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Financial Statements and
Independent Auditors' Report

UCPB Leasing and Finance Corporation

December 31, 2017 and 2016

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Report of Independent Auditors

The Board of Directors
UCPB Leasing and Finance Corporation
(A Wholly Owned Subsidiary of United Coconut Planters Bank)
14th Floor, UCPB Building
7907 Makati Avenue, Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of UCPB Leasing and Finance Corporation (the Company), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and 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 Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended 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 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.

BUREAU OF INTE
LARGE TAXPAY
LARGE TAXPAYERS AS
Date APR 20 2018
REGISTERED
MA. GRACIA AURORA L. CASTILLO

Emphasis of Matter

We draw attention to Note 1 to the financial statements, which discusses the Supreme Court (SC) decision on the ownership of United Coconut Planters Bank, the Parent Bank, and the Executive Orders (EOs) no. 179 and 180 issued by the former President of the Republic of the Philippines (ROP), Benigno S. Aquino III, regarding the inventory, reconveyance, utilization and privatization of coco levy assets. The EOs reference the SC decision that a majority of the sequestered shares of stock of the Parent Bank, was paid from the Coconut Consumers Stabilization Fund, is owned by the ROP for the benefit of the coconut farmers, thus making it a part of the coco levy assets. It also discusses that the recapitalization plan of the Parent Bank by way of privatization was approved by former President of the ROP.

On June 30, 2015, the SC issued a temporary restraining order (TRO) enjoining the implementation of the EOs (Confederation of Coconut Farmers Organizations of the Philippines vs. His Excellency President Benigno S. Aquino III, et. al., G.R. No. 217965). On August 8, 2017, the SC lifted the TRO.

Pursuant to EO 179 and as instructed by the Department of Finance and Presidential Commission on Good Governance, on November 3, 2017, the Parent Bank cancelled the 533,641,234 shares, the so-called "UCPB Farmers' Shares" and "Cojuangco Option Shares", representing the 35.64% of the Parent Bank's outstanding capital stock and issued in favor of the ROP.

In addition, on December 19, 2017, the Parent Bank cancelled the 587,500,000 shares, which were owned by the CIIF companies, representing the 39.42% of the Parent Bank's outstanding capital and issued in favor of the ROP.

With these developments and resolution on the ownership of certain sequestered shares of the Parent Bank, the BOD and the management believe that, as at December 31, 2017 and 2016, it is reasonable to maintain the status quo and continue with its normal business operations. Our opinion is not modified in respect of this matter.

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 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 Company or to cease operations, or has no realistic alternative but to do so.

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

Date APR 20 2018

REGISTERED

MA. GRACIA AURORA L. CASTILLO

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 judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 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.

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.

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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. The supplementary information for the year ended December 31, 2017 required by the Bureau of Internal Revenue as disclosed in Note 22 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: **Ramilito L. Nañola**
Partner

CPA Reg. No. 0090741
TIN 109-228-427
PTR No. 6616015, January 3, 2018, Makati City
SEC Group A Accreditation
Partner - No. 0395-AR-3 (until May 19, 2019)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002511-19-2018 (until Jan. 25, 2021)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

April 10, 2018

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Punongbayan & Araullo
20th Floor, Tower 1
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6766 Ayala Avenue
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Supplemental Statement of Independent Auditors

The Board of Directors
UCPB Leasing and Finance Corporation
(A Wholly Owned Subsidiary of United Coconut Planters Bank)
14th Floor, UCPB Building
7907 Makati Avenue, Makati City

We have audited the financial statements of UCPB Leasing and Finance Corporation (the Company) for the year ended December 31, 2017, on which we have rendered the attached report dated April 10, 2018.

In compliance with the Securities Regulation Code Rule 68, as amended, we are stating that the Company has only one stockholder owning 100 or more shares of the Company's capital stock as of December 31, 2017 as disclosed in Note 14 to the financial statements.

PUNONGBAYAN & ARAULLO

By: **Ramilito L. Nañola**
Partner

CPA Reg. No. 0090741
TIN 109-228-427
PTR No. 6616015, January 3, 2018, Makati City
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Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 20 2018 TSIS
REGISTERED
MA. GRACIA AURORA L. CASTILLO

April 10, 2018

UCPB LEASING AND FINANCE CORPORATION
(A Wholly Owned Subsidiary of United Coconut Planters Bank)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Pesos)

	Notes	2017	2016
ASSETS			
CASH AND CASH EQUIVALENTS	7	P 90,316,688	P 345,990,009
LOANS AND RECEIVABLES – Net	8	3,149,293,311	3,304,843,575
INVESTMENT IN A SUBSIDIARY – Net	9	5,641,224	5,098,713
INVESTMENT PROPERTIES – Net	10	91,370,583	60,035,422
DEFERRED TAX ASSETS – Net	17	29,544,092	47,661,455
OTHER ASSETS – Net	11	87,523,343	49,673,236
TOTAL ASSETS		P 3,453,689,241	P 3,813,302,410
LIABILITIES AND EQUITY			
BILLS PAYABLE	12	P 1,316,616,157	P 1,674,587,062
ACCOUNTS PAYABLES AND OTHER LIABILITIES	13	281,810,350	101,045,002
DEPOSIT ON LEASE CONTRACTS	8	253,271,041	293,381,304
INCOME TAX PAYABLE		-	2,338,075
Total Liabilities		1,851,697,548	2,071,351,443
CAPITAL STOCK	14	775,000,000	775,000,000
REVALUATION RESERVES	9	490,500	116,000
RETAINED EARNINGS	14	826,501,193	966,834,967
Total Equity		1,601,991,693	1,741,950,967
TOTAL LIABILITIES AND EQUITY		P 3,453,689,241	P 3,813,302,410

See Notes to Financial Statements.

UCPB LEASING AND FINANCE CORPORATION
(A Wholly Owned Subsidiary of United Coconut Planters Bank)
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Pesos)

	Notes	2017	2016
REVENUES			
Interest income	8	P 205,246,955	P 224,169,595
Leasing income	8	72,602,112	82,071,435
Equity share in net earnings of a subsidiary	9	168,011	182,677
		278,017,078	306,423,707
INTEREST EXPENSE	12	74,399,501	97,765,870
NET INTEREST AND LEASING INCOME		203,617,577	208,657,837
OTHER INCOME – Net	15	96,078,674	148,084,418
OTHER OPERATING EXPENSES	15	188,710,132	252,613,797
PROFIT BEFORE TAX		110,986,119	104,128,458
TAX EXPENSE	17	51,319,893	49,307,803
NET PROFIT		59,666,226	54,820,655
OTHER COMPREHENSIVE INCOME (LOSS)	9	374,500	(69,000)
TOTAL COMPREHENSIVE INCOME		P 60,040,726	P 54,751,655

See Notes to Financial Statements.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 20 2018 TSIS
REGISTERED
MA. GRACIA AURORA L. CASTILLO

UCPB LEASING AND FINANCE CORPORATION
(A Wholly Owned Subsidiary of United Coconut Planters Bank)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Pesos)

	Notes	Capital Stock	Revaluation Reserves	Retained Earnings Appropriated	Retained Earnings Unappropriated	Retained Earnings Total	Total
Balance at January 1, 2017		P 775,000,000	P 116,000	P 250,000,000	P 716,834,967	P 966,834,967	P 1,741,950,967
Total comprehensive income for the year	9	-	374,500	-	59,666,226	59,666,226	60,040,726
Reversal of appropriation		-	-	(150,000,000)	150,000,000	-	-
Cash dividends	14	-	-	-	(200,000,000)	(200,000,000)	(200,000,000)
Appropriation	14	-	-	100,000,000	(100,000,000)	-	-
Balance at December 31, 2017		**P 775,000,000**	**P 490,500**	**P 200,000,000**	**P 626,501,193**	**P 826,501,193**	**P 1,601,991,693**
Balance at January 1, 2016		775,000,000	185,000	250,000,000	662,014,312	912,014,312	1,687,199,312
Total comprehensive income (loss) for the year	9	-	(69,000)	-	54,820,655	54,820,655	54,751,655
Balance at December 31, 2016		P 775,000,000	P 116,000	P 250,000,000	P 716,834,967	P 966,834,967	P 1,741,950,967

See Notes to Financial Statements.

UCPB LEASING AND FINANCE CORPORATION
(A Wholly Owned Subsidiary of United Coconut Planters Bank)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Pesos)

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 110,986,119	P 104,128,458
Adjustments for:			
Impairment and credit losses	15	63,856,934	132,392,872
Gain on sale of receivables	15	(42,860,947)	(120,807,837)
Gain on foreclosure	15	(41,429,393)	(7,854,797)
Depreciation and amortization	15	20,806,645	16,548,156
Loss (gain) on sale of assets acquired	15	12,046,983	(1,421,755)
Equity share in net earnings of a subsidiary	9	(168,011)	(182,677)
Operating profit before working capital changes		123,238,330	122,802,420
Decrease in loans and receivables		97,476,271	208,408,746
Increase in other assets		(22,381,189)	(14,816,509)
Decrease in accounts payables and other liabilities		(19,234,652)	(203,177,078)
Decrease in deposit on lease contracts		(40,110,263)	(75,924,671)
Cash generated from operations		138,988,497	37,292,908
Cash paid for income taxes		(38,875,679)	(63,347,869)
Net Cash Generated From (Used in) Operating Activities		100,112,818	(26,054,961)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of investment properties	10	7,803,875	16,123,070
Proceeds from disposal of other properties acquired	11	6,895,000	8,718,000
Acquisitions of property and equipment	11	(12,514,109)	(2,946,683)
Net Cash From Investing Activities		2,184,766	21,894,387
CASH FLOWS FROM FINANCING ACTIVITIES	21		
Repayments of bills payable		(2,183,593,420)	(1,912,071,125)
Proceeds from availments of bills payable		1,825,622,515	1,493,614,840
Net Cash Used in Financing Activities		(357,970,905)	(418,456,285)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(255,673,321)	(422,616,859)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		345,990,009	768,606,868
CASH AND CASH EQUIVALENTS AT END OF YEAR		P 90,316,688	P 345,990,009

See Notes to Financial Statements.

