote is not secured, the material RPT may be ratified by the vote of the stockholders representing at least 2/3 of the outstanding capital stock.

C. Disclosure and Reporting Requirements

1. Approved material RPTs shall be reported to the Securities and Exchange Commission (SEC) via the Advisement Report on Material RPT *(Annex A).*

   The cited report shall be signed by the Corporate Secretary (or designated alternate) together with the concerned related party (or authorized representative); and submitted by the designated unit to the SEC <u>within three (3) calendar days after execution date of the transaction</u>.

2. A summary of approved material RPTs during the reporting year shall likewise be disclosed in the Bank's Integrated Annual Corporate Governance Report (I-ACGR) submitted every May 30.

MINUTES OF THE
ANNUAL MEETING OF STOCKHOLDERS

BDO LEASING AND FINANCE, INC.

HELD ON FRIDAY, APRIL 12, 2019, AT 10:10 A.M.
AT THE FRANCISCO SANTIAGO HALL, MEZZANINE FLOOR, SOUTH TOWER
BDO CORPORATE CENTER, 7899 MAKATI AVENUE, MAKATI CITY

NUMBER OF SHARES HELD BY SHAREHOLDERS:

Number of Total Outstanding Shares	-	2,162,475,312
Present In Person or Represented By Proxy, and Participant Brokers	-	1,914,923,894
Percentage of the Total Shares Represented By Proxies & In-Person	-	88.55%
Absent	-	247,551,418

DIRECTORS PRESENT:

Ms. Teresita T. Sy	Chairperson
Mr. Roberto E. Lapid	Vice Chairman & President
Atty. Jesse H. T. Andres	Independent Director
Mr. Antonio N. Cotoco	Director
Ms. Ma. Leonora V. De Jesus	Independent Director
Mr. Jeci A. Lapus	Non-Executive Director
Mr. Vicente S. Pérez, Jr.	Independent Director
Mr. Nestor V. Tan	Director
Mr. Exequiel P. Villacorta, Jr.	Non-Executive Director
Mr. Walter C. Wassmer	Director

ALSO PRESENT:

Atty. Edmundo L. Tan	Adviser to the Board
Atty. Joseph Jason M. Natividad	Corporate Secretary
Mr. Agerico Melecio S. Verzola	First Vice President/Marketing Head
Ms. Angelita C. Tad-y	First Vice President/Chief Risk & Compliance Officer
Ms. Rosalisa B. Kapuno	Vice President/Comptrollership
Mr. Leonardo D. Cuaresma, Jr.	Engagement Partner, P&A Grant Thornton
Mr. Renato P. David, Jr.	Audit and Assurance Manager, P&A Grant Thornton
Ms. Kryslene Kae C. Urbi	Audit and Assurance-In-Charge, P&A Grant Thornton

DIRECTOR ABSENT:

Mr. Luis S. Reyes, Jr.	Director & Treasurer

I. Call to Order

Ms. Teresita T. Sy, Chairperson, called the Annual Stockholders' meeting to order at 10:10 in the morning. On behalf of BDO Leasing and Finance, Inc. (the "Corporation") and Management, she expressed her gratitude to the stockholders for their continued support to the Corporation. The Chairperson then requested Mr. Nestor V. Tan to act as Chairman of the Meeting and to preside over the same.

Atty. Joseph Jason M. Natividad, Corporate Secretary, recorded the minutes of the meeting.

II. Certification of Notice and Quorum

The Chairman of the meeting verified with the Corporate Secretary whether notices of the annual meeting of the stockholders had been sent to the Corporation's stockholders. Atty. Joseph Jason M. Natividad, Corporate Secretary, replied that notices of the meeting, together with the agenda and the QR Code for the Definitive Information Statement (DIS), were sent by personal delivery or mail beginning March 20, 2019 to the stockholders of record as of February 27, 2019, in accordance with Article II, Section 2 of the By-Laws in relation to Paragraphs 3 and 11 of SRC Rule 20 of the Amended Implementing Rules and Regulations of the Securities Regulation Code.

The Corporate Secretary certified that based on the record of attendance, present for the meeting were stockholders, in person or by proxy, and participant brokers, holding a total of 1,914,923,894 shares, equivalent to 88.55% of the total 2,162,475,312 outstanding shares of the Corporation, and that one common share carries one vote. The Corporate Secretary therefore certified that there was a quorum present and that the meeting was regularly and lawfully convened for the transaction of business for which it was called. He recorded the minutes of the proceedings

The Corporate Secretary likewise manifested that Punongbayan & Araullo, Grant Thornton (P&A), represented by Mr. Leonardo D. Cuaresma, Jr., Partner, had been appointed to count and validate the votes cast at the meeting, in accordance with the voting procedures disclosed in the Definitive Information Statement provided to the stockholders as of record date.

III. Approval of the Minutes of the Annual Stockholders' Meeting held on April 13, 2018

The Chairman of the meeting stated that the next item in the agenda was the reading and approval of the minutes of the annual meeting of shareholders held on April 13, 2018. He manifested that copies of the Minutes were included in the Definitive Information Statement (DIS) distributed to all stockholders of record, and have been made available for examination during office hours at the Office of the Corporate Secretary and at the Corporation's website www.bdo.com.ph/subsidiaries/leasing/company disclosures.

Upon motion duly made and seconded, the minutes of the annual stockholders' meeting held on April 13, 2018 had been approved and the following resolution had been passed and adopted:

Stockholders' Resolution No. 2019-01

> **RESOLVED,** That the Stockholders of BDO Leasing and Finance, Inc. approve, as they hereby approve, the Minutes of the Annual Stockholders' Meeting held on April 13, 2018.

The Chairman of the meeting then instructed the Corporate Secretary to have the minutes of the meeting reflect the tabulation of all votes cast, including proxies that have cast their votes in favor of the approval of the minutes of the last annual stockholders' meeting, and to note the stockholders that have chosen to abstain on voting for, or have chosen to vote against, the approval of the said minutes.

Based on P&A's tabulation, the following were the results of the voting by poll, showing the number of votes cast and received on the approval of the Minutes of the Annual Stockholders' Meeting held on April 13, 2018:

Total Outstanding Shares	Total Votes Cast	Votes in favor	Votes against	Abstentions
2,162,475,312	1,914,923,894	1,914,923,894 (100%)	0	0

Accordingly, shareholders owning 1,914,923,894 voting shares or 100% of the total number of voting shares represented at the meeting, approved the Minutes of the Annual Stockholders' Meeting held on April 13, 2018, no shareholder voted against or abstained in the approval.

IV. President's Report and Approval of the Audited Financial Statements of the Corporation as of December 31, 2018

The Chairman of the meeting then gave the floor to the Vice Chairman and President, Mr. Roberto E. Lapid, to present his report on the Corporation's results of operations for the year 2018, and the programs and prospects for 2019.

Mr. Roberto E. Lapid, Vice Chairman and President, rendered his report to the Stockholders.

Philippine Economy in 2018

Mr. Lapid reported that in 2018, Philippine GDP grew at 6.2%. While this was lower than the GDP posted in 2016 and 2017, it was still among the highest growth rates in the region. Accompanying this growth were certain global and domestic events that affected the economy like the hike in US interest rates that resulted in capital flight, the tightening in domestic liquidity, depreciation of the peso, and decline of the local stock market. In addition, global oil prices went up and food shortages, particularly on the basic staple rice, were experienced. It was also in 2018 when the TRAIN Law took effect. All of these resulted in a spike in inflation, causing the Bangko Sentral ng Pilipinas (BSP) to increase policy rates by 175 basis points. The Corporation, in particular, was affected by the rapid increase in the lending rates of banks and the higher documentary stamp taxes (DST), which resulted in the accelerated increase in funding costs as compared to the portfolio yields.

Review of Company Performance

Mr. Lapid was pleased to report that despite the challenges mentioned, the Corporation had another successful run in 2018.

By leveraging BDO Unibank's extensive network and taking advantage of the multitude of opportunities associated with regional economic expansion, particularly within the transport industry, the Corporation registered a net income of ₱330.7 Million which was at par with what the target for 2018. Compared to the previous year however, the Corporation's net income was lower mainly due to the impact of the additional documentary stamp taxes under the Train Law and the increase in BDOLF's interest expense by 38%.

Despite these challenges, the Corporation was able to sustain the total lease-loan portfolio at ₱34 Billion and kept the Total Assets above ₱41 Billion. In particular, BDOLF's finance leases grew by 9% and the provincial portfolio increased by 11% year-on-year, in line with the Corporation's strategy to tap fast growing and rapidly urbanizing areas outside Metro Manila.

During the year, BDOLF was given an above average issuer credit rating of "PRS Aa minus" from the Philippine Ratings Services Corporation in recognition of the Corporation's continuing strength and financial stability.

In July 2018, the Corporation was also awarded as one of the Top 20 publicly-listed companies in the Philippines that earned high scores in the 2017 ASEAN Corporate Governance Scorecard based on the local assessment conducted by the Institute of Corporate

Directors (ICD), an SEC-appointed domestic ranking body. Of the 5 publicly-listed companies which garnered awards from the banking sector, BDOLF was the only financing company while the 4 others were universal banks led by BDO Unibank.

Programs and Prospects for 2019

Mr. Lapid informed the shareholders that as a subsidiary of BDO Unibank, the nation's largest bank, BDOLF was well poised for future growth. He then presented to the shareholders the following strategies of the Corporation for 2019:

- The Corporation will strengthen relationships by partnering with corporate clients to secure their financial and equipment needs;
- Maximize lending opportunities from tech companies with lease requirements for IT and hardware infrastructure;
- Optimize the balance sheet while maintaining balanced portfolio growth and good credit quality;
- Increase efficiencies covering transactional and post transactional processes; and
- Develop and engage team members thru continuous training in order to improve overall customer experience.

The report is hereto attached as **Annex "A"** and made an integral part hereof.

V. Open Forum

After the Vice Chairman & President's presentation, the Chairman of the meeting opened the floor to give the stockholders the opportunity to ask questions or give comments regarding the President's Report, the Financial Statements of the Corporation, or related matters.

Atty. Vina Marie S. Villarroya, proxy holder, inquired on the withdrawal of the Corporation from its joint venture with Mitsubishi Automotive Finance Services, Inc. Mr. Lapid replied that the joint venture was not generating sufficient scale as was expected when the agreement was signed. Thus, BDOLF made the decision to exit the joint venture. The Corporation would instead focus on its core business of equipment leasing and finance.

Another proxy holder, Atty. Bettina Rayos del Sol, inquired on what specific strategies or measures were being done by Management to improve BDOLF's profitability. Mr. Lapid explained that Management was trying to manage the combined impact of rising funding costs and additional taxes on commercial paper issuances, which adversely affected the margins of BDOLF. The Corporation's loan transactions carried fixed interest rates for 3-5 years while funding sources were mostly short-term in nature. With rising interest rates in2018, the Corporation's funding cost increased at a much faster pace than its earning assets, resulting in the compression of margins. Mr. Lapid added that BDOLF was trying to grow its business volumes at a faster pace to be able to book earning assets at today's higher interest rates, and was also applying higher interest rates on repricing/maturing transactions.

Atty. Nicole V. Kalingking, proxy holder, inquired if the Corporation would move aggressively to get a share of the government's jeepney modernization program which would open opportunities to banks and finance companies. Mr. Lapid replied that the Corporation was the first leasing and finance company to have granted an approval to a private firm for this purpose. In a meeting with the Department of Transportation (DOTr) and the Land Transportation Franchising and Regulatory Board (LTFRB) in January 2019, together with several other financial institutions, Management pointed out several concerns and issues with emphasis on LTFRB's issuance of a provisional authority or temporary franchise which would be a prelude to the granting of a regular franchise. Furthermore, the DOTr is still finalizing the "route rationalization" which is vital in the issuance of LTFRB franchise to jeepney cooperatives and corporations. Unless these are addressed by the government, BDOLF cannot aggressively underwrite loan applications.

After the discussions were concluded, there being no other questions from the floor, Mr. Erwin D. Iloso, proxy holder, moved for the notation and approval of the Report on the Results of the Operations of the Corporation for the year ended December 31, 2018, and the Audited Financial Statements for the same period.

Mr. Dawn C. Cruz, proxy holder, seconded the motion. There being no objection, the Stockholders adopted the following resolution:

Stockholders' Resolution No. 2019-02

> **RESOLVED,** That the Stockholders do hereby note and approve the Report on the Results of the Operations of BDO Leasing and Finance, Inc. (BDOLF) for the year ended December 31, 2018, and the Audited Financial Statements as of December 31, 2018.

The Chairman of the meeting directed the Corporate Secretary to have the minutes reflect the tabulation of all votes cast, including proxies that have cast their vote in favor of the approval of the Report on the Results of Operations of BDOLF for the fiscal year ended December 31, 2018, and the Audited Financial Statements for the same period, to note the stockholders that have chosen to abstain on voting for, or have voted against, the approval of the aforesaid Reports and the Audited Financial Statements.

Based on P&A's tabulation, the following were the results of the voting by poll, showing the number of votes cast and received on the approval of the Report on the Results of Operations of BDOLF for the fiscal year ended December 31, 2018, and the Audited Financial Statements for the same period:

Total Outstanding Shares	Total Votes Cast	Votes in favor	Votes against	Abstentions
2,162,475,312	1,914,923,894	1,914,923,894 (100%)	0	0

Accordingly, shareholders owning 1,914,923,894 voting shares or 100% of the total number of voting shares represented at the meeting, noted and approved the President's Reports and the Audited Financial Statements of the Corporation for the fiscal year ending December 31, 2018, no shareholder voted against or abstained in the approval.

VI. Approval and Ratification of All Acts and Proceedings of the Board of Directors, the Board Committees and Management during their Respective Terms of Office

The next item in the agenda was the approval and ratification of all acts and proceedings of the Board of Directors, the Board Committees and Management, including significant related party transactions, for the year 2018 until the date of the 2019 Annual Stockholders' Meeting.

