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Financial Statements and
Independent Auditors' Report

UCPB Leasing and Finance Corporation

December 31, 2018 and 2017



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Report of Independent Auditors

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The Board of Directors
UCPB Leasing and Finance Corporation
(A Wholly Owned Subsidiary of United Coconut Planters Bank)
6th Floor, UCPB Corporate Offices
7907 Makati Avenue, Makati City

Report on the Audit of the Financial Statements

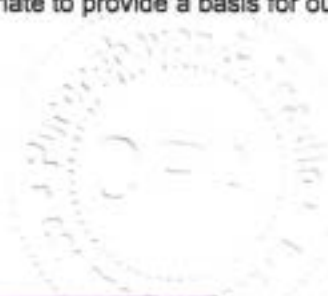
Opinion

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, 2018 and 2017, 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, 2018 and 2017, 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 in the Philippines that are relevant to our audits of the financial statements, 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.





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.

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.

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, 2018 required by the Bureau of Internal Revenue as disclosed in Note 23 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

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PTR No. 7333698, January 3, 2019, Makati City

SEC Group A Accreditation

Partner - No. 0395-AR-4 (until Sept. 16, 2022)

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 Jul. 24, 2021)

August 22, 2019



UCPB LEASING AND FINANCE CORPORATION
 (A Wholly Owned Subsidiary of United Coconut Planters Bank)
 STATEMENTS OF FINANCIAL POSITION
 DECEMBER 31, 2018 AND 2017
 (Amounts in Philippine Pesos)

	Notes	2018	2017
ASSETS			
CASH AND CASH EQUIVALENTS	7	P 93,683,945	P 90,316,688
LOANS AND RECEIVABLES – Net	8	2,681,630,440	3,149,293,311
INVESTMENT IN A SUBSIDIARY – Net	9	5,380,928	5,641,224
INVESTMENT PROPERTIES – Net	10	83,890,710	91,370,583
DEFERRED TAX ASSETS – Net	18	153,078,515	29,544,092
OTHER ASSETS – Net	11	<u>54,138,932</u>	<u>87,523,343</u>
TOTAL ASSETS		<u>P 3,071,803,470</u>	<u>P 3,453,689,241</u>
LIABILITIES AND EQUITY			
BILLS PAYABLE	12	P 1,114,166,667	P 1,316,616,157
ACCOUNTS PAYABLES AND OTHER LIABILITIES	13	325,166,897	281,810,350
DEPOSIT ON LEASE CONTRACTS	8	<u>263,745,453</u>	<u>253,271,041</u>
Total Liabilities		<u>1,703,079,017</u>	<u>1,851,697,548</u>
CAPITAL STOCK	15	775,000,000	775,000,000
REVALUATION RESERVES	9	63,000	490,500
RETAINED EARNINGS	15	<u>593,661,453</u>	<u>826,501,193</u>
Total Equity		<u>1,368,724,453</u>	<u>1,601,991,693</u>
TOTAL LIABILITIES AND EQUITY		<u>P 3,071,803,470</u>	<u>P 3,453,689,241</u>

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, 2018 AND 2017
(Amounts in Philippine Pesos)

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
REVENUES			
Interest income	8	P 166,407,686	P 205,246,955
Leasing income	8	75,730,573	72,602,112
Equity share in net earnings of a subsidiary	9	<u>167,204</u>	<u>168,011</u>
		242,305,463	278,017,078
INTEREST EXPENSE	12	<u>71,575,811</u>	<u>74,399,501</u>
NET INTEREST AND LEASING INCOME		170,729,652	203,617,577
OTHER INCOME – Net	16	23,321,601	96,078,674
OTHER OPERATING EXPENSES	16	<u>193,047,735</u>	<u>188,710,132</u>
PROFIT BEFORE TAX		1,003,518	110,986,119
TAX EXPENSE (INCOME)	18	(<u>19,334,085</u>)	<u>51,319,893</u>
NET PROFIT		20,337,603	59,666,226
OTHER COMPREHENSIVE INCOME (LOSS)	9	(<u>427,500</u>)	<u>374,500</u>
TOTAL COMPREHENSIVE INCOME		<u>P 19,910,103</u>	<u>P 60,040,726</u>

See Notes to Financial Statements.