UCPB LEASING AND FINANCE COR PORATION
(A Wholly Owned Subsidiary of United Coconut Planters Bank)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(Amounts in Philippines Pesos)

1. CORPORATE INFORMATION

1.1 General Information

UCPB Leasing and Finance Corporation (the Company) is a domestic corporation incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on January 2, 1989 as a finance company under Republic Act (R.A.) No. 8556, *The Financing Company Act of 1998*, (the Financing Company Act). The Company is presently engaged in providing services such as lease financing, check discounting and trade receivable financing.

The Company is a wholly owned subsidiary of United Coconut Planters Bank (UCPB or the Parent Bank), a universal bank incorporated and domiciled in the Philippines organized to provide expanded commercial banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange investment banking and trust services.

As of December 31, 2017 and 2016, the Company holds 100% ownership interest in United Foreign Exchange Corporation (UFEC), a domestic company primarily engaged in dealing of foreign currencies and financial instruments.

In September 2010, the Monetary Board of the Bangko Sentral ng Pilipinas (BSP) approved the Company's application to engage in quasi-banking functions. In January 2012, however, the Company decided to cancel its quasi-banking license and the BSP approved its immediate revocation on April 26, 2012.

On August 18, 2017, the SEC approved the change in the registered principal office of the Company from 14th Floor, UCPB Building, 7907 Makati Avenue, Makati City to 6th Floor, UCPB Corporate Offices, 7907 Makati Avenue, Makati City. The change is yet to be approved by the Bureau of Internal Revenue (BIR).

1.2 Status of Operations

A portion of the sequestered shares of the ultimate parent bank was the subject of legal cases on which the Supreme Court (SC) has issued its final decision in 2012 whereby such shares are declared conclusively owned by the Republic of the Philippines (ROP) for the benefit of the coconut farmers.

On March 18, 2015, then President Benigno S. Aquino III of the ROP issued Executive Order (EO) No. 179, *Providing the Administrative Guidelines for the Inventory and Privatization of Coco Levy Assets,* and EO No. 180, *Providing the Administrative Guidelines for the Reconveyance and Utilization of Coco Levy Assets for the Benefit of the Coconut Farmers and the Development of the Coconut Industry, and For Other Purposes,* collectively referred to as the "EOs".

The EOs mandate the inventory, reconveyance, utilization and privatization of coco levy assets to ensure that the Coco Levy Fund and Coco Levy Assets will only be utilized for the benefit of the coconut farmers and the Philippine coconut industry. The EOs define coco levy funds as all funds created or sourced from the Coconut Levy imposed by the government, including the Coconut Industry Investment Fund (CIIF) and the Coconut Consumers Stabilization Fund (CCSF). The Ultimate Parent Bank was appointed administrator of the CIIF under Presidential Decree No. 1468, s. 1978 "Revised Coconut Industry Code". Coco levy assets, meanwhile, refer to the money, assets or properties, whether real or personal, tangible or intangible, wherever situated, arising from or otherwise funded by or acquired through the use or by means of any of the coco levy funds, directly or indirectly, including but not limited to, shares, rights and interests, whether vested, contingent, expectant, choate or inchoate, and any all fruits, income, interest or profits derived from these assets including those acquired in exchange or substitution thereof. The EOs reference the SC decision that a majority of the sequestered shares of stock of the Ultimate Parent Bank, which was paid from the CCSF, and the CIIF companies, are owned by the ROP for the benefit of the coconut farmers, thus making it a part of the coco levy assets.

Also, on March 18, 2015, the Office of the President approved the recapitalization of the Ultimate Parent Bank, by way of privatization, to be implemented by a Committee composed of representatives from the Governance Commission for Government Owned or Controlled Corporations, Philippine Deposit Insurance Corporation (PDIC), Presidential Commission on Good Government, Privatization and Management Office and UCPB.

On June 30, 2015, the SC issued a temporary restraining order (TRO) enjoining the implementation of the EOs (Confederation of Coconut Farmers Organizations of the Philippines vs. His Excellency President Benigno S. Aquino III, et. al., GR. No. 217965). On August 8, 2017, the Supreme Court lifted the TRO.

Pursuant to EO 179 and as instructed by the Department of Finance and Presidential Commission on Good Governance, on November 3, 2017, the Parent Bank cancelled and issued the 533,641,234 shares, which were declared as the so-called "UCPB Farmers' Shares" and "Cojuangco Option Shares", representing the 35.64% of the Parent Bank's outstanding capital stock in favor of the ROP based on the SC decisions in COCOFED vs. Republic of the Philippines (G.R. No. 177857-58 and G.R. No. 178193) and Cojuangco vs. Republic of the Philippines (G.R. No. 180705) and Sandiganbayan Partial Summary Judgment in Republic of the Philippines vs. Cojuangco, et al. (Civil Case No. 0033-A).

In addition, on December 19, 2017, the Parent Bank cancelled and issued the 587,500,000 shares representing the 39.42% of the Parent Bank's outstanding capital stock in favor of the ROP based on the SC and the Sandiganbayan Partial Summary Judgment in Republic of the Philippines vs. Cojuango, et al. (Civil Case No. 0033-F), which declared, among others, the CIIF companies, the 14 Holding Companies, and the converted SMC shares to be "owned by the Government to be used only for the benefit of all coconut farmers and for the development of the coconut industry, and ordered reconveyed to the Government".

With these developments and resolution on the ownership of certain sequestered shares of the Parent Bank, the BOD and the management believe that, as at December 31, 2017 and 2016, it is reasonable to maintain the status quo and continue with its normal business operations.

1.3 Approval of Financial Statements

The financial statements of the Company as of and for the year ended December 31, 2017 (including the comparative financial statements as of and for the year ended December 31, 2016) were authorized for issue by the Company's BOD on April 10, 2018.

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 financial statements of the 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 Company presents all items of income, expense and other comprehensive income in a single statement of comprehensive income.

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

(c) Functional and Presentation Currency

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

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

2.2 *Adoption of New and Amended PFRS*

(a) *Effective in 2017 that are Relevant to the Company*

The Company adopted for the first time the following amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2017:

PAS 7 (Amendments)	:	Statement of Cash Flows – Disclosure Initiative
PAS 12 (Amendments)	:	Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses

Discussed below are the relevant information about these amendments.

(i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative*. The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). They require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, they suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: (a) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and, (b) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

Management has applied these amendments in the current year and has not disclosed comparative figures as allowed by the transitional provisions. A reconciliation between the opening and closing balances of liabilities arising from financing activities, which includes both cash changes are presented in Note 21.

(ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses*. The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference. The application of these amendments had no impact on the Company's financial statements.

(b) *Effective in 2017 but not Relevant to the Company*

The only improvement to existing standards for annual periods beginning on or after January 1, 2017, is the Annual Improvements to PFRS (2014-2016 Cycle) – PFRS 12, *Disclosure of Interest in Other Entities*, which is not relevant to the Company.

(c) *Effective Subsequent to 2017 but not Adopted Early*

There are new PFRS, amendments, interpretations and annual improvements to existing standards effective for annual periods subsequent to 2017, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Company's financial statements:

(i) PAS 40 (Amendments), *Investment Property – Reclassification to and from investment property* (effective from January 1, 2018). The amendment states that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendment provided a non-exhaustive list of examples constituting change in use.

(ii) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will replace PAS 39, *Financial Instruments: Recognition and Measurement*, and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;
- an expected credit loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,
- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

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

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

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

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

Based on an assessment of the Company's financial assets and financial liabilities as at December 31, 2017, which has been limited to the facts and circumstances existing at that date, management has identified the following areas that are expected to be most impacted by the application of PFRS 9 (2014):

- On classification and measurement of the Company's financial assets, management holds most financial assets to hold and collect the associated cash flows and is currently assessing the underlying types of cash flows to classify financial assets correctly. Management expects the majority of loans and receivables to continue to be accounted for at amortized cost.

- For loans and receivables, the Company expects the application expected credit losses as these financial assets will result in higher impairment loss than under PAS 39.

- Most of the financial liabilities of the Company are measured at amortized cost. Upon application of PFRS 9 (2014), management has assessed that the amortized cost classification for most of the financial liabilities will be retained.

(iii) 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.

(iv) PFRS 15, *Revenue from Contracts with Customers* (effective from January 1, 2018). This standard will replace PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers* and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Based on an assessment of the Company's revenue streams as at December 31, 2017, which has been limited to the facts and circumstances existing at that date, management determined that its significant sources of revenues pertain to the interest income, leasing income and service charges and penalties. Except for interest and leasing income, management has initially assessed that its revenues are covered by PFRS 15.

(v) 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 SPPI test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVTOCI. Management is currently assessing the impact of these amendments on the Company's financial statements.

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

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

For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17's. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas.

These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

Management is currently assessing the impact of this new standard on the Company's financial statements.

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

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

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

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

2.3 Separate Financial Statements and Investment in a Subsidiary

These financial statements are prepared as the Company's separate financial statements. As allowed under existing financial reporting standards, the Company has not presented consolidated financial statements because it is itself a wholly owned subsidiary of UCPB, which presents consolidated financial statements available for public use that comply with PFRS. Moreover, the Company's debt or equity securities are not traded in organized financial market and the Company is not in the process of filing its financial statements with securities commissions or other regulatory organization for the purpose of issuing any class of instruments in an organized financial market.

A subsidiary is an entity over which the Company has control. The Company controls an entity 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. The 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.

The Company's investment in a subsidiary is accounted for in these separate financial statements using the equity method. Under the equity method, all subsequent changes to the ownership interest in the equity of the subsidiary are recognized in the Company's carrying amount of the investment. Changes resulting from the profit or loss generated and the changes in other comprehensive income by the subsidiary is credited or charged against the Equity Share in Net Earnings of a Subsidiary and Other Comprehensive Income (Loss) account in the statements of comprehensive income.

Impairment loss is provided when there is objective evidence that the investment in a subsidiary will not be recovered (see Note 2.13).

2.4 Financial Assets

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

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

Regular purchases and sales of financial assets are recognized on their settlement 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.