Mr. Arlo C. Atentar, proxy holder, moved that all the acts, including approvals of significant related parties' transactions, proceedings of the Board of Directors, the acts of the duly constituted committees, the acts of the Management, and the acts of the officers of the Corporation, up to the date of the 2019 Annual Stockholders' Meeting be, in all respects, confirmed, ratified and approved.

Thereafter, Ms. Melanie Ann C. Cuevas, proxy holder, seconded the motion. There being no further questions or objection, the Stockholders adopted the following resolution:

Stockholders' Resolution No. 2019-03

> **RESOLVED,** That all the acts, including approvals of significant related parties' transactions, and proceedings of the Board of Directors, the acts of the duly constituted committees, the acts of the Management

and the officers of BDO Leasing and Finance, Inc. (the "Corporation") in carrying out and promoting the purposes, objects, and interests of the Corporation, up to the date of the Annual Stockholders' Meeting (April 12, 2019), are confirmed, ratified and approved and hereby made the acts and deeds of the Corporation.

The Chairman of the meeting directed the Corporate Secretary to have the minutes reflect the tabulation of all votes cast, including proxies that have cast their votes in favor of the ratification and confirmation of all the acts and proceedings of the Board of Directors, its duly constituted committees, the acts of Management and officers of BDOLF, including approvals of significant related parties' transactions, up to the date of the Annual Stockholders' Meeting, and to note the proxies that have chosen to abstain on voting for, or have voted against, the ratification and confirmation of all the acts and proceedings of the Board of Directors, its duly constituted committees, the acts of Management and officers of BDOLF, including approvals of significant related party transactions, up to the date of the Annual Stockholders' Meeting (April 12, 2019).

Based on P&A's tabulation, the following were the results of the voting by poll, showing the number of votes cast and received on the ratification and confirmation of all the acts, including approvals of significant related parties' transactions, and proceedings of the Board of Directors, its duly constituted committees, the acts of Management and officers of BDOLF up to the date of the Annual Stockholders' Meeting:

Total Outstanding Shares	Total Votes Cast	Votes in favor	Votes against	Abstentions
2,162,475,312	1,914,923,894	1,914,923,894 (100%)	0	0

Accordingly, shareholders owning 1,914,923,894 voting shares or 100% of the total number of voting shares represented at the meeting, approved and ratified all the acts of the Board of Directors, its duly constituted committees, and Management, including approvals of significant related party transactions, during their respective terms of office, no shareholder voted against or abstained in the approval.

VII. Election of the Board of Directors

The Chairman of the meeting then announced that the next item on the agenda was the election of the regular and independent members of the Board of Directors for the ensuing year and until the next succeeding annual stockholders meeting of the Corporation. The Chairman of the meeting also informed all the stockholders in attendance of the mandatory requirement of electing independent directors.

Atty. Jesse H. T. Andres, Independent Director and Chairman of the Nominations Committee (the "Committee") of the Corporation, informed the stockholders that the following nominations have been received and passed upon by the Committee during the prescribed nomination period from February 13, 2019 to February 28, 2019, and that the Committee found the following nominees to possess all the qualifications and none of the disqualifications for election as regular and independent directors, respectively, of BDOLF:

Nominees for Regular Directors

1. Antonio N. Cotoco
2. Roberto E. Lapid
3. Jeci A. Lapus
4. Luis S. Reyes, Jr.
5. Teresita T. Sy
6. Nestor V. Tan
7. Exequiel P. Villacorta, Jr.
8. Walter C. Wassmer

Nominees for Independent Directors:

9. Jesse H. T. Andres
10. Ma. Leonora V. De Jesus
11. Vicente S. Pérez, Jr.

BDO Unibank nominated the regular directors, while Ms. Mannette D. Vicente, a stockholder of the Corporation, nominated the three (3) Independent Directors.

Ms. Joyce R. Lacsinto, proxy holder, manifested that since the nomination period had expired and closed, and there were eleven (11) nominees for the eleven (11) seats in the Corporation's Board of Directors, he moved that the Corporate Secretary be directed to cast all unqualified votes in favor of the foregoing individuals respectively nominated as regular and independent directors.

Mr. Gerard L. Songco, proxy holder, seconded the motion. Thereafter, there being no further question or objection, the Stockholders adopted the following resolution:

Stockholders' Resolution No. 2019-04

RESOLVED, That the following be, as they are hereby elected directors of BDO Leasing and Finance, Inc. for a period of one (1) year, and to act as such until their successors are duly elected and qualified:

Regular Directors:
1. Antonio N. Cotoco
2. Roberto E. Lapid
3. Jeci A. Lapus
4. Luis S. Reyes, Jr.
5. Teresita T. Sy
6. Nestor V. Tan
7. Exequiel P. Villacorta, Jr.
8. Walter C. Wassmer

Independent Directors:
9. Jesse H. T. Andres
10. Ma. Leonora V. De Jesus
11. Vicente S. Pérez, Jr.

The Chairman of the meeting congratulated all the elected Directors and directed the Corporate Secretary that the minutes reflect a tabulation of all votes cast, including the votes of the stockholders who have chosen to vote for, or abstain on voting for, or have chosen to vote against, the above-named nominees as regular and independent directors, respectively, of the Corporation.

Based on the tally made by P&A, the following were the results of the voting by poll, showing the number of the votes cast and received by the nominees:

Nominees	Total Outstanding Shares	Votes in favor	Voted against	Abstentions
Teresita T. Sy	2,162,475,312	1,914,923,894	0	0
Roberto E. Lapid	2,162,475,312	1,914,923,894	0	0
Jesse H. T. Andres	2,162,475,312	1,914,923,894	0	0
Antonio N. Cotoco	2,162,475,312	1,914,923,894	0	0
Ma. Leonora V. De Jesus	2,162,475,312	1,914,923,894	0	0
Jeci A. Lapus	2,162,475,312	1,914,923,894	0	0
Vicente S. Pérez, Jr.	2,162,475,312	1,914,923,894	0	0
Luis S. Reyes, Jr.	2,162,475,312	1,914,923,894	0	0
Nestor V. Tan	2,162,475,312	1,914,923,894	0	0
Exequiel P. Villacorta, Jr.	2,162,475,312	1,914,923,894	0	0
Walter C. Wassmer	2,162,475,312	1,914,923,894	0	0

VIII. Appointment of External Auditor

The next item in the agenda was the appointment of the external auditor of BDOLF for the year 2019.

The Chairman of the meeting informed the stockholders that the Board Audit Committee of BDOLF had recommended the re-appointment of the Accountancy and Auditing Firm of Punongbayan & Araullo, Grant Thornton (P&A) as external auditor of BDOLF for the year 2019.

Ms. Julienel E. Teodoro, proxy holder, moved that the Accountancy and Auditing Firm of Punongbayan and Araullo, Grant Thornton (P&A) be appointed as the external auditor of BDOLF for the year 2019, and that the Board of Directors be authorized to determine the terms of said external auditor's professional engagement.

Atty. Vina Marie S. Villarroya, proxy holder, seconded the motion. There being no objection, the Stockholders adopted the following resolution:

Stockholders' Resolution No. 2019-05

> **RESOLVED,** That the Accountancy and Auditing Firm of Punongbayan & Araullo, Grant Thornton (P&A), be, as it is hereby appointed as the external auditor of BDOLF for 2019;
>
> **RESOLVED FURTHER,** That the Board of Directors of BDOLF or such person or persons duly authorized by the Board, be, as it/he is hereby authorized to determine the terms of engagement of the external auditor, to sign, execute and deliver the agreement and other documents pertaining to such engagement, and generally, to perform all acts necessary or appropriate to carry out the foregoing resolution and the intent hereof.

The Chairman of the meeting then directed the Corporate Secretary to have the minutes reflect the tabulation of votes cast, including proxies that have cast their votes in favor of the appointment of Punongbayan & Araullo, Grant Thornton (P&A) as external auditor of BDOLF for the year 2019, and to note the stockholders that have chosen to abstain on voting for, or have voted against, the appointment of Punongbayan & Araullo, CPA (P&A), as external auditor of BDOLF for the year 2019.

Based on P&A's tabulation, the following were the results of the voting by poll, showing the number of votes cast and received on the appointment of Punongbayan & Araullo, CPA (P&A), as external auditor of BDOLF for the year 2019:

Total Outstanding Shares	Total Votes Cast	Votes in favor	Votes against	Abstentions
2,162,475,312	1,914,923,894	1,914,923,894 (100%)	0	0

Accordingly, shareholders owning 1,914,923,894 voting shares or 100% of the total number of voting shares represented at the meeting, approved the appointment of Punongbayan & Araullo, Grant Thornton (P&A) as the Corporation's external auditor for 2019, no shareholder voted against the approval.

IX. Adjournment

There being no further business to transact, Mr. Arlo C. Atentar, proxy holder, moved to adjourn the meeting.

Ms. Melanie Ann C. Cuevas, proxy holder, seconded the motion.

There having been no objection to the motion, the meeting was thereupon adjourned at 10:31 in the morning.

CERTIFIED CORRECT:

Joseph Jason M. Natividad

JOSEPH JASON M. NATIVIDAD
CORPORATE SECRETARY

ATTESTED:

Teresita Sy

TERESITA T. SY
CHAIRPERSON

Annex 1

INTERNAL AUDIT POLICY STATEMENT
INTERNAL AUDIT FOR BDO LEASING AND FINANCE, INC.

Mission

The mission of Internal Audit for BDO Leasing and Finance, Inc. and its Subsidiary, BDO Rental, Inc. (Internal Audit) is to enhance and protect the organizational value by providing risk-based and objective assurance, advice, and insight.

I. Purpose, Stature, Authority and Responsibilities of the Internal Audit Function

The purpose of Internal Audit is to provide independent, objective assurance and consulting services designed to add value and improve BDOLF and its Subsidiary's operations. The Internal Audit helps: 1) BDOLF and its Subsidiary accomplish the set objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes, and 2) the Management and Board of Directors in protecting the Company and its Subsidiary and their reputation. An effective and efficient internal audit function constitutes the third line of defense in the system of internal control. The internal audit function shall both assess and complement operational management, risk management, compliance and other control functions.

The Internal Audit is under the direct supervision of the BDOLF Board Audit Committee (BAC) and assists the BDOLF Board of Directors and the Management in performing their legal obligations for ensuring proper and reasonable operations of the Company and its Subsidiary. The Internal Audit is a permanent function with scope that is commensurate with the size, nature of operations and complexity of BDOLF and its Subsidiary.

The BDO Chief Internal Auditor will report functionally to the Board Audit Committee and administratively to the President. In addition, the BDO Chief Internal Auditor will have unrestricted access to, and will communicate and interact directly with the Board of Directors, Board Audit Committee and other Committees, including in meetings without the Management. The Internal Audit shall have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.

II. Independence, Objectivity, Professional Competence, Due Professional Care, and Professional Ethics

The Internal Audit shall be independent of the activities audited and from the day-to-day internal control process and is free to report audit results, findings, opinions, appraisals and other information through clear reporting line to the BDOLF BAC. The BDO Chief Internal Auditor will ensure that Internal Audit remains free from all conditions that threatens the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the BDO Chief Internal Auditor determines that independence or objectivity is impaired either in fact or appearance, the details of impairment will be disclosed to appropriate parties.

The Internal Auditors shall have impartial and unbiased attitude in performing audits and shall avoid conflicts of interest.

The internal auditing function shall be comprised of professional and competent internal auditors who collectively have the knowledge and experience necessary in the conduct of an effective internal audit on all areas of the Company and its Subsidiary's operations. The skills set of the internal auditors shall be complemented with appropriate audit methodologies and tools, as well as sufficient knowledge of auditing techniques in the conduct of audit activities.

All Internal Audit personnel shall act with integrity in carrying out their duties and responsibilities. They shall respect the confidentiality of information acquired in the course of the performance of their duties and shall not use it for personal gain or malicious actions.

III. Outsourcing Internal Audit Activities to External Experts

The Internal Audit shall not outsource any of its internal audit activities. However, in case Internal Audit will need to outsource either to have access to certain areas of expertise that are not available to the internal audit function or to address resource constraints, it shall be subject to specific BAC review and approval.

IV. Consulting or Advisory Services that may be Provided by the Internal Audit Function

The Internal Audit may provide consulting or advisory services to Management on matters related to risks and internal controls provided that it will not be involved in the development or implementation of policies and procedures, preparation of reports or execution of activities that fall within its scope of review. Said consulting or advisory services shall be conducted in accordance with the internal auditing standards.

V. Responsibilities and Accountabilities of the BDO Chief Internal Auditor

1. To demonstrate appropriate leadership and have the necessary skills to fulfill responsibilities for maintaining the Internal Audit's independence and objectivity;

2. To be accountable to the Board of Directors or BAC on all matters related to the performance of its mandate as provided in this Policy Statement. The BDO Chief Internal Auditor shall submit a report to the BDOLF BAC on the status of accomplishments of Internal Audit, including the findings noted during the conduct of the audit, as well as the status of compliance/ resolution of concerned departments/ units/ teams;

3. To ensure that the internal audit function complies with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* and other supplemental standards issued by regulatory authorities/ government agencies, as well as with relevant code of ethics;

4. To develop an audit plan based on robust risk assessment, including inputs from the Board of Directors, BAC and senior management and ensure that such plan is comprehensive and adequately covers regulatory matters. The BDO Chief Internal Auditor shall also ensure that the audit plan, including any revisions thereto, shall be approved by the BAC. The said plan shall also consider the objectives of the Company and it's Subsidiary;

5. To ensure that the internal audit function has adequate human resources with sufficient qualifications and skills necessary to accomplish its mandate. In this regard, the BDO Chief Internal Auditor shall periodically assess and monitor the skills set of the internal audit function and ensure that there is an adequate development program for the internal auditors that shall enable them to meet the growing technical complexity of the company and its subsidiary's operations.

6. To issue an audit report for each audit conducted summarizing significant findings, recommendations and the responses or planned corrective actions with target dates of audited units. Results of audit shall be presented to the BAC in a timely manner. Internal Audit has the authority to release the final audit report if no replies were received from the Unit audited, provided that the findings had been duly discussed with said Unit.