Currently, the financial asset category relevant to the Company is loans and receivables.

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

The Company's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Loans and Receivables and Refundable deposits under Other Assets account 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 and which are subject to insignificant risk of changes in value.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Impairment loss is provided when there is objective evidence that an impairment loss on loans and receivables carried at cost has been incurred, the amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate.

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

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

All income and expenses, excluding impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Interest Income or Interest Expense account in the statement of comprehensive income. Impairment losses on loans and receivables are recorded as part of Other Operating Expenses in the statement of comprehensive income.

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

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

2.5 Property and Equipment

All items of property and equipment are stated at 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 and amortization is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Furniture, fixtures and office equipment	5 years
Transportation equipment	5 years

Leasehold improvements are amortized over the estimated useful lives of the assets of five years or the terms of the lease, 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 2.13).

The residual values, 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, amortization and impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

2.6 Investment Properties

Investment properties represent properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

The Company measures investment properties, which include land and building acquired by the Company from defaulting borrowers, under the cost model. The cost of an investment property comprises its purchase price and directly attributable costs incurred. Cost is initially recognized at fair value of the investment properties unless: (i) the exchange transaction lacks commercial substance; or, (ii) neither the fair value of the asset received nor the asset given up can be reliably measured. The difference between the fair value of the asset received, as determined by professional appraisers, and the carrying amount of the loan settled through foreclosure is recognized as Gain or loss on foreclosure under the Other Income account in the statement of comprehensive income. Investment properties, except land, are depreciated using the straight line basis over the estimated useful lives of the assets ranging from five to ten years.

Direct operating expenses, such as repairs and maintenance and real estate taxes are normally charged against current operations in the year in which these costs are incurred. 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 2.13).

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 as Gain or loss on sale of assets acquired under the Other Income account in the year of retirement or disposal.

2.7 Other Properties Acquired

Other properties acquired include chattel acquired in settlement of loan receivables. These are stated at cost, which is the fair value at recognition date, less accumulated depreciation and any impairment in value.

The Company applies the cost model in accounting for other properties acquired. Depreciation is computed on a straight-line basis over the estimated useful life of three to five years. The estimated useful life and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of other properties acquired.

The carrying values of other properties acquired are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts (see Note 2.13).

2.8 Financial Liabilities

Financial liabilities, which include bills payable, deposit on lease contracts and accounts payables and other liabilities (except tax-related liabilities) are recognized when the Company becomes a party to the contractual terms of the instrument. All interest-related charges incurred on a financial liability are recognized as an expense in profit or loss as part of Interest Expense in the statement of comprehensive income.

Bills payable are raised to support the long-term funding of operations. 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 these are not settled in the period in which they arise.

Accounts payable and other liabilities are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

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.

2.9 Offsetting of 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 Company 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.

2.10 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 obligation 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 Company 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 Company 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.

2.11 Revenue and Expense Recognition

Revenue comprises revenue from rendering of services measured by reference to the fair value of consideration received or receivable by the Company for services rendered, excluding VAT.

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that future economic benefits will flow to the Company; and, the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue is recognized:

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

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

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

(b) *Penalties and Service Fees* – Revenues are recognized only upon collection or accrued where there is reasonable degree of certainty as to its collectability.

(c) *Gain (Loss) on Foreclosures* – Gain (loss) on foreclosed assets is recognized upon derecognition of existing receivables through foreclosure of assets used as collateral and is determined as the difference between the fair value of the foreclosed asset and the net carrying amount of the receivable settled.

(d) *Gain (Loss) on Sale of Assets Acquired* – Gain (loss) on sale of assets acquired arises from the disposals of investment properties and other properties acquired. Revenue is recognized when the risks and rewards of ownership of the assets is transferred to the buyer and when the collectability of the entire sales price is reasonably assured.

(e) *Gain (Loss) on Sale of Receivables* – Gain (loss) on sale of receivables is recognized upon sale of loans and receivables, without recourse, wherein the selling price is greater (less) than the carrying amount of loans and receivables sold.

(f) *Miscellaneous Income* – Income from sale of services is recognized upon rendering of the service.

Costs and expenses are recognized in the statement of comprehensive income upon utilization of the resources and/or services or at the date they are incurred. All finance costs are reported on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset, if any (see Note 2.14).

2.12 Leases

The Company accounts for its leases as follows:

(a) *Company as Lessee*

Leases which do not transfer to the Company 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 repairs and maintenance and insurance, are expensed as incurred.

(b) Company as Lessor

Leases wherein the Company substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented as receivable at an amount equal to the Company's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Company's net investment outstanding in respect of the finance lease.

The Company 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.

2.13 Impairment of Non-financial Assets

The Company's investment in a subsidiary, property and equipment, investment properties and other non-financial assets are subject to impairment testing 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, assets are tested for impairment either individually or at the 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 Company'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. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

2.14 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.

2.15 Income Taxes

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

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

Deferred tax is accounted for using the liability method, on temporary differences at the end of each 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 Company 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 Company 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.

2.16 Related Party Transactions and Relationships

Related party transactions are transfers of resources, services or obligations between the Company 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 Company; (b) associates; and, (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individual.

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

2.17 Equity

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

Revaluation reserves represent the accumulated share in other comprehensive income of a subsidiary.

Retained earnings represent all current and prior period results of operations as reported in the profit or loss section of the statement of comprehensive income, reduced by the amounts of dividends declared, if any.

2.18 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Distinction Between Investment Properties and Owner-managed Properties

The Company determines whether a property qualifies as investment property. In making its judgment, the Company 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 production or supply process.

(b) Distinction Between Operating and Finance Leases

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

(c) Classification of Acquired Properties

The Company classifies its acquired properties as Property and equipment under Other Assets account if used in operations, as Other properties acquired under Other Assets account if the Company expects that the properties will be recovered principally through sale rather than continuing use of the asset, as Investment Properties if held for currently undetermined future use and is regarded as held for capital appreciation.

(d) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.10 and disclosures on relevant provisions and contingencies are presented in Note 20.

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 the reporting period, that have significant risks of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

(a) Impairment of Loans and Receivables

The Company reviews its loans and receivables portfolio to assess impairment at least on an annual basis. In determining whether an impairment loss should be recognized in profit or loss, the Company makes judgment as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio before the decrease can be identified with an individual item in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditions that correlates with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The carrying value of loans and receivables and the analysis of allowance for impairment on such financial assets are shown in Note 8.

(b) Estimation of Useful Lives of Investment Properties and Other Assets

The Company estimates the useful lives of investment properties and property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of investment properties and other assets 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 investment properties and other assets are analyzed in Notes 10 and 11, respectively. Based on management's assessment as at December 31, 2017 and 2016, there is no change in estimated useful lives of those assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(c) Fair Value Measurements of Investment Properties and Other Properties Acquired

The Company's investment properties and other properties acquired consist of parcels of land and buildings and machineries and other equipment which are held for capital appreciation or held under operating lease agreements, and are measured using the cost model. The estimated fair values of investment properties and other properties acquired as disclosed in Note 6.3 are determined on the basis of appraisals conducted by in-house and independent professional appraisers applying the relevant valuation methodologies as discussed therein.

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.

A significant change in key inputs and sources of information used in the determination of the fair value disclosed for those assets may result in an adjustment in the carrying amount of the assets reported in the financial statements if their fair value will indicate evidence of impairment.

(d) Determination of Realizable Amount of Deferred Tax Assets

The Company reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management assessed that the deferred tax assets recognized as at December 31, 2017 and 2016 will be fully utilized in the coming years. The carrying value of deferred tax assets as of those dates is disclosed in Note 17.

(e) Impairment of Non-financial Assets

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.13). 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 discussed in Notes 10 and 11, respectively.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to a variety of financial risks which result from both its operating, investing and financing activities and the business in which it operates.

The Company's risk management is coordinated with its parent company, in close cooperation with the BOD, and focuses on actively securing the Company's short to medium-term cash flows by minimizing the exposure to financial markets.

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

4.1 Interest Rate Risk

Interest rate risk arises from the differences between the timing of the rate changes and the timing of cash flows (repricing risk). At December 31, 2017 and 2016, the Company is exposed to changes in market interest rates through its cash and cash equivalents, loans and receivables and bills payable. All other financial assets and financial liabilities are non-interest bearing.

The Company's cash and cash equivalents are subject to insignificant risk of changes in value. Loans and receivables and bills payable have fixed interest rates throughout their short term durations and are not sensitive to prevailing market rate fluctuations.

The Company carefully analyzes interest rate risk exposure based on the interest rate gap of its portfolio of cash and cash equivalents, loans and receivables and bills payable. The focus of the analysis is the impact of changes in interest rates of its interest sensitive liabilities relative to the fixed interest rate for its loans and receivables. The Company ensures that its loanable funds are offered to borrowers at a reasonable price and interest which would give favorable interest margin over the term of the instruments. In certain cases, the Company will reprice its loans and leases depending on the agreement with customers and/or market price.

The interest rate gap analyses as of December 31, 2017 and 2016 are presented below.

	2017				
	One to Three Months	**Three Months to One Year**	**One to Five Years**	**More Than Five Years**	**Total**
Assets:					
Cash and cash equivalents	P 90,316,688	P -	P -	P -	90,316,688
Loans and receivables*	1,436,482,317	192,415,904	1,567,089,917	18,225,770	3,214,213,908
	1,526,799,005	192,415,904	1,567,089,917	18,225,770	3,304,530,596
Liability–					
Bills payable	902,310,601	198,750,000	215,555,556	-	1,316,616,157
Periodic gap	P 624,488,404	(P 6,334,096)	P 1,351,534,361	P 18,225,770	P 1,987,914,439
Cumulative gap	P 624,488,404	P 618,154,308	P 1,969,688,669	P 1,987,914,439	P 1,987,914,439

	2016				
	One to Three Months	Three Months to One Year	One to Five Years	More Than Five Years	Total
Assets:					
Cash and cash equivalents	P 345,990,009	P -	P -	P -	P 345,990,009
Loans and receivables*	1,522,560,006	252,913,299	1,561,625,166	18,225,748	3,355,324,219
	1,868,550,015	252,913,299	1,561,625,166	18,225,748	3,701,314,228
Liability–					
Bills payable	1,299,864,840	114,305,555	260,416,667	-	1,674,587,062
Periodic gap	P 568,685,175	P 138,607,744	P 1,301,208,499	P 18,225,748	P 2,026,727,166
Cumulative gap	P 568,685,175	P 707,292,919	P 2,008,501,418	P 2,026,727,166	P 2,026,727,166

**Loans and receivables subjected to credit risk assessments exclude residual value, deferred leasing income, unearned finance income, capitalized interest and other charges, other receivables and allowance for credit and impairment losses.*

4.2 Credit Risk

Credit risk is the risk of financial loss if a counterparty to a financial instrument may fail to meet its contractual obligations to the Company. Credit risk is found in all activities where success depends on counterparty, issuer or borrower performance. It arises any time when the Company funds are extended, committed, invested or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the statement of financial position. Credit risk is not limited to the loan portfolio. The Company uses risk asset acceptance criteria when initially considering a prospect. When the prospect does not meet these criteria, the Company normally does not further pursue the account. When the prospect passes the criteria, the Company performs qualitative and quantitative analyses to determine creditworthiness of the prospect. The qualitative analysis includes evaluation of the borrower's ownership, management, product, production/process, industry, security and collateral, suppliers, customers, etc. The quantitative analysis includes review of past and present financial condition and future expectations based on assumptions and projections.

The Company is also required to follow rules and regulations of the BSP on directors, officers, stockholders and related interests (DOSRI), single borrower's limit, account classification, general and specific loan reserve policy and others. With respect to bank deposits, the Company's BOD approves the banks with which the Company shall deal with.

(a) Exposure to Credit Risk

The amount of loans and receivables, net of any allowances for impairment and unearned discount and interest, cash and cash equivalents and refundable deposits recorded in the financial statements represent the Company's maximum exposure to credit risk without taking into account the value of any collateral obtained.

The Company's financial assets subject to credit risks are categorized under loans and receivables and are broken down as follows:

	Notes	2017	2016
Cash and cash equivalents	7	**P 90,316,688**	P 345,990,009
Loans and receivables	8	**3,149,293,311**	3,304,843,575
Refundable deposits	11	**779,767**	779,767
		P3,240,389,766	P3,651,613,351

The table below shows the credit quality of the Company's loans and receivables as of December 31.

	2017	2016
Individually impaired		
Grade 1: Fully and/or partially secured	**P 491,041,339**	P 488,623,148
Grade 2: Unsecured	**247,709,437**	144,532,183
Gross amount	**738,750,776**	633,155,331
Allowance for impairment	**(173,183,341)**	(179,334,488)
Carrying amount	**565,567,435**	453,820,843
Neither past due nor impaired		
Gross amount	**2,741,262,551**	3,019,839,388
Unearned discount and interest	**(157,536,675)**	(168,816,656)
Carrying amount	**2,583,725,876**	2,851,022,732
Total carrying amount	**P3,149,293,311**	P3,304,843,575

As part of Company policy, bank deposits are only maintained with reputable financial institutions. Cash in banks which are insured by the PDIC up to a maximum coverage of P0.50 million per depositor per banking institution, as provided for under R.A. No. 9576, *Amendment to Charter of PDIC*, are still subjected to credit risk.

(b) Collateral Held as Security and Other Credit Enhancements

The Company holds collateral against loans and receivables in the form of mortgage interests over property. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated, except when a loan is individually assessed as impaired.

	2017	2016
Against impaired		
Chattel mortgage	P 84,533,499	P 77,376,925
Real estate mortgage	46,802,986	18,225,748
Finance lease	268,201,874	294,844,135
Against neither past due but not impaired		
Chattel mortgage	638,877,356	759,446,763
Real estate mortgage	28,223,474	44,506,404
Finance lease	825,413,926	856,406,406
	P 1,892,053,115	P 2,050,806,381

(c) *Concentrations of Credit Risk*

The Company monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the reporting date is shown below.

	Cash and Cash Equivalents		Loans and Receivables*	
	2017	2016	2017	2016
Concentration by sector:				
Financial institutions	P 90,316,688	P 345,990,009	P -	P -
Trading/Commercial	-	-	1,148,391,426	1,004,786,831
Manufacturing	-	-	828,779,741	801,085,699
Services	-	-	202,332,911	231,733,420
Others	-	-	1,034,709,830	1,317,718,269
	P 90,316,688	P 345,990,009	P 3,214,213,908	P 3,355,324,219

**Loans and receivables subjected to credit risk assessments exclude residual value, deferred leasing income, unearned finance income, capitalized interest and other charges, other receivables and allowance for credit and impairment losses.*

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

4.3 Liquidity Risk

Liquidity risk is the current and prospective risk to earnings or capital arising from the Company's inability to meet its obligations when they become due without incurring unacceptable losses. The Company manages this risk by widening its money market customer base, maintaining adequate credit facilities with banks, and following guidelines set by the BSP on statutory and liquidity reserve policy.

As at December 31, 2017 and 2016, the Company's financial liabilities (except tax-related liabilities) have contractual maturities which are presented below.

	2017			
	One to three months	**More than three months to one year**	**More than one year to three years**	**Total**
Bills payable	P 902,310,601	P 198,750,000	P 215,555,556	P 1,316,616,157
Deposit on lease contracts	53,727,703	17,807,586	181,735,752	253,271,041
Accrued expenses and other liabilities	75,661,417	200,000,000	-	275,661,417
	P 1,031,699,721	**P 416,557,586**	**P 397,291,308**	**P 1,845,548,615**

	2016			
	One to three months	More than three months to one year	More than one year to three years	Total
Bills payable	P 1,299,864,840	P 114,305,555	P 260,416,667	P 1,674,587,062
Deposit on lease contracts	154,795,646	16,607,979	121,977,679	293,381,304
Accrued expenses and other liabilities	95,093,140	-	-	95,093,140
	P 1,549,753,626	P 130,913,534	P 382,394,346	P 2,063,061,506

The contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the reporting date.

5. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.1 Carrying Amounts and Fair Values by Category

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position, at amortized cost, are shown below.

		2017		2016	
	Notes	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
Financial Assets					
Cash and cash equivalents	7	**P 90,316,688**	**P 90,316,688**	P 345,990,009	P 345,990,009
Loans and receivables	8	**3,149,293,311**	**3,149,293,311**	3,304,843,575	3,304,843,575
Refundable deposits	11	**779,767**	**779,767**	779,767	779,767
		P3,240,389,766	**P3,240,389,766**	P3,651,613,351	P3,651,613,351
Financial Liabilities					
Bills payables	12	**P 1,316,616,157**	**P 1,316,616,157**	P1,674,587,062	P1,674,587,062
Deposit on lease contracts	8	**253,271,041**	**253,271,041**	293,381,304	293,381,304
Accounts payables and other liabilities	13	**275,661,417**	**275,661,417**	95,093,140	95,093,140
		P1,845,548,615	**P1,845,548,615**	P2,063,061,506	P2,063,061,506

See Notes 2.4 and 2.8 for the description of the accounting policies for each category of financial instruments. A description of the Company's risk management objectives and policies for financial instruments is provided in Note 4.

5.2 Offsetting Financial Assets and Financial Liabilities

The Company has not set-off financial instruments in 2017 and 2016 and does not have relevant offsetting arrangements. Currently, 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 Company's lease contract receivables from the lessees, net of deferred leasing income and allowance for impairment, amounting to P1.03 billion and P1.10 billion as of December 31, 2017 and 2016, respectively, can be offset by the amount of deposits on lease contracts amounting to P253.27 million and P293.38 million as of December 31, 2017 and 2016, respectively (see Note 8). The balance of lease contract receivables net of deposits on lease contracts amounted to P0.78 billion and P0.80 billion as of December 31, 2017 and 2016, respectively.

6. FAIR VALUE MEASUREMENT AND DISCLOSURE

6.1 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 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 financial assets 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 Company 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.

Management considers that the carrying values of financial assets, such as cash and cash equivalents, loans and other receivables and refundable deposits, and financial liabilities such as accounts payables and other liabilities approximates the fair values either because these financial instruments are short-term in nature or the effect of discounting for those with maturities of more than one year is not material.

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

The table below summarizes the fair value hierarchy of the 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 as of December 31.

	2017			
	Level 1	Level 2	Level 3	Total
Financial Assets:				
Cash and cash equivalents	P 90,316,688	P -	P -	P 90,316,688
Loans and receivables	-	-	3,149,293,311	3,149,293,311
Refundable deposits	-	-	779,767	779,767
	P 90,316,688	P -	P 3,150,073,078	P 3,240,389,766
Financial Liabilities:				
Bills payables	P -	P -	P 1,316,616,157	P 1,316,616,157
Deposit on lease contracts	-	-	253,271,041	253,271,041
Accounts payables and other liabilities	-	-	275,661,417	275,661,417
	P -	P -	P 1,845,548,615	P 1,845,548,615

	2016			
	Level 1	Level 2	Level 3	Total
Financial Assets:				
Cash and cash equivalents	P 345,990,009	P -	P -	P 345,990,009
Loans and receivables	-	-	3,304,843,575	3,304, 843,575
Refundable deposits	-	-	779,767	779,767
	P 345,990,009	P -	P 3,305,623,342	P 3,651,613,351
Financial Liabilities:				
Bills payables	P -	P -	P 1,674,587,062	P 1,674,587,062
Deposit on lease contracts	-	-	293,381,304	293,381,304
Accounts payables and other liabilities	-	-	95,093,140	95,093,140
	P -	P -	P 2,063,061,506	P 2,063,061,506

For financial asset with fair values included in Level 1, management considers that the carrying amounts of these instruments approximate their fair values due to their short duration.

The fair values of the financial assets and financial liabilities included in Level 3, which are not traded in an active market, are determined based on the expected cash flows of the underlying asset or liability based on the instrument where the significant inputs required to determine the fair value of such instruments are not based on observable market data.