7. To submit to the BAC an annual report on the Internal Audit activities, responsibilities, and performance relative to the audit plan and strategies, as approved by the BAC, including its overall and specific assessments of the control, risk management and governance processes, and significant risk exposures and control issues, if any. The said report will likewise include confirmation of organizational independence of Internal Audit, as well as compliance with the Code of Ethics and the Standards. A summary report for all units audited for the current year with comparative performance rating versus the previous year shall also be submitted.

VI. Scope of Responsibilities

1. Evaluation of the adequacy, efficiency and effectiveness of internal control, risk management and governance systems in the context of current and potential future risks.

2. Review of the reliability, effectiveness and integrity of management and financial information systems, including the electronic information system.

3. Review of the systems and procedures of safeguarding the company's physical and information assets, as well as verification of the existence of such assets, where appropriate.

4. Review of the compliance system and the implementation of established policies and procedures. Likewise, Internal Audit shall identify opportunities to improve operational efficiency and make appropriate recommendations.

5. Review of compliance with relevant laws, rules and regulations, contractual obligations and commitments, which have significant impact including but not limited to the assessment of the adequacy of capital and provisions, liquidity level, regulatory and internal reporting.

6. Investigation of operational lapses, fraud, waste and abuse, referred to Internal Audit for investigation by the BAC, BDO Cases Review Committee or the Management.

7. Conduct of other reviews or evaluations that are related to Internal Audit's role, as directed by the BAC, by the Chairperson, or by Top Management.

VII. Auditing Standards and Code of Ethics

In carrying out its role, Internal Audit shall adhere to the International Standards for the Professional Practice of Internal Auditing prescribed under the Bangko Sentral ng Pilipinas Circular No. 871 (Series of 2015). Likewise, it shall be governed by the IIA's Core Principles, Code of Ethics and Definition of Internal Auditing.

VIII. Coordination with the External Auditor and Supervisory Authority

Internal Audit shall coordinate with external auditors to avoid duplication of efforts. The approved audit plan and scope, as well as other information and documents relevant to an audit/ examination by the external auditors or supervisory authority shall be provided upon request.

This Internal Audit Policy Statement shall be reviewed periodically to keep it updated, appropriate, and prudent in consideration of the changes in circumstances and business in general.

APPROVED BY THE BOARD AUDIT COMMITTEE, BDO LEASING & FINANCE, INC.:
(Date: ________, 2019)

MA. LEONORA V. DE JESUS
Chairperson

ATTY. JESSE H.T. ANDRES
Member

MR. VICENTE S. PEREZ, JR.
Member

BDOLF CODE OF CONDUCT AND BUSINESS ETHICS
(Revised as of 25 Nov 2014)

As a financial institution, BDO Leasing & Finance Inc. (BDOLF) believes that practicing right conduct and ethical behavior inspires and strengthens the confidence of all our stakeholders. Being a subsidiary of BDO Unibank, it adopts/subscribes the BDOUB Code of Conduct and Business Ethics (the Code) as indicated below as the ethical standards of the Company's officers and employees in all their activities.

INTRODUCTION

The BDOUB Code of Conduct and Business Ethics (the Code) outlines the principles and policies that govern the activities of the institution and sets forth the rules of conduct in our work place and the standards of behavior of its directors, officers and employees in their activities and relationship with external stakeholders. These reflect the core values the institution subscribes to and promotes.

APPLICABILITY OF THE CODE

This Code applies at all times to all members of the Board of Directors and BDO Unibank Group (the Bank and its subsidiaries and affiliates) employees in their dealings with clients, suppliers, business partners and service providers.

COMMITMENT TO THE CODE

All directors and employees are required to acknowledge that they have read and understood the Code stipulating their compliance with the standards and policies set forth herein.

RESPONSIBILITIES FOR THE WORK PLACE

a. Employment Practices

BDO is committed to fair employment practices without undue prejudice to race, gender, ethnic origin, religion, age, or sexual orientation. Employees are treated fairly and accorded with respect and dignity.

It ensures that employment practices and policies are in compliance with labor laws, regulations and standards in the countries where it operates. Employees are selected, engaged, compensated and promoted, as the case may be, based on the merits of qualification and performance.

b. Employees' Welfare

BDO is committed to promote the physical, social and mental well-being of its employees. It aims to provide a workplace free from discrimination and all forms of physical, sexual and psychological abuse including harassment, bullying and intimidation. It is committed to maintain a positive, harmonious and professional work environment with due importance accorded to occupational health and safety of the employees and related external parties.

CONDUCT RELATING TO CUSTOMERS AND EXTERNAL CONSTITUENCIES

Customers, suppliers, service providers, business competitors or other external parties with business dealings with BDO must be treated fairly and professionally.

The institution strictly prohibits the solicitation and acceptance, directly or indirectly, of any gift (including entertainment services or activities), gratuity, commission or any form of payment from clients, business partners, suppliers and third party service providers in connection to a service that may, in any way, influence the Director's, Officer's or employee's decision-making in exchange for any unnecessary favorable treatment.

Likewise, the institution commits to comply with anti-corruption and bribery laws in all jurisdictions it operates.

BDO will not make political donations that may be interpreted as an attempt to encourage favorable treatment of BDO and/or its directors and employees.

Participation in publications, speaking engagements, media interviews and advertisements need appropriate internal clearance.

Due respect to privacy and confidentiality of dealings with customers shall be strictly observed.

Certain transactions or information shall not be made available to groups or individuals within BDO where there may exist potential conflict of interest, more particularly between credit and investment operations.

All complaints from customers shall be handled with expediency in accordance with internal rules and regulatory requirements on consumer protection.

CONDUCT RELATING TO INVESTMENT AND OUTSIDE ACTIVITIES

Trading in the securities of BDO Unibank and/or any member of the BDO Group, whether listed or not while in possession of material non-public, price sensitive information is not permitted and is considered illegal. All directors and employees of the Bank must adhere to the Personal Trading Policy in their trading activities to prevent violations of security laws and regulations and to preserve the good reputation of BDO in the market place.

Real and potential conflict of interest shall be avoided when investing in outside business activities or accepting directorships in other institutions.

Queries or complaints from stockholders shall be immediately referred to the designated office or officials and resolved speedily in accordance with their rights.

OBSERVANCE OF STANDARDS OF CONDUCT FOR INDIVIDUALS

Employees have the primary duty to comply with the following basic standards of conduct in addition to office policies and work regulations.

1. **Attendance**

   Attendance and punctuality are expected from all concerned in order to make effective use of time and as a professional courtesy to others.

2. **Integrity**

   Integrity, honesty and professional behavior are expected to be observed in all dealings with customers, regulators, co-employees, and the public in general. Engaging in fraud (directly or indirectly), or connivance and facilitation in committing fraud are totally prohibited.

3. **Office Decorum**

   Decorum must be observed to promote harmony and respect within the organization and in dealing with external constituencies. Compliance to the prescribed uniform wear or corporate attire, as applicable, shall be followed for clear identification and to promote BDO's image and values.

4. **Responsible Behavior**

   Responsible behavior and courtesy both within the organization and in public must be observed at all times. The way we deal with customers and our demeanor in public significantly contribute to the public perception of BDO as a reputable and professional institution.

5. **Disclosure of Information**

   Building and maintaining trust is a basic part of our relationship with customers and shareholders. Unauthorized disclosure, use and passing on of sensitive/confidential information are strictly prohibited. This applies to verbal, inferred or written disclosures.

   All sensitive/confidential information obtained in the course of employment, directorship, engagement of services or other work or business-related relationship with BDO must not be divulged unless authorized in accordance with internal and regulatory requirements and must not be used for any personal or financial gain. Compliance with the applicable Information Security Risk policies of BDO and Data Privacy & Protection Laws is enjoined.

The Law on Secrecy of Bank Deposits under R.A. 1405, as amended, which generally prohibits the disclosure of any information pertaining to deposits of whatever nature with banks and banking institutions in the Philippines, including investments in bonds issued by the Philippine government, the confidentiality provisions under the General Banking Law of 2000, and other related laws, rules and regulations, must be strictly observed.

Customer relationships with BDO should be handled in strict confidence and propriety. This likewise applies to bank manuals, reports and memoranda.

All business deals and transactions shall adhere to regulatory requirements and all applicable laws in the countries, cities, and in the communities in which BDO, its branches, subsidiaries and representative offices operate.

6. Acceptance/Solicitation of Gifts, Bribery and Corruption

Employees, suppliers, partners and other 3rd parties must avoid giving or receiving gifts or entertainment if these might improperly influence the recipient's decision making or might be perceived to do so. They must not also offer or take any form of illegal or improper payment.

7. Conflict of Interest

Directors and employees should act in a manner that will serve the best interest of BDO and its shareholders. This requires that all business decisions and actions must be aligned to the principles and values of BDO, and should not be driven by personal motivations or influenced by personal relationships which may interfere in the exercise of objective and independent judgment.

Any financial and personal interest or benefit in any transaction involving BDO must be disclosed. When presented with a situation involving a potential conflict of interest, it is necessary to disclose the possible conflict in writing to the Supervising Officer, in case of officer or employee, or to the Board of Directors, in case of Director.

Disclosures against possible or perceived conflict of interest, may include, but need not be limited to the following:

A. Interest in businesses

Any financial interest or management participation of an immediate family member in the business of a supplier, competitor, or customers, whether publicly- listed or privately held, should be disclosed.

B. Employment or engagement of services

Engagement by a supplier, contractor, or customer's business as a director, adviser, officer, employee or consultant needs to be disclosed and requires approval of BDO. Similar engagement of an immediate family member (parent, brother, sister, spouse, child) shall likewise need to be disclosed.

C. Employment in another entity or in political office

This includes disclosure on engagement in another occupation or holding concurrent position in a government, or political office or agency.

D. Political Activity

Active involvement in any political party or participating/engaging in a political campaign should be disclosed and requires permission from BDO.

E. Relatives/Next of Kin

Disclosure should be made when a director or employee has a relative employed in BDO. Management discretion shall be exercised to ensure that there will be no superior-subordinate relationship between employed relatives or in a control function exercised over the business unit of a relative.

Next-of-kin relationship should also be disclosed when it begins to exist with another employee where one exercises superior-subordinate relationship or control relationship with the employee.

Directors and employees are responsible for identifying, assessing and managing conflicts of interest whether actual or potential that arises in their day to day work. Full disclosure of any conflict of interest should be made on an annual basis or as necessary, through the annual submission of the Conflict of Interest Disclosure Form (Annex A) to BDO Unibank- Human Resources Group. Any disclosed potential conflict of interest shall be forwarded by BDO Unibank- Human Resources Group to BDO Unibank Compliance Office for evaluation. In case of doubt about the propriety of any course of action or find that their own interests are or may be in conflict with those of the institution, they must disclose and seek advice from the BDO Unibank- Human Resources Group.

8. Outside Employment or Directorship

Full time employees should not take up any outside employment or directorship. Written approval of the Group Head and the Human Resources Group is required prior to acceptance of outside employment or directorship. The following scenarios are covered:

Part-time jobs:

- Teaching or tutoring
- Consultancy
- Private practice of a profession
- Other similar activities that affect the availability of employees

Approval, which must be in writing, may be given to take up part-time directorship, employment and other similar engagements only in circumstances where the interests of BDO will not be prejudiced.

Directors or officers who intend to run for government office are required to tender resignation from BDO or the Board of Directors, as the case may be, prior to formalizing or filing of candidacy. As soon as it comes to the knowledge of BDO that they ran for public office, they shall be deemed resigned from BDO or the Board of Directors, as the case may be.

9. Reporting Internal Fraud, Breach of the Code, or Other Unethical/Illegal Activities

BDO believes that the key to long-term sustainability and success largely depends on having a good name and solid reputation in the industry. Any director or employee who becomes aware of any violations of law, regulations or policies should report the same to appropriate authorities, with protection from reprisal and discrimination. Reporting of violations should be done in good faith and without malice. This is embodied in the BDO Policy on Disclosure of Sensitive/Confidential Matters to Management that governs the policies and procedures in handling of whistle blower cases.

This helps to promote and maintain a culture of strong ethics, integrity, honesty, accountability and transparency.

10. Media Contact

Only authorized individuals or parties shall be allowed to contact or talk to any representative of the media (print, broadcast, wires, and online) on BDO matters. All inquiries or contacts made by the media should be referred to BDO Marketing Communications Group.

Similarly, the unauthorized creation of unofficial social media account bearing the BDO brand or corporate name is not allowed.

11. Treatment of BDO's Assets

BDO's assets (physical, financial or intellectual) may be used only for authorized purposes. Directors and employees are also responsible for safeguarding BDO's assets to prevent loss, theft, destruction or unauthorized use.

Any unauthorized use, or unnecessary access, or destruction of BDO's assets such as funds, property, confidential data, information, equipment and/or systems, for personal gain or for purposes of maligning or harming BDO, its directors, employees, shareholders and/or its customers, or for any ill motive, including attempts thereto, shall be considered as a violation of this Code and shall be dealt with accordingly.

The Bank is the owner of all information assets which include any bank data, information processes, computer and communications equipment, application and system software, and tools and utilities that store, process and transmit information. Any personal information or data stored by the employee in any of the Bank's information resources shall be considered as Bank's assets which may be inspected, reviewed, or used as legal evidence when necessary.

Integral to information security and data protection, the Bank has the inherent right to inspect and review information in the possession of directors or employees in instances where there is doubt on unauthorized access, use, disclosure, disruption, modification, inspection, recording or destruction of the Bank's information assets.

The bank shall ensure that proper custodianship of information assets shall include compliance to all applicable laws and regulations in providing access, storage and disposal of bank information.

12. Personal Finance Standards

As a financial institution, public confidence in BDO's ability to manage the financial affairs of others is key. While personal finances are private, employees are expected to handle their financial affairs prudently. Specifically, the following are prohibited and are grounds for disciplinary action:

- mismanaged checking accounts, credit cards, loan and other forms of indebtedness which includes failure to pay just debts or being habitually delinquent in the payment of debts;
- borrowing money or obtaining loans/favors in any form from customers and/or suppliers; and
- borrowing/lending money from/to co-employees.