6.3 *Fair Value Measurement of Non-financial Assets*

The table below shows the Levels within the hierarchy of assets classified as investment properties and other properties acquired measured at fair value as at December 31.

	2017			
	Level 1	Level 2	Level 3	Total
Investment property:				
Land	P -	P -	P 104,309,016	P 104,309,016
Building	-	-	40,494,000	40,494,000
	-	-	144,803,016	144,803,016
Other properties acquired – machineries and other equipment	-	-	143,175,618	143,175,618
	P -	P -	P 287,978,634	P 287,978,634

	2016			
	Level 1	Level 2	Level 3	Total
Investment property – land	P -	P -	P 101,209,016	P 101,209,016
Other properties acquired – machineries and other equipment	-	-	77,747,724	77,747,724
	P -	P -	P 178,956,740	P 178,956,740

The basis in determining the fair value of the Company's land, and buildings and related improvements classified as Investment Properties and machineries and other equipment classified as Other properties acquired under Other Assets account are based on the appraisals performed by internal appraisers with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations (see Notes 10 and 11).

To some extent, the valuation process was conducted by the appraiser in discussion with the Company's management with respect to the determination of the inputs such as the size, age, and condition of the land and building and improvements, and the comparable prices in the corresponding property location.

In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Company's non-financial assets indicated above is their current use.

The fair value of these non-financial assets were determined based on the following approaches:

(a) *Fair Value Measurement for Land*

The fair value of land was derived using market data (direct sales comparison) approach where the value of the land is based on sales and listings of comparable properties registered within the vicinity. The market data approach relies on the comparison of recent sale transactions or offerings of similar properties which have occurred and/or offered with close proximity to the subject property. The technique of this approach requires adjustments to sales and listings by considering the elements of comparison such as real property rights conveyed, conditions of sale, market conditions, location, physical condition and amenities.

(b) Fair Value Measurement of Machineries and Other Equipment

The fair value of the transportation and other equipment was determined based on the appraisal report of independent appraisers. Fair value was determined based on the replacement cost of an asset with an equally satisfactorily substitute asset which is normally derived from the current acquisition cost of a similar asset, new or used, or of an equivalent productive capacity or service potential.

7. CASH AND CASH EQUIVALENTS

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

	Note	2017	2016
Cash on hand and in banks	16.1	**P 83,119,782**	P 338,852,805
Short-term placements		**7,196,906**	7,137,204
		P 90,316,688	P 345,990,009

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods from 60 to 90 days and earn effective interest ranging from 1.3% to 1.4% in 2017 and 0.5% to 1.4% in 2016.

In 2017 and 2016, interest income recognized from cash and cash equivalents amounted to P0.46 million and P0.96 million, respectively, and is presented under Interest Income in the statements of comprehensive income (see Note 8).

8. LOANS AND RECEIVABLES

This account is composed of the following:

	2017	2016
Receivables from customers:		
Lease contracts receivables	**P 972,262,249**	P1,025,021,828
Residual value of leased properties	**217,520,364**	245,199,558
Deferred leasing income	**(116,904,300)**	(128,926,036)
Less: Allowance for credit and impairment losses	**(38,522,613)**	(43,599,795)
	1,034,355,700	1,097,695,555
Loans receivable	**724,990,443**	830,413,120
Less: Allowance for credit and impairment losses	**(11,830,592)**	(21,457,131)
	713,159,851	808,955,989
Balance forwarded	**P1,747,515,551**	P1,906,651,544

	2017	2016
Balance brought forward	**P 1,747,515,551**	P1,906,651,544
Finance receivables:		
Check discounting	**647,357,145**	677,021,680
Invoice discounting	**708,281,076**	648,219,122
Unearned finance income:		
Check discounting	**(5,961,423)**	(8,205,539)
Invoice discounting	**(21,738,616)**	(17,623,146)
Less: Allowance for credit and impairment losses	**(76,003,125)**	(62,355,849)
	1,251,935,057	1,237,056,268
Restructured receivables	**161,322,995**	174,648,469
Residual value of leased properties under restructured receivables	**23,741,543**	32,148,932
Capitalized interest and other charges	**(12,932,336)**	(14,061,935)
Less: Allowance for credit and impairment losses	**(46,151,118)**	(51,245,821)
	125,981,084	141,489,645
Other receivables:		
Sales contracts receivable	**11,203,467**	13,584,572
Accounts receivable	**7,270,770**	407,055
Accrued interest receivable	**2,568,740**	3,631,937
Others	**3,494,535**	2,698,446
Less: Allowance for credit and impairment and losses	**(675,893)**	(675,892)
	23,861,619	19,646,118
	P 3,149,293,311	P3,304,843,575

Lease contracts receivable are due in monthly installments with terms ranging from one to five years. These are broken down as follows:

	2017	2016
Lease contracts receivable:		
Due within one year	**P 84,885,498**	P 180,259,819
Due beyond one year but not beyond five years	**887,376,751**	844,762,009
	P 972,262,249	P1,025,021,828
Residual value of leased properties:		
Due within one year	**P 30,241,570**	P -
Due beyond one year but not beyond five years	**187,278,794**	245,199,558
	P 217,520,364	P 245,199,558

	2017	2016
Gross investment in lease contract receivable	**P1,189,782,613**	P1,270,221,386
Less: Deferred leasing income	**(116,904,300)**	(128,926,036)
Net investment in lease contracts receivable	**P1,072,878,313**	P1,141,295,350

The net investment in lease contracts receivable by contractual maturity dates are analyzed as follows:

	2017	2016
Due within one year	**P 107,414,197**	P 173,110,456
Due beyond one year but not beyond five years	**965,464,116**	968,184,894
	P1,072,878,313	P1,141,295,350

As at December 31, 2017 and 2016, residual value of leased properties amounting to P241.26 million and P277.35 million, respectively, pertains to the estimated proceeds from the disposals of the leased asset at the end of the lease term, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease as presented in Deposit on Lease Contracts in the statements of financial position. At the end of the lease term, the lessee may apply this deposit as payment for the residual value of the property.

Lease contracts receivable earn annual interest at rates ranging from 7.00% to 15.00% in 2017 and 2016. The Company recognized interest income from lease contracts receivable amounting to P72.60 million and P82.07 million in 2017 and 2016, respectively, and is presented as Leasing Income under Revenues in the statements of comprehensive income.

Loans receivable are secured commercial loans extended by the Company for financing acquisitions of properties and equipment. Loans receivable earn annual interest rates ranging from 7.00% to 16.00% both in 2017 and 2016.

Loans receivable by contractual maturity dates is analyzed as follows:

	2017	2016
Due within one year	**P 92,555,614**	P 97,859,287
Due beyond one year but not beyond five years	**632,434,829**	732,553,833
	P 724,990,443	P 830,413,120

Restructured receivables earn annual interest at rates ranging from 8.00% to 12.50% and 7.00% to 15.00% in 2017 and 2016, respectively.

The breakdown of the Company's interest income follows:

	Note	2017	2016
Finance receivables		P 114,397,478	P 119,187,135
Loans receivable		80,995,788	92,026,905
Restructured receivables		7,805,014	10,808,361
Sales contract receivable		1,585,571	1,190,805
Cash in banks	4	463,104	956,389
		P 205,246,955	P 224,169,595

As at December 31, 2017 and 2016, non-performing loans (NPLs) not fully covered by allowance for credit losses amounted to P525.80 million and P477.09 million, respectively.

As at December 31, 2017 and 2016, secured and unsecured NPLs follow:

	2017	2016
Secured	P 291,094,952	P 331,638,870
Unsecured	234,709,437	145,456,052
	P 525,804,389	P 477,094,922

Generally, NPLs refer to loans whose principal and/or interest is unpaid for thirty days or more after due date or after they have become past due in accordance with existing BSP rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered non-performing.

In the case of receivables that are payable in monthly installments, the total outstanding balance thereof shall be considered non-performing when three or more installments are in arrears. In the case of receivables that are payable in weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered non-performing at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches more than 10.00% of the total receivable balance.

A loan which is restructured shall be considered non-performing except when as of restructuring date:

(1) with updated principal and interest payments; and,

(2) fully secured by real estate with loan value of up to 60.00% of the appraised value of the real estate security and the insured improvements thereon, and such other first class collaterals as may be deemed appropriate by the Monetary Board. Provided, that a restructured loan, with or without capitalized interest, must be yielding a rate of interest equal to or greater than the Company's average cost of funds at the date of restructuring, otherwise, it shall be considered non-performing.

The restoration to a performing loan shall only be effective after a satisfactory track record of payments of the required amortizations of principal and/or interest has been established.

For this purpose, a satisfactory track record of payments of principal and/or interest shall mean three consecutive payments of the required amortizations of principal and/or interest have been made.

However, in the case of a restructured loan with capitalized interest but not fully secured by real estate with loan value of up to 60.00% of the appraised value of the real estate security and the insured improvements thereon or other first class collaterals, six consecutive payments of the required amortizations of principal and/or interest must have been made.

A restructured loan which has been restored to a performing loan status shall be immediately considered non-performing in case of default of any principal or interest payment.

A reconciliation of the allowance for credit losses for loans and receivables by class follows:

	Note	Lease Contracts Receivables	Loans Receivables	Finance Receivables	Restructured Receivables	Other Receivables	Total
At January 1, 2017		P 43,599,794	P 21,457,131	P 62,355,850	P 51,245,821	P 675,893	P 179,334,489
Losses (reversals)	15.2	(5,022,650)	(8,118,289)	53,603,069	2,173,514	-	42,635,644
Write-off		(54,531)	(1,508,250)	(39,955,794)	(7,268,217)	-	(48,786,792)
At December 31, 2017		P 38,522,613	P 11,830,592	P 76,003,125	P 46,151,118	P 675,893	P 173,183,341
Individual Impairment		31,420,950	5,431,171	64,923,837	46,092,917	-	147,868,875
Collective Impairment		7,101,663	6,399,421	11,079,288	58,201	675,893	25,314,466
		P 38,522,613	P 11,830,592	P 76,003,125	P 46,151,118	P 675,893	P 173,183,341
Gross amount of loans individually determined to be impaired before deducting any individually assessed credit losses		P 183,805,065	P 68,770,645	P 247,709,437	P 179,183,506	P 675,893	P 680,144,546
At January 1, 2016		P 39,626,006	P 14,793,576	P 45,365,054	P 35,922,295	P 799,316	P 136,506,247
Losses (reversals)	15.2	23,912,657	6,663,555	66,959,930	34,559,868	(123,423)	131,972,587
Write-off		(19,938,869)	-	(49,969,134)	(19,236,342)	-	(89,144,345)
At December 31, 2016		P 43,599,794	P 21,457,131	P 62,355,850	P 51,245,821	P 675,893	P 179,334,489
Individual Impairment		P 34,830,168	13,218,329	49,365,488	45,344,499	-	142,758,484
Collective Impairment		8,769,626	8,238,802	12,990,362	5,901,322	675,893	36,576,005
		P 43,599,794	P 21,457,131	P 62,355,850	P 51,245,821	P 675,893	P 179,334,489
Gross amount of loans individually determined to be impaired before deducting any individually assessed credit losses		P 229,762,629	P 60,379,546	P 144,125,127	P 198,480,974	P 675,893	P 633,424,169

With the foregoing level of allowance for credit losses, management believes that the Company has sufficient allowance to cover significant losses that may be incurred from the non-collection or non-realization of its loans and receivables.

9. INVESTMENT IN A SUBSIDIARY

Investment in a subsidiary pertains to investment in UFEC, a wholly owned subsidiary of the Company, with a carrying amount of P5,641,224 and P5,098,713 at December 31, 2017 and 2016, respectively, which is accounted for at equity method.

BSP has regulated the foreign exchange market which resulted to stringent regulations affecting the business operations of foreign exchange corporations that led to the suspension of the UFEC's commercial operations in 2004. UFEC had an initial plan to terminate its corporate life on December 31, 2006. However, UFEC has decided to put on hold its dissolution plans. The decision to resume UFEC's operation will depend largely on the policy direction the regulators would take in the succeeding years.

The movements in the carrying amount of investment in a subsidiary as of December 31, which is accounted for under the equity method, is shown below.

	2017	2016
Cost	P 4,025,000	P 4,025,000
Accumulated share in net profit:		
Balance at beginning of the year	**957,713**	775,036
Share in net profit	**168,011**	182,677
Balance at end of the year	**1,125,724**	957,713
Accumulated share in other comprehensive income:		
Balance at beginning of the year	**116,000**	185,000
Share in other comprehensive income	**374,500**	(69,000)
Balance at end of the year	**490,500**	116,000
Carrying amount of investment	**P 5,641,224**	P 5,098,713

10. INVESTMENT PROPERTIES

The Company's investment properties include buildings and several parcels of land, which are held for investment purposes only and not for sale within 12 months from the end of the reporting period nor used in the Company's daily operations. Real estate tax on investment property for each year was recognized as a related expense in 2017 and 2016. There were no income recognized related to these assets in 2017 and 2016.

The carrying amounts of investment properties presented in the statements of financial position as at December 31, 2017 and 2016 are shown below.

	2017	2016
Cost	**P 105,135,054**	P 75,079,516
Accumulated depreciation	**(117,847)**	-
Accumulated impairment	**(13,646,624)**	(15,044,094)
Net carrying amount	**P 91,370,583**	P 60,035,422

A reconciliation of the carrying amounts of investment properties at the beginning and end of 2017 and 2016 is shown below.

	2017	2016
Balance at beginning of the year	P 60,035,422	P 78,319,412
Additions	40,071,516	976,188
Depreciation	(117,847)	-
Disposals	(8,618,508)	(19,260,178)
Balance at end of the year	P 91,370,583	P 60,035,422

The aggregate appraised values of the investment properties as of December 31, 2017 and 2016 are P144.80 million and P101.21 million, respectively. Other information about the fair value measurement and disclosures related to the investment properties are presented in Note 6.3.

Fair values which are market values for land and building and related improvements and reproduction cost for certain building and improvements have been determined based on valuations made by in-house and independent professional appraisers. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made.

Gain on sale of investment properties amounted to P2.06 million and P3.22 million in 2017 and 2016, respectively, and is presented as part of Gain on sale of assets acquired under the Other Income account in the statements of comprehensive income (see Note 15.1).

11. OTHER ASSETS

This account consists of:

	Note	2017	2016
Other properties acquired – net	11.1	P 64,487,045	P 38,671,816
Property and equipment – net	11.2	13,116,563	4,429,015
Prepaid expenses		8,140,818	5,206,098
Refundable deposits		779,767	779,767
Others		999,150	586,540
		P 87,523,343	P 49,673,236

11.1 Other Properties Acquired

The movements of other properties acquired are presented below.

	Note	2017	2016
Cost			
Balance at beginning of year		P 87,586,742	P 94,991,812
Additions		64,930,484	8,718,000
Disposal		(62,078,379)	(16,123,070)
Balance at the end of year		90,438,847	87,586,742
Accumulated Depreciation			
Balance at the beginning of year		44,182,488	40,254,331
Depreciation during the year	15.2	18,112,237	15,245,185
Disposal		(41,049,324)	(11,317,028)
Balance at the end of year		21,245,401	44,182,488
Allowance for Impairment Losses			
Balance at the beginning of year		4,732,438	5,813,231
Impairment during the year		-	171,800
Disposal		(26,037)	(1,252,593)
Balance at the end of year		4,706,401	4,732,438
Net Book Value		P 64,487,045	P 38,671,816

In 2017 and 2016, the Company recognized net gain and loss on foreclosure of other properties acquired amounting to P41.43 million and P7.85 million, respectively, and presented under Gain (loss) on foreclosure under the Other Income account in the statements of comprehensive income (see Note 15.1).

In addition, the Company incurred a loss on sale of other properties acquired amounting to P14.11 million and P1.80 million in 2017 and 2016, respectively, and is presented as part of Gain (loss) on sale of assets acquired under the Other Income account in the statements of comprehensive income (see Note 15.1).

The aggregate appraised values of other properties acquired as of December 31, 2017 and 2016 are P143.18 million and P77.75 million, respectively. Other information about the fair value measurement and disclosures related to other properties acquired are presented in Note 6.3.

11.2 Property and Equipment

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of 2017 and 2016 are shown below and in the succeeding page.

	Furniture, Fixtures and Office Equipment	Transportation Equipment	Leasehold Improvements	Total
December 31, 2017				
Cost	P 7,600,473	P 5,416,136	P 8,270,421	P 21,287,030
Accumulated depreciation and amortization	(5,190,941)	(2,258,882)	(720,644)	(8,170,467)
Net carrying amount	P 2,409,532	P 3,157,254	P 7,549,777	P 13,116,563
December 31, 2016				
Cost	P 5,617,105	P 4,348,833	P 202,818	P 10,168,756
Accumulated depreciation and amortization	(3,990,196)	(1,570,049)	(179,496)	(5,739,741)
Net carrying amount	P 1,626,909	P 2,778,784	P 23,322	P 4,429,015
January 1, 2016				
Cost	P 6,004,544	P 2,417,749	P 202,818	P 8,625,111
Accumulated depreciation and amortization	(3,260,914)	(1,516,757)	(152,922)	(4,930,593)
Net carrying amount	P 2,743,630	P 900,992	P 49,896	P 3,694,518

A reconciliation of the carrying amounts of property and equipment at the beginning and end of 2017 and 2016 is shown below.

	Furniture, Fixtures and Office Equipment	Transportation Equipment	Leasehold Improvements	Total
Balance at January 1, 2017 net of accumulated depreciation and amortization	P 1,626,909	P 2,778,784	P 23,322	P 4,429,015
Additions	2,129,201	2,317,304	8,067,604	12,514,109
Disposal	-	(1,250,000)	-	(1,250,000)
Depreciation and amortization charges for the year	(1,346,578)	(688,834)	(541,149)	(2,576,561)
Balance at December 31, 2017 net of accumulated depreciation and amortization	P 2,409,532	P 3,157,254	P 7,549,777	P 13,116,563
Balance at January 1, 2016 net of accumulated depreciation and amortization	P 2,743,630	P 900,992	P 49,896	P 3,694,518
Additions	170,645	2,776,038	-	2,946,683
Disposal	(538,037)	(62,493)	-	(600,530)
Depreciation and amortization charges for the year	(749,329)	(835,753)	(26,574)	(1,611,656)
Balance at December 31, 2016 net of accumulated depreciation and amortization	P 1,626,909	P 2,778,784	P 23,322	P 4,429,015

As of December 31, 2017 and 2016, the gross carrying amount of the Company's fully-depreciated property and equipment that are still in use is P7,195,351 million and P3,145,273 million, respectively.

12. BILLS PAYABLE

This account consists of borrowings from:

	2017	2016
Bank of Commerce	**P 507,032,823**	P 282,920,395
Robinsons Bank	**182,500,000**	-
Rizal Commercial Banking Corporation	**150,000,000**	100,000,000
Bank of the Philippine Islands	**140,000,000**	90,000,000
Eastwest Bank	**137,083,334**	431,666,667
Philippine National Bank	**100,000,000**	200,000,000
Banco De Oro	**100,000,000**	100,000,000
China Bank Savings	-	150,000,000
Asia United Bank	-	140,000,000
Maybank	-	100,000,000
Philippine Business Bank	-	50,000,000
Philippine Bank of Communications	-	30,000,000
	P 1,316,616,157	P 1,674,587,062

Bills payable, which are unsecured in nature, have contractual maturities ranging from one month to three years.

The Company pays annual interest rates ranging from 2.25% to 5.50% in 2017 and 4.00% to 5.50% in 2016. Interest expense from bills payable amounted to P74.40 million and P97.77 million in 2017 and 2016, respectively, and is presented as Interest Expense in the statements of comprehensive income. Interest which remained unpaid as of December 31, 2017 and 2016 amounted to P2.17 million and P3.77 million, respectively, and is presented as Accrued interest on bills payable under the Accounts Payables and Other Liabilities account in the statements of financial position (see Note 13).

The maturity profile of bills payable is presented below.