13. Gambling, Drinking Alcoholic Beverages, Use of Prohibited Drugs

Gambling, drinking alcoholic beverages, use or sale of prohibited drugs, and other similar vices, done during working hours and within BDO premises are strictly prohibited.

The Drug Free Workplace Policy of BDO shall apply.

14. Compliance with Laws, Regulations and Internal Standards, Policies and Procedures

Directors and employees are expected to comply fully with appropriate laws and regulations, as well as with the internal standards or policies and procedures of BDO. They are individually responsible for complying with the spirit, not just the letter, of the laws, regulations, and internal policies and procedures.

15. Fair Treatment of Customers

BDO's business is its customers. Therefore, directors and employees are responsible in ensuring that customers are treated fairly in all dealings with them.

The minimum standards to ensure that customers are treated fairly are the following:

- Communications are fair and not misleading.
- Ensure that customers are given clear and concise information, including the risks involved, before they enter into financial products and services.
- Employees should only market and sell products and services, which have been approved for sale.
- Products and services are suitable and appropriate, taking into account the needs of the customers, their financial and risk profile and objectives.
- Complaints should be handled in a prompt, friendly, fair and effective manner.

16. Relationship with Colleagues

Directors and employees are expected to treat others with dignity and with utmost professional respect and courtesy regardless of differences, positions, ranks, ages, or other types of distinctions.

17. Respect for Community and Environment

Directors and employees should promote actively the Bank's corporate social responsibility and care for the environment through the initiatives and partnerships with civil society, governments and other stakeholders.

They also have to recognize their role to be involved in community-related issues and activities as a way of giving back to the communities in which they operate.

RELATED PARTY TRANSACTIONS

BDO, in compliance with legal and regulatory requirements, maintains transparency of related party transactions between and among BDO and its subsidiaries, affiliated companies, directors, officers, stockholders, related interests (DOSRI), and joint ventures. These should be conducted at arm's length and in the normal commercial terms granted to either individuals or businesses of comparable risks.

SPECIFIC REQUIREMENTS OF THE LAW

From time to time, specific laws or regulations are implemented which require the special attention and strict observance by all concerned. All concerned, who shall be advised of such requirements, shall ensure their individual responsibilities are complied with. These laws include the Bank Secrecy Act, Anti-Money Laundering Act, Customers Protection Act and the Data Protection Act.

SANCTIONS AND PENALTIES

Failure to comply with the requirements of the Code may lead to disciplinary measures commensurate to the violations.

The Bank will use principles of fair accountability and due process in investigating and making decisions on all matters pertaining to failure to abide by the Code.

BDO reserves the right to impose corresponding sanctions and/or penalties for violation of the Code, which includes dismissal from service or from the Board of Directors, as the case may be, without prejudice to further legal, administrative or criminal charges depending on the offense.

RESPONSIBILITY FOR IMPLEMENTATION

The Office of the Human Resources shall be responsible for overseeing the implementation of this Code across the BDO Unibank Group. It shall receive reports of violation and ensure that a confidential investigation is undertaken. As necessary, it may endorse the handling of the investigation to the Cases Review Secretariat for the necessary action and appropriate recommendation. The Audit Committee, at its discretion, may periodically report the Code of Ethics cases to the Board of Directors.

The Compliance Office will address lapses in compliance with regulatory requirements arising from the administrative cases due to the violation of this Code.

APPROVAL AND DISCLOSURE

The Board of Directors has the authority to approve the Code of Conduct and Business Ethics. The Office of the Human Resources and the Office of the Corporate Governance shall be responsible to disseminate the Code to all directors, officers and staff for their information and proper guidance. It should be posted in the Bank's website and intranet to be accessible to all covered individuals and shall form part of the HR and Compliance policies of the Bank.

PERSONAL TRADING POLICY

I. Introduction

The purpose of this policy is to promote compliance with applicable securities laws and regulations by BDO Unibank, Inc. and its subsidiaries in order to promote fairness and preserve its good reputation in the marketplace.

II. Applicability

This policy is applicable to all directors, officers and employees of BDO Unibank, Inc. and its subsidiaries who in the discharge of their duties, may gain access to material non-public, price-sensitive information about BDO and non-BDO publicly-traded securities. It does not include BDO shares granted/acquired through the Employee Stock Option Program.

III. Scope of the Policy

A. Trading of BDO/BDOLF shares

Covered individuals shall not trade any BDO/BDO Leasing and Finance, Inc. (BDOLF) shares and non-BDO shares while in possession of, or with direct or indirect access to, material price-sensitive information that would have significant effect in making a decision to buy, sell or hold a security including any other action to take advantage of, or pass on to others, that information.

B. Trading of Non-BDO shares

Officers and staff of Institutional Banking Group, Investor Relations and Corporate Planning Group, Risk Management Group and their counterparts in BDO subsidiaries who have access to privileged client information shall not trade on shares of their managed accounts.

Likewise, officers and staff of Trust and Investments Group and/or BDO subsidiaries who have access to internal or client trading objectives and strategies shall not trade on shares of investee companies included in their investment portfolios.

These officers and staff are required to obtain pre-clearance and approval from the Compliance Officer when trading share of issuers other than their managed account or investee companies not included in their respective investment portfolios including the selling of purchased shares before the lapse of the 6-month holding period.

All other employees are allowed to trade in non-BDO shares without need for Compliance Office approval and not subject to any holding period provided these trades do not involve material, non-public, price-sensitive information they have gathered from their work.

IV. Trading Restrictions

Trading of securities by Bank employees shall be coursed through BDO Securities Corporation except during quarterly black-out period of not less than five (5) trading days from the date of public disclosure. These trades will be monitored and analyzed to detect any unusual activity.

BDO/BDOLF shares and non-BDO shares are subject to holding period of 6 months for buy transactions and 90-day no repurchase period for sale transactions.

V. Disclosure Requirements

BDO Securities Corporation will submit a report to the Compliance Office of all trades by BDO employees the next day after transaction date.

Within three (3) trading days from booking date, officers with the rank of Senior Vice President and up are required by regulation to report any changes in beneficial ownership of BDO securities to the Securities and Exchange Commission and Philippine Stock Exchange.

BDO Leasing

Summary of 2019 Material Related Party Transactions (MRPT)
covered by Advisement Reports

Counterparty	Terms and Conditions	Type/Nature of Transaction	Total Assets of Reporting PLC	Rationale for Entering into the Transaction	Amount/ Contract Price In Millions of Pesos
BDO Unibank, Inc.	Omnibus Line withdrawable within a period of 1 yr	Borrowings	Php 41.54B (as of Dec 31, 2018)	To address liquidity gaps	Php 2,879.2
	Annual service fee	Outsourcing of services	Php 41.54B (as of Dec 31, 2018)	Outsourcing of services is done in order to organize its resources and achieve organizational efficiency	Php16.02
	Full payment of outstanding balance	Sale of Receivables	Php 41.54B (as of Dec 31, 2018)	• The sale of receivables is geared at improving the Company's net interest margin. • The cash proceeds will be used to relend to Customers at prevailing rates, which are generally higher than the average yield of its sold receivables.	Php2,956.11

TERMS OF REFERENCE
BOARD AUDIT COMMITTEE
BDO LEASING AND FINANCE, INC.
(as of April 2020)

I. Constitution

The Board Audit Committee (BAC) shall be established by the Board of Directors (BOD) of BDO Leasing and Finance, Inc. (BDOLF). It follows the rationale for the establishment of an audit committee as required and directed by the Bangko Sentral ng Pilipinas (BSP) Circular No. 456 Series of 2004 (which amended Subsection X141.3.c (9) of the Manual of Regulations for Banks), BSP Circulars No. 749 Series of 2012, No. 871 Series of 2015 and SEC Memorandum Circular No. 6 Series of 2009. As such, the BAC of BDOLF is an extension of the BDOLF Board.

The BAC shall have the authority to investigate any matter within its terms of reference, full access to management and full discretion to invite any director, executive officer(s) and staff to attend its meetings. It shall be extended full cooperation by management and be provided with adequate resources to enable it to effectively discharge its functions.

It shall also oversee the Company's compliance requisites as mandated by the appropriate regulatory bodies.

II. Objectives

A. To provide oversight on the BDOLF financial reporting process, system of internal control, audit process and monitoring of compliance with applicable rules and regulation.

B. To ensure that a review of the effectiveness of the Company's internal controls, including financial, operational and compliance controls and risk management is conducted annually.

C. To provide oversight functions over the Company's internal and external audit functions.

III. Duties and Responsibilities over the following:

1. Internal Audit Division

a. It shall be responsible for organizing the Internal Audit Division as well as appointing or removing the head of Internal Audit and key internal auditors.

b. It shall perform oversight function over the Internal Audit Division.

c. It shall recommend the approval of the Internal Audit Charter (IA Charter), which formally defines the role of Internal Audit and oversee its implementation.

d. It shall review the annual internal audit plan to ensure its conformity with the objectives of the Company. The plan shall include audit scope, resources and budget necessary and timetable for its implementation.

e. It shall ensure that Internal Audit Division examines, evaluates and recommends improvements to the effectiveness of risk management, internal control and governance processes of the organization.

f. It shall review the internal audit reports, report major issues to the Board and ensure that management is taking corrective actions in a timely manner to address weaknesses, non-compliance with policies, laws and regulations and other issues identified by auditors.

g. It shall conduct discussions with management on the effectiveness of the internal control system.

h. It shall ensure that the internal audit function maintains an open communication with senior management, the Audit Committee, external auditors and supervisory authority.

i. It shall report to the Board of Directors the annual performance appraisal of the head of Internal Audit and key audit officers.

j. It shall recommend for approval of the Board of Directors the remuneration of the head of Internal Audit as well as the key audit officers.

2. External Audit

a. It shall recommend to the BOD the appointment, re-appointment and/or change of external auditor.

b. It shall review the Engagement Letter and discuss with the external auditor the nature, scope and expenses of the audit prior to the commencement of the audit work.

c. It shall review the Management Letter submitted by the external auditor, as well as management's response to the external auditor's findings and recommendations before endorsing the same to the BOD for its approval.

d. It shall evaluate non-audit work if any is done by the external auditors and disallow it if it will conflict with their duties as external auditors.

e. It shall review the Management Representation Letter stating management's responsibility over the financial statements and financial reporting process.

3. Operational, Financial, and Anti-Money Laundering Compliance

a. It shall review and approve the annual plans of the Compliance Office and Anti-Money Laundering Units including their annual budget.

b. It shall review and approve the performance and compensation of the Chief Compliance Officer.

c. It shall review and recommend the approval of the Compliance Charter that defines the compliance function's standing, authority and independence.

d. It shall review the quarterly, half-year and annual financial statements before their submission to the BOD.

e. It shall review the reports of BSP and other regulatory bodies as well as notices on financial or administrative penalties incurred due to delayed / non-submission / erroneous submission of required regulatory reports.

4. Reporting Hierarchy

a. The BAC shall report to the BOD minutes of its meeting. The minutes shall be noted by the Corporate Secretary and shall include recording of names of those present.

IV. Authority

1. The BAC shall ensure that the internal and external auditors act independently from each other and that both are given unrestricted access to all properties and personnel to enable them to perform their respective audit functions.

2. The BAC shall review the Company's processes that allow the employees to raise concerns, in confidence, about possible issues in financial reporting and/or other matters.

V. Membership

1. The Audit Committee shall be composed of at least three (3) independent and non-executive directors, majority of whom are independent directors including the Chairman. Adviser/s may also be appointed by the BOD to the BAC.

2. BAC members shall preferably be with accounting, auditing, or related financial management experience.

3. The Chief Executive Officer, Chief Financial Officer and/or Treasurer, or officers holding equivalent positions, shall not be appointed as members of the Audit Committee.

VI. Meetings

1. Frequency of Meetings - at least once a month with the presence of at least one independent director. The Minutes of the meetings shall be circulated promptly to all members of the Committee.

VII. Other Matters

1. At least once a year, review its own performance, constitution and terms of reference to ensure that these are operating at maximum effectiveness and to recommend any changes it considers necessary to the BOD for approval. It shall assess its performance with regard to its oversight on the company's financial reporting process and system of internal control as well as its oversight over the Internal Audit, External Audit and Compliance functions.

2. Evaluate the performance of Internal Audit, Compliance and Anti-Money Laundering Unit and External Audit annually to ensure their effectiveness and achievement of objectives.

COVER SHEET

0 9 7 8 6 9

S.E.C. Registration Number

BDO LEASING AND FINANCE, INC.
AND SUBSIDIARY

(Company's Full Name)

12 ADB AVENUE, ORTIGAS CENTER,
MANDALUYONG CITY

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

ROBERTO E. LAPID

Contact Person

840-7000 loc 45422

Company Telephone Number

0 3 | 3 1

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.

Total Amount of Borrowings

1,104

Total No. of Stockholders

Php18,221,150,920.00

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

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 **March 31, 2020**
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** Postal Code **1550**
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**

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
Common Stock, P1.00 par value	**2,162,475,312 / P 18,221,150,920.00**

11. Are any or all of the securities listed on a Stock Exchange?
    Yes [**X**] 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, 2019 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 became effective in 2020. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and unless otherwise state, none of these are expected to have significant impact on the Company's financial statement. These include:

PAS 1 (Amendments), Presentation of Financial Statements and PAS 8 (Amendments), Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material (effective from January 1, 2020). The amendments provide a clearer definition of 'material' in PAS 1 by including the concept of 'obscuring' material information with immaterial information as part of the new definition, and clarifying the assessment threshold (i.e., misstatement of information is material if it could reasonably be expected to influence decisions made by primary users, which consider the characteristic of those users as well as the entity's own circumstances). The definition of material in PAS 8 has been accordingly replaced by reference to the new definition in PAS 1. In addition, amendment has also been made in other standards that contain definition of material or refer to the term 'material' to ensure consistency.

Revised Conceptual Framework for Financial Reporting (effective from January 1, 2020). The revised conceptual framework will be used in standard-setting decisions with immediate effect. Key changes include (a) increasing the prominence of stewardship in the objective of financial reporting, (b) reinstating prudence as a component of neutrality, (c) defining a reporting entity, which may be a legal entity, or a portion of an entity, (d) revising the definitions of an asset and a liability, (e) removing the probability threshold for recognition and adding guidance on derecognition, (f) adding guidance on different measurement basis, and, (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements. No changes will be made to any of the current accounting standards. However, entities that rely on the framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised framework from January 1, 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised framework.

PFRS 10 (Amendments), Consolidated Financial Statements, and PAS 28 (Amendments), 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, 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.

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

	March 31, 2020	(Audited) December 31, 2019	March 31, 2019
ASSETS			
Cash and Cash Equivalents	328.0	130.0	253.6
Financial Assets at Fair Value through Other Comprehensive Income (OCI)	3,141.6	3,190.9	3,700.9
Loans & Other Receivables - net			
Finance Lease Receivables			
Finance lease receivables	10,058.9	10,375.9	13,164.1
Residual value of leased assets	4,548.1	4,648.6	5,890.6
Unearned lease income	(1,188.4)	(1,253.3)	(1,457.4)
	13,418.6	13,771.2	17,597.3
Loans and Receivables Financed			
Loans and receivables financed	9,908.9	11,485.3	13,589.1
Unearned finance income	(12.5)	(19.6)	(31.9)
Clients' Equity	(33.5)	(37.7)	(32.8)
	9,862.9	11,428.0	13,524.4
Other Receivables			
Accounts Receivable	256.4	264.3	230.8
Sales Contract Receivable	17.1	18.6	27.7
Dividends Receivable	16.5	16.5	32.1
Accrued Interest Receivable	62.5	56.4	60.2
Accrued Rental Receivable	3.7	17.4	7.1
	356.2	373.2	357.9
Allowance for probable losses	(623.7)	(594.7)	(531.1)
	(623.7)	(594.7)	(531.1)
	23,014.0	24,977.7	30,948.4
Property, Plant and Equipment - net	1,736.0	1,873.6	2,131.8
Investment Properties - net	399.7	393.8	361.4
Other Assets - net	378.9	381.9	692.5
	28,998.2	30,947.9	38,088.6
LIABILITIES AND STOCKHOLDERS' EQUITY			
Bills Payable	18,298.3	20,137.8	26,109.7
Accounts Payable, and Other Liabilities	412.8	459.6	608.9
Lease Deposits	4,638.6	4,736.2	5,941.9
	23,349.7	25,333.6	32,660.6
Stockholders' Equity			
Capital Stock	2,225.2	2,225.2	2,225.2
Additional Paid-in Capital	571.1	571.1	571.1
Treasury Stock	(81.8)	(81.8)	(81.8)
OCI - Actuarial Gain/(Loss)	(72.0)	(72.0)	(60.8)
Net Unrealized Fair Value Gains/(Losses on Financial Asset at Fair Value through OCI	(8.0)	41.1	(85.9)
Accum Share in Other Comprehensive Income of Associate		-	0.4
Retained Earnings	3,014.0	2,930.7	2,859.8
	5,648.4	5,614.3	5,428.0
	28,998.2	30,947.9	38,088.6

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

For the year ended	March 31, 2020	March 31, 2019
REVENUES		
Interest and discounts	437.8	516.8
Rent	206.6	223.4
Service fees & other income	51.7	54.8
	696.1	795.0
OPERATING COSTS AND EXPENSES		
Interest and financing charges	211.0	436.9
Occupancy and equipment-related expenses	10.1	13.1
Depreciation Expense - Operating Lease	178.1	198.4
Compensation and fringe benefits	55.8	58.6
Taxes and licenses	61.8	79.1
Provision for impairment and credit losses	29.0	-
Litigation/assets acquired expenses	5.1	2.0
Miscellaneous Expense	18.5	26.9
	569.4	815.0
INCOME BEFORE INCOME TAX	126.7	(20.0)
PROVISION FOR INCOME TAX	43.4	4.1
NET INCOME/ (LOSS)	83.3	(24.1)

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

For the year ended	March 31, 2020	March 31, 2019
NET INCOME	83.3	(24.1)
OTHER COMPREHENSIVE INCOME		
Unrealized Fair Value Gain/(Loss) on FA at FVOCI	(49.1)	109.1
	(49.1)	109.1
TOTAL COMPREHENSIVE INCOME/(LOSS)	34.2	85.0

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

For the quarter ended March 31, 2020	Capital Stock	Additional Paid-in Capital	Treasury Shares, at Cost	Retained Earnings Reserves	Retained Earnings Free	Unrealized Fair Value Gain(loss) on Financial Asset at Other Comprehensive Income	Accumulated Share in Other Comprehensive Income of Associate	OCI - Actuarial Gain/(Loss)	Net Equity
	Preferred - P100 par value Authorized and unissued - 200,000 shares Common - P1 par value Authorized - 3,400,000,000 shares Issued - 2,225,169,030 shares		62,693,718 shares						
Balance as of Jan 1, 2020	2,225.2	571.1	(81.8)	141.7	2,789.0	41.1		(72.0)	5,614.3
Total Comprehensive Income (loss)					83.3	(49.1)			34.2
Transfer from Retained Earnings Appropriated				(8.3)	8.3				-
Cash Dividends					-				-
Balance as of March 31, 2020	**2,225.2**	**571.1**	**(81.8)**	**133.4**	**2,880.6**	**(8.0)**	**-**	**(72.0)**	**5,648.5**
Balance as of Jan 1, 2019	2,225.2	571.1	(81.8)	147.0	2,736.9	(195.0)	0.4	(60.8)	5,343.0
Total Comprehensive Income (loss)					(24.1)	109.1			85.0
Transfer from Retained Earnings Appropriated				(9.0)	9.0				-
Cash Dividends									-
Balance as of March 31, 2019	**2,225.2**	**571.1**	**(81.8)**	**138.0**	**2,721.8**	**(85.9)**	**0.4**	**(60.8)**	**5,428.0**

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

	March 2020	March 2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	P 126,730,251	(P 19,996,310)
Adjustments for:		
Interest and discounts	(437,776,911)	(516,785,848)
Interest received	431,614,865	520,461,642
Depreciation and amortization	184,648,383	207,148,935
Interest and financing charges paid	(184,313,079)	(439,273,181)
Interest and financing charges	211,047,800	437,486,155
Dividend income	(31,648,950)	(43,746,393)
Impairment and credit losses	28,952,841	-
Gain on sale of property and equipment and investment properties	(13,533,068)	(270,504)
Day-one gain - net	183,348	(180,011)
Equity share in net earnings of a subsidiary and an associate	-	16,523,203
Operating profit before changes in operating assets and liabiliti	315,905,480	161,367,688
Decrease in loans and other receivables	1,940,921,754	3,399,678,883
Decrease in other assets	4,572,317	540,855
Increase in accounts payable and other liabilities	(83,884,976)	(18,467,850)
Increase in lease deposits	(98,097,745)	(687,604,182)
Cash generated from operations	2,079,416,830	2,855,515,394
Cash paid for income taxes	(3,599,981)	(3,606,818)
Net Cash From Operating Activities	2,075,816,849	2,851,908,576
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(65,306,129)	(80,289,789)
Proceeds from disposal of property and equipment and investment properties	32,294,830	31,649,850
Receipt of cash dividends	31,648,950	43,746,393
Addition in investment properties	(8,062,014)	-
Acquisition of other assets	(730,719)	-
Net Cash Used in Investing Activities	(9,424,363)	(4,893,546)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of bills payable	(42,253,806,107)	(30,205,551,773)
Availments of bills payable	40,388,325,879	27,337,498,647
Payments on lease liabilities	(2,143,455)	-
Net Cash Used in Financing Activities	(1,867,623,683)	(2,868,053,126)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	198,768,803	(21,038,096)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	129,990,275	274,628,385
CASH AND CASH EQUIVALENTS AT END OF YEAR	P 328,759,078	P 253,590,289

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

March 2020 Compared to March 2019

The company registered P83.3 million in net income for the quarter ending March 2020.

Gross revenues amounted to P696.1 million, a decrease of 12% from P795.0 million last year. This was due to the lower levels of loans and receivables financed compared to the first quarter of 2019.

Interest and financing charges went down by 52% to P211 million due primarily to the reduced level of bills payable as well as the decrease in funding costs under the current interest rate environment.

The company set aside P29.0 million as provision for credit and impairment losses, as determined under the latest risk evaluation model following PFRS 9 standards and requirements.

Occupancy and equipment related expenses decreased 23% to P10.1 million. Depreciation Expense-Operating Lease went down 10% to P178.1 million due to the maturity of various Operating Leases.

Litigation/assets acquired expenses increased 155% to P5.1 million.

Total assets declined 24% year-on-year to P29.0 billion, mainly due to matured investments and sale of a portion of the company's lower yielding portfolio. This was meant to mitigate the impact of the margin compression as the company's liabilities, which are short-term in nature, adjusted immediately to the rise in interest rates as compared to its lease receivables, which typically carry fixed interest rates for 3-5 years. As a result of this mitigation strategy, the company's Loans and Other Receivables decreased 26%. In March 2020, Property, Plant and Equipment-net also decreased 19% or P395.8 million.

Cash & cash equivalents went up by 29% or P74.5 million. Financial Asset at Fair Value through Other Comprehensive Income went down 15% to P3.1 billion due to matured investments.

Net investment properties went up to P399.7 million from P361.4million.

Other Assets decreased year-on-year to P692.5 million from P378.9 million mainly due to the sale of the company's stake in MMPC Auto Financial Services Corp.

Bills Payable decreased to P18.3 billion consistent with the decline in Loans & Other Receivables.

Accounts Payable, accrued expenses and other liabilities decreased to P412.8 million year-on-year mainly due to a decrease in outstanding check payments to supplier/dealers.

Lease deposits went down from P5.9 billion in March 2019 to P4.6 billion, consistent with decline in volumes.

Stockholders' equity was steady at P5.6 billion.

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

	March 2020	March 2019
Current Ratio	0.28:1	0.42:1
Quick asset ratio	0.27:1	0.41:1
Debt to Equity Ratio	4.13:1	6.02:1
Net Profit Margin	11.97%	-3.03%
Return on Equity	6.02%	-1.81%

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 March 31, 2020, December 31, 2019 and March 31, 2019 are in the succeeding page:

Related Party Category	Note	Amount of Transaction March 31, 2020	December 31, 2019	March 31, 2019
Ultimate Parent Company (BDO Unibank)				
Interest Income on savings and demand deposits	(a)	P 0.1	P 0.4	P 0.1
Interest expense on Bills Payable	(b)	5.3	58.0	37.9
Interest Expense-Lease Liability	(c)	0.4	2.2	0.1
Depreciation Expense-Right of Use	(c)	3.2	13.0	3.3
Management fees	(d)	4.0	16.0	4.0
Service Charges and fees	(e)		13.4	4.3
Service Fees	(f)	0.1	0.1	
Employee stock option plan		1.7	14.8	3.2
Subsidiary (BDO Rental)				
Rent Income	(c)		0.1	
Management fees	(d)	0.1	0.4	0.1
Under Common Ownership				
Service and charges fees	(g, k)	0.1	3.7	0.3
Interest expense on Bills Payable	(l)	2.9	203.3	43.1
Insurance Expense	(m)	0.2	0.8	0.3
Operating Lease Income	(n)	13.3	54.6	13.6

Related Party Category	Note	Outstanding Balance March 31, 2020	December 31, 2019	March 31, 2019
Parent Company (BDO Unibank)				
Savings and demand deposits	(a)	P 327.6	P 125.7	P 248.8
Bills Payable	(b)	495.0	229.0	938.3
Right of Use, net	(c)	24.8	27.0	35.2
Lease Liability	(c)	25.7	27.8	35.5
Employee stock option		1.7		3.2
Subsidiary (BDO Rental)				
Related Party under Common Ownership (BDO Insurance, BDO trategic and BDO Nomura)				
Accounts Receivable	(k)	0.9	0.9	0.8
Bills Payable	(l)	-	997.1	4,484.5
Key Management Personnel				
Loans to Officers	(h)	7.0	5.9	8.1
Retirement Fund				
Shares of stock	(i)	1.6	1.1	1.2

(a) The Group maintains savings and demand deposit accounts with BDO Unibank. As of March 31, 2020, December 31, 2019 and March 31, 2019, 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 March 31, 2020 and March 31, 2019 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 March 31, 2020, December 31, 2019 and March 31, 2019 is presented under Bills Payable account in the statements of financial position. Interest expense incurred on these bills payable in March 31, 2020 and March 31, 2019 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. In 2019, due to implementation of PFRS 16, the Parent Company recognizes Right of Use and Accumulated Depreciation-Right of Use which are included as part of Property, Plant and Equipment-net and Lease Liability which is included as part of

Accounts Payable, and Other Liabilities accounts in the Statement of Financial Position. Related Interest Expense on Lease Liability is included as part of Interest and Financing Charges and Depreciation expense-right of use is included as part of Occupancy and equipment-related expenses under Operating Costs and Expenses account in the statements of income.

(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 March 31, 2020, December 31, 2019 and March 31, 2019.

(e) The Parent Company sold its portion of its receivable to BDO Unibank in 2019. The Parent Company charged BDO for service charges and fees which are presented as part of Other Income-net in the statements of income. There are no outstanding payable related on this transaction as of the end of March 31, 2020, December 31, 2019 and March 31, 2019.

(f) In 2018, the Parent Company entered into an agreement with BDO Unibank on stock transfer where BDO Unibank will charge the Parent Company for stock transfer services. Service fees paid by the Parent Company to BDO Unibank are shown as part of Other Expenses account under Operating Costs and Expenses in the statements of income. There are no outstanding payable related on this transaction as of the end of March 31, 2020, December 31, 2019 and March 31, 2019.