	2017	2016
Within one year	**P 1,101,060,601**	P 1,414,170,395
Beyond one year	**215,555,556**	260,416,667
	P 1,316,616,157	P 1,674,587,062

13. ACCOUNTS PAYABLES AND OTHER LIABILITIES

This account consists of the following as of December 31:

	Notes	2017	2016
Dividends payable		P 200,000,000	P -
Accounts payable		71,578,575	88,835,599
Accrued taxes and licenses		4,398,736	3,623,945
Accrued interest on bills payable	12	2,174,272	3,772,291
Withholding tax payable		1,750,197	2,327,917
Accrued other expenses	16.3	1,908,570	2,485,250
		P 281,810,350	P 101,045,002

Accounts payable consists of unreleased checks to suppliers of properties leased by borrowers and advances from customers received upon availment of a loan or lease contract which are used for notarial fees, appraisal fees, registration fees and other related expenses.

Accrued other expenses include management and other professional fees, rent and other expenses.

14. EQUITY

14.1 Capital Management Objectives, Policies and Procedures

The Company's capital management objectives are to provide an adequate return to the stockholders and to ensure the Company's ability to continue as a going concern by pricing products and services commensurately with the level of risk.

The Company monitors capital on the basis of the carrying amount of equity as presented in the statements of financial position. Capital for the reporting periods under review is summarized as follows:

	2017	2016
Total liabilities	P1,851,697,548	P2,071,351,443
Total equity	1,601,991,693	1,741,950,967
Debt-to-equity ratio	1.16:1.00	1.19:1.00

The Company sets the amount of capital in proportion to its overall financing structure, i.e., equity and total liabilities. The Company 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 Company may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Company is subject to an externally imposed capital requirement of a minimum of P10.00 million paid-up capital [see Note 18.1(a)]. The Company's paid-up capital as of December 31, 2017 and 2016 amounted to P775.00 million, which amount is in excess of the externally imposed capital requirement (see Note 14.2).

14.2 Capital Stock

Capital stock as of December 31, 2017 and 2016 consists of:

	Shares	Amount
Common shares – P100 par value		
Authorized – 10,000,000 shares		
Issued and outstanding	**7,750,000**	**P 775,000,000**

As of December 31, 2017 and 2016, the Company has only one stockholder owning 100 or more shares of the Company's capital stock.

14.3 Retained Earnings

On December 15, 2017, the BOD approved the declaration of cash dividends amounting to P200,000,000 out of unappropriated retained earnings, which is payable to all stockholders of record as of December 31, 2017.

On December 15, 2017, the BOD approved the appropriation of P100,000,000 from the Company's earnings for stock dividend declaration purposes, and to address the excess projected unappropriated retained earnings over paid up capital.

15. OTHER INCOME AND OPERATING EXPENSES

15.1 Other Income

This account consists of:

	Notes	2017	2016
Gain on sale of receivables	16.2	**P 42,860,947**	P 120,807,837
Gain on foreclosure	11.1	**41,429,393**	7,854,797
Service charges and penalties		**13,398,435**	15,762,080
Gain (loss) on sale of assets acquired	10, 11.1	**(12,046,983)**	1,421,755
Miscellaneous		**10,436,882**	2,237,949
		P 96,078,674	P 148,084,418

15.2 Other Operating Expenses

The details of other operating expenses are shown below.

	Notes	2017	2016
Impairment and credit losses	8, 10, 11.1	P **63,856,934**	P 132,392,872
Salaries and employee benefits		**43,790,041**	34,503,243
Taxes and licenses	18.2, 22.1(e)	**31,911,675**	38,999,090
Depreciation and amortization	10, 11.1, 11.2	**20,806,645**	16,548,156
Litigation and others legal expenses		**12,449,149**	15,382,961
Occupancy	16.3, 20.1	**7,676,894**	5,725,327
Communication and utilities		**2,647,934**	2,610,320
Management and professional fees		**1,239,839**	2,229,344
Representation and entertainment		**92,180**	147,681
Miscellaneous expense		**4,238,841**	4,074,803
		P 188,710,132	P 252,613,797

16. RELATED PARTY TRANSACTIONS

The Company, in the normal course of business, has various transactions with the parent bank, and key management personnel which consist mainly of deposit arrangements, loans and advances, short-term borrowings, and management service agreements.

The amounts of these transactions and outstanding balances as of and for the years ended December 31, 2017 and 2016 are presented below.

		2017		2016	
Related Party Category	Note	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Parent Bank					
Cash in bank	16.1	P **266,777,944**	P **63,584,966**	P 416,867,565	P 330,362,910
Sale of receivables	16.2	**42,860,947**	-	120,807,837	-
Occupancy cost	16.3	**889,746**	-	1,073,874	-
Key Management Personnel					
Compensation	16.4	**15,675,671**	-	17,161,077	-

16.1 Cash in Bank

The Company's cash in banks include deposit account with the Parent Bank, which generally earn interest based on the daily bank deposit rates (see Note 7).

16.2 Sale of Receivables

In 2017 and 2016, the Company sold lease contract receivables and other loan receivables on a without recourse basis amounting to P727.06 million and P1,744.98 million, respectively, to the Parent Bank. The recognized gain on such sale amounted to P42.86 million and P120.81 million in 2017 and 2016, respectively, and is presented as Gain on sale of receivables under Other Income account in the statements of comprehensive income (see Note 15.1).

16.3 Lease Agreement

The Company has existing agreement with the Parent Bank for the lease of its office space which are renewable every two to three years at the Company's option. Under the terms of the lease agreement, the Company is required to pay rentals equivalent to a fixed rate per square meter occupied.

Rental expenses are shown as part of Occupancy under Other Operating Expenses in the statements of comprehensive income (see Note 15.2) and the unpaid rentals as of December 31, 2017 and 2016 are presented as part of Accrued other expenses under Accounts Payables and Other Liabilities account in the statements of financial position (see Note 13).

16.4 Key Management Personnel Compensation

Salaries and other benefits received by key management personnel is broken down as follows:

	2017	2016
Salaries	P 15,228,321	P 12,398,911
Others short-term benefits	447,350	4,762,166
	P 15,675,671	P 17,161,077

17. TAXES

The components of tax expense as reported in the statements of comprehensive income for the years ended December 31 are as follows:

	2017	2016
Current tax expense:		
Regular corporate income tax (RCIT)	P 33,109,849	P 34,754,254
Final tax at 20%	92,681	192,078
	33,202,530	34,946,332
Deferred tax expense relating to origination and reversal of temporary differences	18,117,363	14,361,471
	P 51,319,893	P 49,307,803

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

	2017	2016
Tax on pretax profit at 30%	P 33,295,836	P 31,238,537
Adjustment for income subjected to lower income tax rates	(46,310)	(149,642)
Tax effects of:		
Net deferred tax adjustments	17,030,952	18,124,225
Non-deductible interest and other expense	1,089,818	149,486
Non-taxable income	(50,403)	(54,803)
	P 51,319,893	P 49,307,803

The net deferred tax assets relate to the following as of December 31:

	Statements of Financial Position		Statements of Comprehensive Income	
	2017	2016	2017	2016
Deferred tax assets:				
Allowance for impairment	P 62,098,909	P 64,371,306	P 2,272,397	(P 12,084,974)
Accumulated depreciation on investment properties and other properties acquired	6,408,975	13,232,110	6,823,135	(1,155,811)
Accrued expenses	-	1,632,369	1,632,369	(73,431)
Deferred tax liabilities:				
Unrealized gain on foreclosed assets	(12,428,818)	(2,356,439)	10,072,379	4,775,810
Lease income differential between finance and operating lease method	(26,534,974)	(29,217,891)	(2,682,917)	22,899,877
Deferred tax assets – net	P 29,544,092	P 47,661,455		
Deferred tax expense			P 18,117,363	P 14,361,471

The Company is subject to the minimum corporate income tax (MCIT), which is computed at 2% of gross income, as defined under tax regulations or RCIT, whichever is higher. No MCIT was reported in 2017 and 2016 as the RCIT was higher than MCIT in both years.

In 2017 and 2016, the Company claimed itemized deductions in computing for income tax due.

18. COMPLIANCE WITH REPUBLIC ACT NO. 8556, THE FINANCING COMPANY ACT OF 1998

The Company, which was organized for the purpose of extending credit facilities to consumers by direct lending, is governed by the R.A. No. 8556. Presented in the succeeding page are the significant provisions under R.A. No. 8556 that are applicable to the Company.

18.1 Form of Organization

Under Section 2 of R.A. No. 8556, financing companies shall be organized in a form of stock corporation in accordance with the provisions of the Code, subject to the following:

(a) As of December 31, 2017 and 2016, the Company is a wholly owned subsidiary of a universal bank incorporated and domiciled in the Philippines.

A minimum paid-up capital of P10,000,000 for financing companies located in Metro Manila and other 1st class cities and additional capital of P1,000,000 for branches established in Metro Manila, P500,000 for branches in other classes of cities and P250,000 for branches established in municipalities. The Company is in compliance with the minimum paid-up capital requirement as of December 31, 2017 and 2016 (see Note 14.2).

(b) The corporate name of financing companies shall contain the term "financing company" or other title or word(s) descriptive of its operations and activities as a financing company (see Note 1).

18.2 Licensing Fees

Under Section 8 of R.A. No. 8556, an annual fee amounting to P10,000 for offices in Metro Manila shall be charged and the same shall be paid not later than 45 days before the anniversary date of the Certificate of Authority to Operate as a Financing Company and for as long as its license to operate is in effect.

The Company's licensing fees for the years ended December 31, 2017 and 2016 are presented as part of Taxes and licenses under the Other Operating Expenses account in the statements of comprehensive income (see Note 15.2).

18.3 Loans and Investments

The following are the provisions under Section 9 of the R.A. No. 8556:

(a) The total investment of a financing company in real estate and in shares of stock in a real estate development corporation and other real estate based projects shall not at any time exceed 25% of its net worth.

As of December 31, 2017 and 2016, the Company has no investment in real estate.