(g) The Parent Company engaged the services of BDO Capital and Investment Corporation (BDO Capital), a wholly owned subsidiary of BDO Unibank as selling agent related to the Parent Company's issuance of short term commercial papers up to 2019 and issuance of short term Promissory Notes starting 2020. Service and charges fees paid by the Parent Company to BDO Capital both for March 31, 2020 and March 31, 2019 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 March 31, 2020, December 31, 2019 and March 31, 2019.

(h) 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 with a range of 7.0% to 9.0% per annum and have terms ranging from 3 to 4 years. Outstanding loans to officers are presented as part of Finance Lease Receivable under Loans and Other Receivables account. The Group assessed that these loans are not impaired as of March 31, 2020, December 31, 2019 and March 31, 2019.

(i) The retirement fund holds, as an investment, 519,915 shares of stock of the Parent Company in 2020 and 2019, respectively, which has a market value of P3.16 and P2.28 per share as of March 31, 2020 and 2019, respectively. The retirement fund does not hold any shares of stock of BDO Unibank.

(j) 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 to the outstanding receivable of the Parent Company from BDO Insurance in 2020 and 2019, which is recorded as part of Accounts receivables under Loans, and Other Receivables account in the statements of financial position. These are receivable in cash and normally collectible within 12 months after reporting period. The Group assessed that such receivable is not impaired.

(k) 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 in December 2019 and March 2019. Interest expense incurred on these bills payable is included as part of Interest and Financing Charges account under Operating Costs and Expenses in the March 31, 2020 and 2019.

(l) The Parent Company paid BDO Life Assurance Company, Inc for Group Life Insurance of the Parent Company's employees. Insurance paid by Parent Company is presented as part of Occupancy and Equipment Related Expense under Operating Costs and Expenses in March 31, 2020 and 2019 statement of income.

(m) BDO Rental, entered into Operating Lease Agreement with BDO Nomura Securities, Inc. (BDO Nomura), SM Prime Holdings, Inc. and Alfamart Trading Philippines, Inc. Operating lease income earned from these transactions is presented as part of Rent account in the Group's statement of income. No outstanding receivable on this transaction as of the end of March 31, 2020, December 31, 2019 and March 31, 2019.

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 thru 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 clientèle base.
- We will continue to expand and optimize our sources of funds to match our asset growth and help manage our funding costs by effectively utilizing the authority granted by the Securities and Exchange Commission for BDO Leasing to issue P15 Billion Short Term Commercial papers.
- We will continue to control operating expenses to ensure that these remain at a level, which is attuned with our business volumes.
- We will continue to 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 cyclicality of interim operations;

The Company is not affected by seasonality or cyclicality 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 quarter of 2020, the Company has issued bills payable amounting to P201.7M and made total payments on its bills payable amounting to P6,953.8M.

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

None.

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.*

The Company is still assessing the potential impact of the Enhanced Community Quarantine (ECQ) on business volumes for the coming quarters.

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 three months ended March 31, 2020
(in millions)

	Leasing	Financing	Others	Eliminations	Total
Gross income	404.5	222.9	68.8		696.1
Segment revenues					
External	404.5	222.9	68.8		696.1
Inter-segment			(9.9)	9.9	-
	404.5	222.9	58.9	9.9	696.1
Segment expenses					
External	330.8	182.3	56.1		569.4
Inter-segment			0.1	(0.1)	-
	330.8	182.3	56.2	(0.1)	569.4
Segment results	73.6	40.6	2.6	10.0	126.7
Income tax expense					43.4
Net Income					83.3
Segment assets - net	14,761.3	9,632.1	-		24,393.4
Unallocated assets					4,604.8
Total Assets					28,998.2
Segment liabilities	13,240.8	9,696.0	-		22,936.9
Unallocated liabilities					412.8
Total Liabilities					23,349.7

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 (March 2020 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

April 17, 2020
Date

BDO LEASING AND FINANCE INC.
AGING OF RECEIVABLES
As of March 31, 2020

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.	Past Due / Litigation
Factored Receivable	173,243,340.92	-	168,700,171.01	-	-	-	-	-	4,543,169.91
Receivables Purchased	56.00	-	-	-	-	-	-	-	56.00
Floor Stock Financing	163,874,991.70	12,795,501.14	18,094,576.41	15,385,566.40	25,266,048.38	62,085,282.92	26,065,236.77	4,182,779.68	-
Installment Paper Purchase	399,834,668.17	73,570,452.92	102,737,904.77	88,654,681.87	43,875,834.47	12,969,458.31	-	-	78,026,335.83
Amortized Commercial Loan	9,171,922,751.67	6,770,726.16	14,738,536.99	20,532,926.26	40,862,965.11	158,645,043.17	151,955,106.45	7,867,890,086.56	910,527,360.98
Lease Contract Receivables	14,606,989,204.67	812,893,832.67	850,294,477.51	1,221,109,359.55	2,403,230,630.18	7,091,447,254.46	1,389,316,404.87	22,692,398.93	816,004,846.50
Personal Loans Programs	1,148.00	-	-	-	-	-	-	-	1,148.00
Discounting Line	-	-	-	-	-	-	-	-	-
TOTAL LOAN PORTFOLIO	**24,515,866,161.13**	**906,030,512.89**	**1,154,565,666.69**	**1,345,682,534.08**	**2,513,235,478.14**	**7,325,147,038.86**	**1,567,336,748.08**	**7,894,765,265.18**	**1,809,102,917.22**

Less: Allowance For Credit losses	594,210,541.97
Finance Receivables - Net	**23,921,655,619.16**
	0.00

Attachment I

BDO Leasing and Finance, Inc. and Subsidiary
Financial Ratios
March 31, 2020 and 2019
(Amounts in Millions of Philippine Pesos)

		2020	2019	2020	2019
I. Current/liquidity ratios					
Current ratio					
	Total current assets	5,580.2	11,381.6	0.28	0.42
	Total current liabilities	19,921.2	27,385.2		
Acid Test Ratio					
	Quick assets	5,471.9	11,219.5	0.27	0.41
	Total current liabilities	19,921.2	27,385.2		
II. Solvency ratios; debt-to-equity ratios					
Solvency ratio					
	(After tax net profit + Depreciation)	268.0	(20.6)	0.01	(0.00)
	Total liabilities	23,349.7	32,660.6		

	2020	2019	2020	2019
Debt-to-equity ratio				
Total liabilities	23,349.7	32,660.6	4.13	6.02
Total equity	5,648.4	5,428.0		

III. Asset-to-equity ratio

	2020	2019	2020	2019
Asset-to-equity ratio				
Total assets	28,998.2	38,088.6	5.13	7.02
Total equity	5,648.4	5,428.0		

IV. Interest coverage ratio

	2020	2019	2020	2019
Interest coverage ratio				
Earnings before interest and taxes	337.8	416.9	1.60	0.95
Interest expense	211.0	436.9		

V. Profitability ratios

	2020	2019	2020	2019
Net profit margin				
Net Profit	83.3	(24.1)	11.97%	-3.03%
Interest income + Other operating income	696.1	795.0		

	2020	2019	2020	2019
Return on equity				
Net profit / Average equity	83.3 / 5,538.3	(24.1) / 5,329.1	6.02%	-1.81%
Return on assets				
Net profit / Average assets	83.3 / 33,543.4	(24.1) / 40,283.2	0.99%	-0.24%

VI. Others

	2020	2019	2020	2019
Total real estate investments to Assets				
Total investment properties / Total assets	399.7 / 28,998.2	361.4 / 38,088.6	1.38%	0.95%
Loans to Assets				
Total loans and other receivables / Total assets	23,014.0 / 28,998.2	30,948.4 / 38,088.6	79.36%	81.25%

	2020	2019	2020	2019
DOSRI to Net worth				
Receivables from Directors, Officers, Stakeholders and Related Interests	7.0	8.1	**0.12%**	0.15%
Total equity	5,648.4	5,428.0		
Amount of receivable from a single corporation to Total receivables				
Loan to a single corporation	517.1	874.8	**2.25%**	2.83%
Total loans and other receivables	23,014.0	30,948.4		

REGULATORY COMPLIANCE MANAGEMENT MANUAL

Table of Contents

I. INTRODUCTION

The Compliance System forms the processes, people, policies and other components that, as an integral unit, ultimately drives the company's initiatives to conform to industry standards and regulations. In this regard, the Regulatory Compliance Management Manual (RCMM) functions as the guiding principle for the implementation of the Compliance System in BDO Leasing and Finance, Inc (the "Company").

The RCMM of BDO Leasing and Finance, Inc shall be applicable and adapted by its own subsidiaries and affiliates to the extent applicable to the business.

In line with the company's initiatives is its commitment to ensure that activities of the company and its personnel are conducted in accordance with all applicable rules and regulations and industry standards, and this commitment to compliance serves to protect the company, its employees, and its customers.

II. STATEMENT OF POLICY

BDO Leasing and Finance, Inc., Inc. recognizes that compliance is a function of the Company that is critical for safety and soundness. In this regard, the company states as a policy that:

1. To protect itself, its clients, and the financial system in general, the management shall ensure that BDO Leasing and Finance, Inc.. operates at the highest standard of conduct and meets all regulatory and legal requirements relating to the conduct of its business.

2. Compliance shall be a line-driven function, and, as such, shall be the direct responsibility of each line manager.

3. Each employee shall be personally responsible for familiarizing him/herself with all the laws and regulations applicable or related to his/her work assignment in the Company.

III. REGULATORY ENVIRONMENT

Over the years, the Securities and Exchange Commission (SEC) has issued numerous directives in the form of regulations. These are the "laws-of-the-land" and companies in the financing and leasing sector need to comply with the issued regulations under the pain of sanctions for compliance failure.

To actively promote corporate governance reforms aimed to raise investor confidence, develop capital market and help achieve high sustained growth for the corporate sector and the economy, SEC issued Memorandum Circular No.2 (Code of Corporate Governance), series of 2002 dated April 4, 2002. On the said circular, the Board Committee may constitute a compliance unit who will be responsible for coordinating, monitoring and facilitating compliance with existing laws, rules and regulations.

In 2009, SEC issued Memorandum Circular No. 6 (Revised Code of Corporate Governance), series of 2009 dated June 22, 2009 which implemented good corporate governance regime. It has required the appointment of a Compliance Officer who shall supervise the Company's implementation of its Compliance System.

On the other hand, the ***Bangko Sentral ng Pilipinas (BSP)*** has issued directives in the form of regulations **that regulated entities** need to comply with the issued regulations under the pain of sanctions for compliance failure.

To establish a robust regulatory compliance regime, the BSP issued **Circular No. 145** to regulated entities in October 1997 to implement a ***"Compliance System"*** and required the appointment/designation of a ***"Compliance Officer"*** to oversee the implementation of the company's Compliance System.

In May 2004, the BSP issued **Circular No. 429** that defined ***"Compliance Risk"*** and the responsibilities of the board of directors and senior management on compliance, among others.

In February 2012, BSP issued **Circular No. 747** which was further enhanced thru Circular No. 972 (issued on 22 August 2017), that revises the compliance framework for regulated entities. These circulars require BSP-Supervised Financial Institutions (BSFIs) to establish a compliance risk management system designed to specifically identify and mitigate risks that may erode the franchise value of the BSFI and the appointment of a full time Compliance Officer to oversee the identification and management of the BSFI's compliance risk.

Franchise value may decrease due to risks of regulatory sanctions, material financial loss, loss to reputation as a result of the BSFIs failure to comply with laws, regulatory rules and standards, codes of conduct applicable to its activities and failure to manage conflict of interest.

Therefore, to reasonably prevent failures to a business line and avoid associated sanctions, the company's management and personnel need to understand, interpret and internalize the relevant regulations and apply them in their daily business processes. The company's workforce should be educated on NBFI regulations to help them perform their roles and responsibilities in the company's Compliance System.

In May 28, 2013, BSP issued Memorandum No. M-2013-023 that provides the framework for BSP Compliance Rating System (CRS). The CRS will be used by the BSP in assessing the quality of compliance system in their examinations and provide appropriate supervisory actions for noted weaknesses and violations of rules and regulations. BSP's rating based on the CRS will form part of their assessment of the supervised institution's Corporate Governance which in turn shall be factored in the institution's "Management" component of its CAMELS rating.

IV. REGULATORY COMPLIANCE MANAGEMENT MANUAL

To further strengthen the Compliance System of BSP Supervised Financial Institution (BSFI), BSP issued Circular No. 972, Series of 2017, that emphasizes the need for a robust, dynamic and responsive Compliance Risk Management System as an integral part of the culture and risk governance framework of the BSFI.

This regulatory compliance management manual is **HOW** the company:

- Learns about its compliance responsibilities;
- Ensures that company personnel understand their responsibilities;
- Ensures that regulatory requirements are incorporated into the business processes;
- Reviews operations to ensure responsibilities are carried out and requirements are met; and
- Takes corrective action and updates materials, as necessary.

To ensure a successful implementation, the company's Regulatory Compliance Management Manual is anchored on the following major strategies:

- Getting the right information to the right person at the right time.
- Making business line managers the "OWNERS" of business risks in their respective areas and accountable for the consequences when business fails.
- Embedding compliance controls in day-to-day activities procedures as the "best defense" to mitigate business compliance risks.
- Responding to emerging regulations quickly (nimbleness).
- Reviewing existing compliance procedures and effecting policy and procedural enhancements to incorporate changes in regulation or whenever new business lines or activities are added or existing activities, products or services are altered.
- Educating personnel on company's compliance culture, general compliance-risk issues and high-level compliance policies and procedures.
- Maintaining a constructive working relationship with the regulators, company's senior management, and company's business line managers.

When all above strategies are strong and working together, there is reasonable assurance that the company will succeed in managing its compliance responsibilities and risks presently and in the future.

The successful implementation of the company's Regulatory Compliance System hinges on the active interplay of the three essential elements, namely: ***PEOPLE, PROCESS*** and ***TECHNOLOGY***. People "run" the Process; Process "guide" the People; and Technology "supports" the Process.

V. MITIGATION OF COMPLIANCE RISKS

According to BSP Circular No. 747 which is further enhanced by Circular No. 972, the compliance risk management shall be designed to specifically identify and mitigate risks that may erode the franchise value of the BSFI, such as, among others:

a. Risks of legal or regulatory sanctions from the actions of a company that are contrary to existing laws, regulations and identified best practices and reflect weaknesses in the implementation of codes of conduct and standards of good practice;
b. Risks to reputation that arise from internal decisions and practices that ultimately impinge on the public's trust of a company such as failure to manage conflict of interest, treat customers fairly or effectively manage risks arising from money laundering and terrorist financing ;
c. Legal risks to the extent that changes in the interpretation or provisions of regulations directly affect a company's business model.

Preventing exposure to compliance risks is the key element of the company's management of compliance risks. This can be accomplished through a holistic approach that includes the three (3) general steps, to wit:

Step 1 - Identify sources of compliance risks.
Step 2 - Assess the likelihood (probability of the risk event happening) and the potential damage (impact or severity) if the risk event materializes.
Step 3 - Manage compliance risks.

A. Risk Identification

Compliance risk may arise from (a) people risk; (b) process risk; (c) system/technology support risk; and (d) regulatory changes risk, individually or a combination thereof:

a. People Risk:

- Inadequate knowledge of regulations and its requirements, and risk management
- Failure to perform prescribed control processes
- Neglecting historical information on identified risk areas, products, or services

b. Process Risk:

- Failure to consider one of more of the basic factors that constitute an efficient process (materials, equipment, method, environment, people)
- Non-inclusion of fulfillment of regulatory requirements in documented processes
- Lack of regular review of documented processes
- Lack of formal process for reviewing and approving new or unique or sophisticated products and services at inception
- Lack of formal process for monitoring compliance with existing/applicable rules and regulations for existing products and services

c. System and/or technology Risk:

- Failure to address identified regulatory compliance gaps, e.g. policy and procedures circulars, automated systems, etc.
- Failure to conduct the necessary testing of functionality and security controls
- Failure to plan for capacity, maintenance, and upgrades

d. Regulatory Changes Risk:

- Failure to track regulatory changes in products and services (e.g. obsolete or superseded provisions still being implemented)
- Failure to assess business risks when new business lines or activities are added or when existing activities and process are altered
- Failure to disseminate regulation information quickly

B. Assessing Compliance Risk

After having identified the major sources of compliance risk, the next step is to answer the questions “How critical are the risks?” and “How vulnerable is the company to the risk sources?”

There is no doubt that each major source of risk represents a critical factor to be reckoned with to prevent compliance risks. Needless to say, a failure in one factor may jeopardize and weaken the entire compliance risk management framework and put the company in a penalty situation.

All major risk sources are assessed as “HIGH RISK” areas requiring a sustained monitoring effort to ensure that the infrastructure supports are in place and operating as intended.

C. Managing and Controlling Compliance Risks

To reasonably manage and control compliance risks:

- Regulatory information should be disseminated quickly to users via the available information channels, e.g. email, bulletins, portal;
- Board and senior management must also be advised on significant and sensitive relevant laws, rules and standards and keep them informed on developments in the area;
- Stakeholders should actively participate;
- Existing policies and procedures should be reviewed and revised promptly to incorporate the effects of new or amended regulatory provisions, new products/services to be introduced, alterations to existing products/services;
- The adequacy and effectiveness of the business systems and technology supports should be evaluated regularly;
- Company personnel should be given a formal education on regulatory compliance matters (compliance training);
- There should be a constant review and monitoring of compliance with regulations at the process, product, company service or business lines levels (off-site or on-site) and prompt communication of compliance breaches to the appropriate points in the organization for action; and
- Sensitive compliance issues should be immediately elevated to senior management for decision and disposition.

VI. RESPONSIBILITIES FOR COMPLIANCE

A. Board of Directors

The Board of Directors oversees the implementation of the Compliance System and ensures that compliance issues are resolved expeditiously *(Ref. BSP Cir. Nos. 747 and 972).* These include approving the company's Compliance Program for managing the company's compliance risks; ensuring that BSFI personnel and affiliated parties adhere to pre-defined compliance standards.

BOARD AUDIT COMMITTEE

BSP Circular Nos. 747 and 972 further emphasizes the need for the Board of Directors to ensure that a Compliance Program is defined for the company and that compliance issues are resolved expeditiously. The company's Board Audit Committee (BAC), a board level committee, is tasked to oversee the Compliance Program. Changes to the Compliance Program must be approved by the BAC.

B. Senior Management

Senior Management, the collective body of business owners responsible for achieving compliance, ensures that personnel and affiliated parties adhere to the Compliance Program of the company. It reports to the Compliance Officer matters that affect the implementation of the Compliance Program, and ultimately, the design of the Compliance System.

C. Compliance Officer

The Compliance Officer (CO) is the lead senior officer for purposes of administering the Compliance Program and interacting with the BSP on compliance related issues. The principal function of the CO is to oversee the design of an appropriate Compliance System, promote its effective implementation and address breaches that may arise. Any material breaches of the system shall be reported to the BAC and promptly addressed within the mechanisms defined by the Compliance System. The CO shall also be responsible for ensuring the integrity and accuracy of all documentary submissions to the BSP. *(Ref. BSP Cir. No. 747 and 972)*

D. Business Line Managers

The business line managers continue to “own” the compliance risk in their respective areas of responsibility. They are responsible for achieving compliance with applicable regulatory requirements within their business lines and to answer for the consequences in the event of compliance failures.

This level of officers has the responsibility of implementing the risk management processes, policies and procedures and monitoring the effectiveness of the risk management activities in their own business areas. They can recommend changes or improvements to the compliance risk management framework as warranted by circumstances.

E. Support and Delivery Units

The role of support and delivery units is to provide the tools and services that complement the business units in implementing the Compliance System. They shall be responsible for issuance of guidelines and procedures, implementation and management of applications to support manual processes, provide guidelines on risk management, and implement controls to comply with various applicable regulations including anti-money laundering.

F. Unit Compliance Coordinators

They are the officers or staff within the business lines that exercise compliance responsibilities to help keep the business line organization (to which they belong to) focused on managing business risks. They are tasked with implementing the approved policies and procedures in their respective work assignments, e.g. performing prescribed control procedures. Please refer to the succeeding section for their specific responsibilities *(Ref. VII.B.2)*

VII. COMPLIANCE FUNCTION IN THE COMPANY

A. Objectives

1. To identify the relevant laws and their implementing rules and regulations directly affecting the company's operations;
2. To identify, analyze, classify and prioritize the corresponding risks for non-compliance with relevant laws and regulations affecting the company's operations;
3. To set in place a monitoring system on the company's compliance with applicable laws, rules and regulations, which will include a system of periodic compliance monitoring and regular reporting on the compliance findings to higher management;
4. To ensure that company officers and staff are made aware of the compliance function and their respective compliance responsibilities; and
5. To set up a central compilation point of all relevant and applicable laws, rules and regulations to the company's operation.

B. Compliance Function Structure

1. Compliance Office

The institutional role of the Compliance Office is to assist senior management in managing effectively the compliance risks faced by the Company.

Authorities and Duties of the Compliance Office

The company's Compliance Office, in the exercise of its authorities, shall have the following duties, which may be expanded and supplemented from time to time upon the approval of the Board of Directors taking into account the needs and objectives to be served and/or may be mandated by the government regulatory bodies:

i. Oversee and coordinate the proper and efficient implementation of the company's Compliance Program;

ii. Assist in identifying, monitoring and controlling compliance risks as defined by the Securities and Exchange Commission (SEC), Bangko Sentral ng Pilipinas (BSP) or other government regulatory bodies;

iii. Provide appropriate guidance and direction to the company's management on the development, implementation and maintenance of the company's Compliance Program;

iv. Conduct periodic compliance testing with applicable legal and regulatory requirements in accordance with the company's Independent Compliance Testing Framework (Annex B) and report to the Board Audit Committee the findings and results of these periodic testings;

v. Cause the investigation of the breaches and any possible breaches in any aspect of the company's Compliance Program, pertinent laws, rules, regulations, codes of conduct and standards of good practice;

vi. Report to the Board Audit Committee any matters relevant to the company's Compliance Program and its implementation, as well as material breaches in the pertinent laws, rules, regulations, codes of conduct and standards of good practice;

vii. Establish an open communication process with the company's personnel and/or conduct trainings, seminars and workshops as may be deemed necessary and proper to educate and update the company's personnel on compliance matters, pertinent laws, rules, regulations, codes of conduct and standards of good practice;

viii. Consult government regulatory bodies, agencies to clarify ambiguous provisions of enacted laws or issued rules and regulations which would affect the company's Compliance Program;

ix. Exercise oversight responsibility over compliance-related activities which have been outsourced and ensure compliance consistent with the company's Compliance Program; and

x. Timely submit compliance and other related reports as may be required by the laws, rules, regulations, circulars or directives issued by the government regulatory bodies.

Independence of the Compliance Office

BSP Circular Nos. 747 and 972 provides that the compliance function should be independent from the business activities of the institution. It should be able to carry out its responsibilities on its own initiative in all units or departments where compliance risk exists and must be provided with sufficient resources to carry out its responsibilities effectively. It must be free to report to senior management and the board or a committee of the board any irregularities or breaches of laws, rules and standards discovered. The compliance function should have access to all operational areas as well as any records or files necessary to enable it to carry out its duties and responsibilities.

In this regard, the Compliance Office shall be under the direct supervision of the Board Audit Committee. All concerns, matters, and needs of the Compliance Office to enable it fulfill its responsibilities shall be expeditiously attended to and addressed.

On its own initiative, with or without directive from the Board Audit Committee or senior management of the company, the Compliance Office may carry out its functions by conducting investigations or audit, with or without the aid of other supporting units of the company, to ensure the proper and efficient implementation of the Compliance Program.

Furthermore, reports and recommendations made by the office to the Board Audit Committee shall remain strictly confidential to ensure it is freed from retaliation and disfavor from affected parties in the performance of its responsibilities and function.

Oversight of BDO Unibank, Inc.

The Compliance Office of BDO Unibank, Inc. (BDO) as parent bank, oversees the compliance function of the Company through alignment of compliance policies, standards and methodologies. Significant compliance issues and matters in the Company are reported likewise to BDO Unibank's Board Audit Committee, when necessary.

For effective oversight, Compliance Office has separate units that oversee the subsidiaries, foreign branches and representative offices. These are the following:

(1) Global Offices and Non-Banking Financial Institutions (NBFI) - oversees the regulatory compliance of global and domestic non-bank subsidiaries and foreign representative offices of BDO.

(2) Anti-Money Laundering Unit (AMLU) - oversees the AML compliance of all subsidiaries and foreign branches of BDO

2. <u>Unit Compliance Coordinators</u>

Each of the company's operating and service units shall have its own compliance coordinator. However, the responsibility for compliance still rests on the Head of the unit.

The designated Unit Compliance Coordinator shall be responsible for the following:

- Ensuring that the unit has a complete and updated compilation of all laws and issuance by the government regulatory bodies affecting the operations of the unit
- Ensuring that the officers and staff of the unit have been familiarized and fully knowledgeable of the laws, policies, regulations and ethical standards applicable or related to their respective work assignments in the unit
- Monitoring the unit's compliance with laws, policies, regulations and ethical standards affecting the unit's operations

BDOLF has compliance officer that performs the same function that work under the supervision of and in coordination with the BDO Compliance Office.

Please refer to Annex A for the Corporate Compliance structure.

3. Relationship of Compliance Office with Other Control Functions

As prescribed in the Company's Information Sharing Framework (Annex C), close coordination among independent control functions - Compliance Office, Internal Audit and Risk Management Unit through sharing of information that each unit obtains in the performance of its delineated functions, aims to strengthen BDOLF's risk management. Internal Audit and Risk Management Unit shall render support and establish working relationship with the Compliance Office consistent with the proper and efficient implementation of the company's Compliance Program and Information Sharing Framework:

- ❑ **Internal Audit** – May conduct further probing on information on possible violation of the company's Compliance Program, pertinent laws, rules, regulations, codes of conduct and standards of good practice. Reports, data and analysis previously obtained by the Internal Audit may be used and relied upon by the Compliance Office.

- ❑ **Risk Management Unit –** Shall support Compliance Office in ensuring that regulatory requirements related to Credit Risk, Market Risk and Operational Risk are identified, measured, monitored and managed. Reports, data and analysis made by Risk Management Unit may be used and relied upon by the Compliance Office.

The following units shall also render support to Compliance Office as follows:

- ❑ **Legal Services** – Shall render the appropriate support and advice on all legal-related compliance matters, such as but not limited to the interpretation of the provisions as well as the applicability of the company's Compliance Program, pertinent laws, rules, regulations, codes of conduct and standards of good practice.

- ❑ **Information Technology** – Shall provide the system – related support in the performance of the Compliance Office's responsibilities to the company and to the government regulatory bodies.

The foregoing, however, shall not be taken to limit the Office of the Compliance Office to seek the assistance of other units of the Company. The Office of the Compliance Office may at any time seek the assistance of any unit of the company as may be needed for the proper and efficient implementation of the company's Compliance Program, which assistance shall be expediently given.

4. The Compliance Office Organization

Please refer to Annex A for the Organization Table of the BDO Leasing and Finance Inc.'s Compliance Office.

The Compliance Office is manned by Compliance Officers.

Functionally the Compliance Office reports to the Board Audit Committee, but administratively it reports to the Office of the President and to the Chief Compliance Officer of BDO Unibank Inc.

C. Compliance Program

The Compliance Program serves as the strategic guide that describes the processes and tools that enable the Compliance Office to efficiently manage the company's Compliance System.