(b) More than 50% of the funds of a financing company shall be used or invested in financing company activities; provided, that in the computation of the amount of funds used or invested in financing company activities, investments in government securities with maturity not more than one year and special savings deposits shall be taken into consideration.

For the years ended December 31, 2017 and 2016, the Company obtained loans for working capital purposes (see Note 12).

(c) The total credit that a financing company may extend to its directors, officers and stockholders shall not exceed 15% of its net worth.

As of December 31, 2017 and 2016, the Company has no outstanding loans receivables from its directors, officers, stockholders and other related parties.

(d) The total credit that a financing company may extend to any person, company, corporation or firm shall not exceed 30% of its net worth.

As of December 31, 2017 and 2016, the Company did not extend any credit that exceeded 30% of its net worth.

(e) Unless collected, interest income shall not be recognized on loans receivables that remain outstanding beyond maturity dates.

The Company is in compliance of this provision as it recognizes interest income earned from loan date up to its maturity and the Company ceases to recognize interest in case when the loan becomes past due.

19. SELECTED FINANCIAL PERFORMANCE INDICATORS

The following are some of the financial performance indicators of the Company:

	2017	2016
Current ratio	**125%**	129%
Debt-to-equity ratio	**116%**	119%
Return on equity	**4%**	3%
Return on assets	**2%**	1%
Net interest margin	**6%**	6%
Loans-to-assets	**91%**	87%
CAR	**36%**	37%

20. COMMITMENTS AND CONTINGENCIES

20.1 Operating Lease Commitments – Company as Lessee

The Company is a lessee under various operating leases covering certain warehouse and office spaces. These leases have terms of one to five years, with renewal options. Rent expense arising from these leases amounted to P7.68 million and P5.73 million in 2017 and 2016, respectively, which are presented as Occupancy under Other Operating Expenses account in the statements of comprehensive income (see Note 15.2).

Future minimum rental payments under these operating lease contracts as of December 31, 2017 and 2016 are as follows:

	2017	2016
Within one year	**P 6,668,478**	P 3,831,896
More than one year but less than five years	**15,400,000**	3,510,726
	P 22,068,478	P 7,342,622

20.2 Legal Claims and Other Commitments

As of December 31, 2017 and 2016, there are pending claims and legal actions against or in favor of the Company arising from the normal course of business. In addition, there are other commitments and contingencies that arise in the normal course of the Company's operations which are not reflected in the accompanying financial statements. Management is of the opinion that, as of December 31, 2017 and 2016, losses, if any, that may arise from all of the above commitments and contingencies will not have a material effect on the Company's financial statements.

21. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Bills Payable (Note 12)	Dividends Payable (Notes 13 and 14)	Total
Balance as of January 1, 2017	P 1,674,587,062	P -	P 1,674,587,062
Cash flows from financing activities			
Proceeds from availments of bills payable	1,825,622,515	-	1,825,622,515
Repayment of bills payable	(2,183,593,420)	-	(2,183,593,420)
Dividends declared	-	200,000,000	200,000,000
Balance as of December 31, 2017	P 1,316,616,157	P 200,000,000	P 1,516,616,157

22. SUPPLEMENTAL INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below and in the succeeding pages is the supplementary information which is required by the Bureau of Internal Revenue (BIR) under its existing revenue regulations to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

22.1 Requirements Under Revenue Regulations (RR) No. 15-2010

The information on taxes, duties and license fees paid or accrued during the taxable year ended December 31, 2017 are presented as follows:

(a) *Gross Receipts Tax*

In lieu of the value-added tax, the Company is subject to the gross receipts tax (GRT) imposed on all banks and non-bank financial intermediaries performing quasi-banking functions pursuant to Section 121 of the Tax Code, as amended. Total GRT reported as a component of the Taxes and licenses under Other Operating Expenses account [see Note 22.1(e)] is broken down in the succeeding page.

Taxable Transactions	Tax Base	GRT
Royalties, rentals of property, (real or personal), profits from exchange and all other gross income – 7%	P 58,169,816	P 4,071,887
Interest, commissions and discounts from lending activities with maturity period of five years or less – 5%	290,265,101	14,513,255
Interest, commissions and discounts from lending activities with maturity period of more than 5 years – 1%	510,312	5,103
All other items treated as gross income – 5%	438,159	21,908
	P 349,383,388	P 18,612,153

(b) *Excise Tax*

The Company did not pay excise tax in 2017 since it did not have any transactions which are subject to excise tax.

(c) *Taxes on Importation*

The Company did not pay any customs' duties and tariff fees to the Bureau of Customs since it did not have any importations during the year.

(d) *Documentary Stamp Tax (DST)*

For the year ended December 31, 2017, DST paid and accrued amounting to P8,533,212 refers to original issue of debt instruments and shares of stocks. The amount of DST paid and recognized during the year is recorded as part of Taxes and licenses under Other Operating Expenses account in 2017 statement of comprehensive income [see Note 22.1(e)].

(e) *Taxes and Licenses*

The details of Taxes and licenses under Other Operating Expenses account in 2017 are as follows (see Note 15.2):

	Notes	
GRT	22.1(a)	P 18,612,153
Documentary stamps	22.1(d)	8,533,212
Fringe benefit tax		3,794,111
Others		972,199
	15.2	P 31,911,675

(f) *Withholding Taxes*

The Company paid expanded withholding tax amounting to P11,788,249 for the year ended December 31, 2017. The Company did not have any transaction subject to final and compensation withholding taxes for the year ended December 31, 2017.

Deficiency Tax Assessment and Tax Cases

As of December 31, 2017, the Company does not have any final deficiency tax assessments from the BIR or tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open taxable years.

22.2 Requirements Under RR No. 19-2011

RR No. 19-2011 requires schedules of taxable revenues and other non-operating income, costs of services, itemized deductions and other significant tax information to be disclosed in the notes to financial statements.

The amounts of taxable revenues and income, and deductible costs and expenses presented below and in the succeeding page are based on relevant tax regulations issued by the BIR; hence, may not be the same as the amounts reflected in the 2017 statement of comprehensive income which are based on PFRS.

(a) Taxable Revenues

The Company's taxable revenues subject to the regular tax rate for the year ended December 31, 2017 comprises the following:

Rental income	P	451,366,827
Interest income		204,783,851
	P	656,150,678

(b) Deductible Cost of Services

Deductible direct expenses for the year ended December 31, 2017 comprise the following:

Depreciation	P	362,916,912
Salaries, wages and benefits		27,587,726
Interest expense		72,072,404
	P	462,577,042

(c) Taxable Non-operating and Other Income

The details of taxable non-operating and other income in 2017, which are subject to regular tax rate are shown below.

Gain on sale of receivables	P	42,860,947
Service charges and penalty fees		13,398,435
Gain on repossession		10,436,882
	P	66,696,264

(d) *Itemized Deductions*

The amounts of itemized deductions at regular tax rate for the year ended December 31, 2017 are as follows:

Write-off of long outstanding receivables	P	48,786,792
Taxes and licenses		31,911,675
Loss on sale of assets acquired		22,223,490
Employee benefits		16,202,315
Legal expenses		12,449,149
Rental		6,532,762
Depreciation and amortization		2,576,560
Security services		1,472,928
Professional fees		1,239,839
Director's fees		1,097,400
Communication, light and water		1,026,506
Transportation and travel		574,375
Office supplies		433,087
Advertising and promotions		323,503
Fuel and oil		326,719
Insurance		220,444
Commissions		211,076
Repairs and maintenance – materials/supplies		174,356
Representation and entertainment		92,180
Miscellaneous		2,028,581
	P	149,903,737

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Report of Independent Auditors to Accompany Supplementary Information Required by the Securities and Exchange Commission Filed Separately from the Basic Financial Statements

The Board of Directors
UCPB Leasing and Finance Corporation
(A Wholly Owned Subsidiary of United Coconut Planters Bank)
14th Floor, UCPB Building
7907 Makati Avenue, Makati City

We have audited, in accordance with Philippine Standards on Auditing, the financial statements of UCPB Leasing and Finance Corporation (the Company) for the year ended December 31, 2017, on which we have rendered our report dated April 10, 2018. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The 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, 2017 is presented for purposes of additional analysis in compliance with the requirements under the Securities Regulation Code Rule 68, as amended, and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: **Ramilito L. Nañola**
Partner

CPA Reg. No. 0090741
TIN 109-228-427
PTR No. 6616015, January 3, 2018, Makati City
SEC Group A Accreditation
Partner - No. 0395-AR-3 (until May 19, 2019)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002511-19-2018 (until Jan. 25, 2021)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

April 10, 2018

UCPB Leasing and Finance Corporation
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, 2017

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* *(effective January 1, 2018)*			✓
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* * *(effective January 1, 2018)*			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition**	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets**	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition**	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments**	✓		
	Amendments to PFRS 7: Disclosures – Transfers of Financial Assets**	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities**	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures* *(effective when PFRS 9 is first applied)*			✓
PFRS 8	Operating Segments			✓
PFRS 9	Financial Instruments (2014)* *(effective January 1, 2018)*			✓
	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			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PFRS 15	Revenue from Contracts with Customers* *(effective January 1, 2018)*			✓
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 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendments to PAS 12 - Deferred Tax: Recovery of Underlying Assets**	✓		
	Amendments to PAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses**	✓		
	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 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits			✓
	Amendments to PAS 19: Defined Benefit Plans - Employee Contributions			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates			✓
	Amendments: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs	✓		
	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 *(effective January 1, 2018)*			✓
	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			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions**	✓		
	Amendments to PAS 39: The Fair Value Option **	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts**	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets**	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition**	✓		
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives**	✓		
	Amendments to PAS 39: Eligible Hedged Items**	✓		
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting**	✓		
PAS 40	Investment Property	✓		
	Amendment to PAS 40: Reclassification to and from Investment Property (*effective January 1, 2018*)*	✓		
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 13	Customer Loyalty Programmes			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement and their Interaction			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners	✓		
IFRIC 18	Transfers of Assets from Customers	✓		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments**	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies**	✓		
IFRIC 22	Foreign Currency Transactions and Advance Consideration (*effective January 1, 2018*)			✓
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-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 2017 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.