1. Analysis of the Regulatory and Corporate Environment

One of the major drivers of change in business is regulations. New laws often change how business is conducted. In this regard, it is important that the implementation of change should consider corporate practices of the company, complexity of operations, and business strategy – determining applicable regulations, identifying areas where business risks may occur, and assessing the impact of such change shall ensure swift transition.

a. Identification of Relevant Laws, Rules, and Regulations

The Compliance Office shall identify and compile all laws, implementing rules and regulations, circulars and similar issuance from the various regulatory bodies that the company, as a whole, and each of its business and operating units are required to observe.

b. Gap Analysis

For major laws and regulations which have significant impact on the present state of the company, the Compliance Office, in coordination with the business and support units, shall assess the impact of new regulations on how business is conducted. The effect of non-compliance to rules shall be identified in order to guide business and support units on how to proceed with the change.

2. Guidance of Stakeholders on Relevant Laws, Rules, and Regulations

A critical success factor for regulatory compliance is keeping company personnel well educated on regulatory matters. This will help them understand and appreciate their compliance responsibilities and their roles in the company's business risk management system.

a. Communication

To achieve this end, the Compliance Office undertakes to immediately disseminate/broadcast to all users concerned the copies of all regulatory issuance received by it, or download from the regulatory websites, through the traditional and electronic communication channels available, (e.g. mail), through the issuance of Compliance Bulletins and posting in the company's electronic portal. Correspondences to and from BDO Leasing and Finance Inc's Compliance Office may also be coursed through the Compliance Officer's email address.

Sensitive compliance – related matters/issues shall be elevated to the proper level of senior management, or to the Board, if necessary, for disposition.

The Compliance Office will seek clarification from the regulators concerned for any rules, or provisions thereof, which appear ambiguous. The clarification will then be broadcast through existing communication channels.

The communication flow of the compliance information shall be (a) downwards when disseminating compliance information; (b) upwards when elevating compliance issues to higher management; and (c) lateral when circulating the compliance materials between and among the co-employees in the same unit.

At the level of the business units, the unit heads are expected to brief their respective unit officers and staff on the new or amended regulatory issuance during their regular staff meetings.

b. Reference Portal

The Compliance Office shall maintain and update a central repository of laws, rules and regulations received and downloaded from the regulators' websites in hardcopy and electronic formats. These materials will be made available upon request (for hardcopy reproduction) or can be viewed on demand in the company's electronic documents portal (for the electronic copies).

c. Training

Knowledge and awareness by all employees of the laws, rules and regulations pertaining to their respective job description are essential to the success of the Compliance Program. To ensure sufficient awareness, training on regulatory compliance shall be conducted regularly for company personnel. New hires shall be made aware of the compliance function during their employment briefing or orientation.

In support of this initiative, the Compliance Office may develop (and update) the training syllabus on regulatory compliance in coordination with the BDO Unibank's Training unit and other concerned units and occasionally participate in or conduct the training sessions.

In addition, the Compliance Office may also avail of external trainings and cascade learnings to BDOLF personnel.

All the above efforts are aimed at mitigating the risk of "information starvation" by providing the company personnel with reasonably adequate information and knowledge to guide them in the performance of their daily responsibilities.

3. <u>Assessment of Compliance Office</u>

The Compliance Office shall do a periodic assessment of the respective business and support units to determine their compliance to relevant laws, rules and regulations affecting the company's operation, in accordance with the Company's Independent Compliance Testing Framework (Annex B).

Consistent with the Independent Compliance Testing Framework, Compliance shall rely on the independent tests done by other assessment units of the Company which are not implementing the regulations, either as inputs to the compliance test by Compliance Office or sufficient representative compliance testing, to determine the unit's compliance to the relevant regulatory requirements. Compliance Office shall focus its independent compliance tests on areas where independent testings/checkings are not performed by other assessment units, on prioritization basis, using the following criteria and references:

1) high risk or significant areas which may expose the company to sanctions and/or penalties;
2) new regulations which are of group-wide/company-wide application;
3) industry issues;
4) major issues from BSP examination, internal and external audits;
5) results of company cases reviews.

4. <u>Reporting and Remediation</u>

Upon assessment of the compliance of business or support units to regulations, gaps between regulatory requirements and current business practices are identified, reported to concerned stakeholders – including regulatory agencies, and then addressed and monitored until completion.

a. Recommending Controls, Policies, and Guidelines

The Compliance Office, upon assessment of compliance, will recommend to the concerned business or support unit, the development and implementation of controls – including issuance of corresponding policy guidelines for immediate dissemination, if none are existing, or the revision of existing policies and control processes to conform to the amended regulations. This is in furtherance of the overall efforts to keep the company's controls current, and policies as relevant sources of information and guidance. Importantly, this will mitigate the risk of obsolete or superseded materials used as guidelines in the operation of the company.

When the situation warrants, the Compliance Office can draft the policy guidelines to respond to new or amended regulations. The draft will then be submitted to the business or support unit concerned for further evaluation, approval and eventual issuance as an institutional policy following the established approval process for institutional policies and procedures.

b. Constructive Working Relationship with Regulatory Agencies

The company, through its Compliance Officer, may consult regulatory agencies for additional information on specific provisions of laws and regulations and/or discuss compliance findings with the regulatory authorities. A dialogue may also be initiated with respect to borderline issues.

The Compliance Office is expected to foster and maintain a warm and friendly working relationship with all the regulators that have jurisdiction over the company in order to facilitate the prompt processing of the company's requirements, e.g. requests for approval to engage in certain activities or offer financial products, among others. On the other hand, the company is also expected to act swiftly on the regulators' requirements for information and/or desired action.

5. Monitoring and Assessment of the Compliance Function

As part of its function, the Internal Audit is tasked with monitoring and assessing the effectiveness of the compliance function of the company. In particular, the Internal Audit shall review the periodic compliance testing performed by the Compliance Office and determine if the business or support units concerned have properly resolved outstanding compliance issues discovered or raised. The Internal Audit can also recommend enhancements in the implementation of the compliance function in general.

6. Program Review and Updates

The Compliance Office reviews and updates the company's Compliance Program, as needed, to incorporate changing responses to evolving internal and external conditions. *(Ref. BSP Cir. No. 747 and 972)*

The updated or amended Compliance Program shall be submitted by the Compliance Office to the Board Audit Committee for approval and confirmation by the Board of Directors.

VIII. REGULATORY EXPECTATIONS

"What do the examiners look for when they examine BSFIs for compliance?" Examiners no longer focus solely at the level of compliance with specific laws and regulations but on the adequacy of the business risk management program of the company and the company's ability to manage the business risk it faces.

As with all areas of risk management, the scope of examination in this area put emphasis on:

- Whether the board and senior management are actively involved in "setting the tone at the top", i.e. the board takes the lead by requiring <u>top-to-bottom compliance culture</u> that is incorporated in the company's day-to-day operations and well communicated so that all company staff members understand their compliance responsibilities and their roles.

- Soundness of business risk policies, procedures and internal controls in the company, i.e. policies clearly delineate accountability and lines of authority across the company; process for ensuring that identified compliance breaches are elevated to the appropriate level in the organization; policies and procedures are kept current;

- Whether the company's Compliance Program is designed to monitor and report compliance issues, i.e. ensure that information on compliance is communicated to the appropriate levels within the company.

- Whether the company's training programs ensure that compliance policies, procedures and controls are well understood and appropriately communicated throughout the company.

IX. HANDLING OF "ON-SITE" REGULATORY EXAMINATIONS

The Compliance Office will coordinate activities related to "on-site" examination of regulators to include:

- ✓ Arranging meetings between the examination team and company officials and designated unit point persons, e.g. pre-audit, during the engagement and post-audit conferences.
- ✓ Coordinating with the proper units of the company for the provision of logistical and technological support needed by the examination team during their audit engagement, e.g. workplace, computers, printers, telephones, etc.
- ✓ Disseminating examination advance findings to the proper units of the company for response.
- ✓ Collecting and collating responses to advance examination findings preparatory to preparing the consolidated report for internal review.
- ✓ Preparing the consolidated report on the company responses to the examination findings preparatory to the presentation to the Board for approval.
- ✓ Transmitting to the regulatory agency the approved consolidated report on the company responses to the examination findings.
- ✓ Monitoring and reporting the status of committed actions to rectify the examination finding until all the action items shall have been finally closed.
- ✓ Acting as liaison between the examination team and the company for other requirements of the examination team during their visit to the company.

X. Consumer Protection

With the issuance of the circular on Financial Consumer Protection Framework (BSP Circular No. 857, dated 21 November 2014), the BSP has outlined its expectations from supervised financial institutions in the conduct of its business while continually protecting the welfare of financial consumers.

In order to reduce BDOLF's exposure to regulatory risk, and to ensure compliance with the provisions of Circular No. 857, the Compliance Office shall apply the Compliance Program in Annex D with emphasis on the Five Consumer Protection Standards:

1) Disclosure & Transparency

2) Fair Treatment

3) Privacy of Information

4) Financial Education and Awareness

5) Effective Recourse

Responding to Customer Complaints

Consistent with the company's policy, complaints addressed to or referred to the Compliance Office will be fully and promptly investigated, resolved and responded to within a reasonable period of time.

Business-specific complaints will be referred to the company unit concerned for investigation and resolution. Complaints indicative of possible irregularities, misconduct by staff or weaknesses in internal controls will be referred to the Cases Review Committee for investigation. Legal services will be sought for issues requiring legal consultation, advice or opinion to protect the interest of the company and its stakeholders. Complaints involving sensitive matters will be escalated to senior management for decision on disposition. Responding to complaints remains the responsibility of the Head of the unit to whom the complaint was referred to for action.

A complaint received by any reasonable means, e.g. letter, telephone, facsimile (FAX), email or in person will be handled fairly, consistently and promptly. Even if a complaint is anonymous, any problem alleged by the complainant and substantiated by an investigation should be rectified as soon as practicable.

XI. Consumer Protection Compliance Program

With the issuance of the circular on Financial Consumer Protection Framework (BSP Circular No. 857, dated 21 November 2014), the BSP has outlined its expectations from supervised financial institutions in the conduct of its business while continually protecting the welfare of financial consumers.

BDOLF DIVIDEND POLICY STATEMENT

BDOLF recognizes the importance of providing a stable and sustainable dividend stream consistent with its commitment to shareholders. In March 2018, the Company paid cash dividend of PHP0.10 per share and will endeavor to do so while maintaining financial flexibility.

The Board of Directors may, at its discretion and depending on the business results for the year and capital needs of the business, declare and approve the distribution of additional special dividends to all shareholders normally announced at the Annual Stockholders' Meeting.

Policy on Disclosure of Sensitive/Confidential matters to Management

Introduction

BDO Leasing and Finance, Inc. (BDOLF) believes that the key to long-term sustainability and success largely depends on having a good name and solid reputation in the market place. To achieve this, BDOLF is committed to the highest standards of ethical values, integrity, honesty, accountability and transparency in the conduct of its business.

Under BSP Circular 749, BDOLF employees should be given the opportunity to communicate, with protection from reprisal, legitimate concerns about illegal, unethical or questionable practices or otherwise known as "whistle blowing".

Scope of the Policy

The policy covers the tipping off of any incident, situation, circumstance or problem involving fraud and/or violation of policies for further investigation which may result to or resulted in monetary loss and/or negative impact to the image of BDOLF including legitimate concerns about illegal, unethical or questionable Related Party Transactions (RPTs).

Obligation to Report

Any person who has knowledge of, or has observed a reportable concern, is required to file a report of such act or event to the designated/appropriate authority.

Reporting Process

Reporting may be done thru any available means such as but not limited to SMS text (e.g. BDO Watch), letter, email or phone call directly to the Office of the BDOLF President or the appropriate Head of the Unit concerned. For concerns directly involving the President and the other Executive Directors, the report should be addressed to the Board of Directors thru the Office of the Chairperson. For RPT-related concerns, the report should be addressed to the Chairman, Related Party Transaction Committee.

Handling of Reported Cases

To facilitate the investigation process and urgent administrative action if necessary, the report must contain the nature of the concern, relevant details of transactions (type, amount/s and date/s), person/s involved and supporting documents, if any including an explanation on why it is a reportable concern. A signed confidential report is encouraged as opposed to an anonymous report because of the need to clarify the contents of the disclosure or request for additional information that may be required before or during the investigation. Pro forma report forms will be available on the BDO Unibank's intranet site used in submitting a report.

Although proving the truth of the report beyond reasonable doubt is not expected, the person who makes the report should at least demonstrate that he/she has reasonable grounds for concern based on verifiable information, is doing it in good faith, and is ready to substantiate his/her views when requested. In making a report, a person must exercise due care to ensure the accuracy of information.

All reports shall be evaluated initially by the Office of the BDOLF President or appropriate Head for disposition and if needed, endorse to concerned Unit for further investigation based on existing guidelines for disposition at Committee level.

Protecting the Whistle Blower

Confidentiality

All reports will be treated with utmost care and confidentiality. BDOLF will make every effort to protect the identity of the whistle blower from disclosure to any third party, unless compelled by law, during the conduct of legal proceedings. BDOLF expects the same level of confidentiality from the whistle blower.

Retaliation and Harassment

BDOLF commits to protect those who report in good faith from retaliation, harassment and even informal pressures. It will take the necessary and appropriate action to do so in enforcing this policy.

If the report is done in good faith but it is not confirmed by subsequent investigation, no action will be taken against the whistle blower. However, if the report is found done maliciously and intentionally, for personal gain ore bias, or is knowingly based on false or misleading information, the whistle blower losses his protection and BDOLF may decide to impose a disciplinary action against the whistle blower.

Policy Oversight and Ownership

The Compliance Unit of BDOLF is responsible for overseeing the implementation of this policy. The Head of the Cases Review Committee Secretariat will submit a monthly report to the Compliance Officer, Cases Review Committee and the Audit Committee covering the number of reports received, actions taken and its latest status. The Audit Committee, at its discretion, may periodically report the whistle blower cases to the Board of Directors.

Approval and Disclosure

The Board of Directors has the authority to approve this policy. It should be disseminated to all Directors, officers and staff for their information and proper guidance. It should be posted in the Company's website and intranet to be accessible to all employees. It should form part of the HR and compliance policies of the Company.