UCPB LEASING AND FI
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 (Amounts in P)

	<u>Notes</u>	<u>Capital Stock</u>	<u>Rev Re</u>
Balance at January 1, 2018			
As previously reported		P 775,000,000	P
Effect of adoption of PFRS 9, <i>Financial Instruments</i> , net of tax	2, 15	-	
As restated		<u>775,000,000</u>	
Total comprehensive income (loss) for the year	9	-	(
Reversal of appropriation	15	<u>-</u>	
Balance at December 31, 2018		<u>P 775,000,000</u>	<u>P</u>
Balance at January 1, 2017		P 775,000,000	P
Total comprehensive income for the year	9	-	
Reversal of appropriation		-	
Cash dividends	15	-	
Appropriation	15	<u>-</u>	
Balance at December 31, 2017		<u>P 775,000,000</u>	<u>P</u>

See Notes to Fina

FINANCE CORPORATION
(United Coconut Planters Bank)
CHANGES IN EQUITY
DECEMBER 31, 2018 AND 2017
(Philippine Pesos)

Valuation Services	Retained Earnings			Total
	Appropriated	Unappropriated	Total	
490,500	P 200,000,000	P 626,501,193	P 826,501,193	P 1,601,991,693
-	23,187,283	(276,364,626)	(253,177,343)	(253,177,343)
490,500	223,187,283	350,136,567	573,323,850	1,348,814,350
427,500)	-	20,337,603	20,337,603	19,910,103
-	(3,585,850)	3,585,850	-	-
63,000	P 219,601,433	P 374,060,020	P 593,661,453	P 1,368,724,453
116,000	P 250,000,000	P 716,834,967	P 966,834,967	P 1,741,950,967
374,500	-	59,666,226	59,666,226	60,040,726
-	(150,000,000)	150,000,000	-	-
-	-	(200,000,000)	(200,000,000)	(200,000,000)
-	100,000,000	(100,000,000)	-	-
490,500	P 200,000,000	P 626,501,193	P 826,501,193	P 1,601,991,693

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, 2018 AND 2017
(Amounts in Philippine Pesos)

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 1,003,518	P 110,986,119
Adjustments for:			
Interest received		173,477,654	207,051,907
Interest income	8	(166,407,686)	(205,246,955)
Impairment and credit losses	16	75,562,924	63,856,934
Interest expense	12	71,575,811	74,399,501
Interest paid		(71,358,473)	(75,997,520)
Depreciation and amortization	16	15,953,883	20,806,645
Gain on sale of receivables	16	(11,597,333)	(42,860,947)
Loss on sale of assets acquired - net	16	5,275,823	12,046,983
Gain on foreclosure	16	(2,315,525)	(41,429,393)
Equity share in net earnings of a subsidiary	9	(167,204)	(168,011)
Operating profit before working capital changes		91,003,392	123,445,263
Decrease in loans and receivables		35,288,502	95,671,319
Decrease in investment properties		7,720,812	7,803,875
Decrease (increase) in other assets		19,496,567	(15,486,189)
Increase (decrease) in accounts payables and other liabilities		43,139,209	(17,636,633)
Increase (decrease) in deposit on lease contracts		10,474,412	(40,110,263)
Cash generated from operations		207,122,894	153,687,372
Cash paid for income taxes		(111,322)	(38,875,679)
Net Cash Generated From Operating Activities		<u>207,011,572</u>	<u>114,811,693</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property and equipment	11	(1,510,259)	(12,514,109)
Proceeds from disposal of property and equipment		315,434	-
Net Cash Used in Investing Activities		(1,194,825)	(12,514,109)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of bills payable	22	(2,062,749,490)	(2,183,593,420)
Proceeds from availments of bills payable		1,860,300,000	1,825,622,515
Net Cash Used in Financing Activities		(202,449,490)	(357,970,905)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		3,367,257	(255,673,321)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		<u>90,316,688</u>	<u>345,990,009</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>P 93,683,945</u>	<u>P 90,316,688</u>

See Notes to Financial Statements.

UCPB LEASING AND FINANCE CORPORATION
(A Wholly Owned Subsidiary of United Coconut Planters Bank)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(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, 2018 and 2017, 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. On August 20, 2018, the Bureau of Internal Revenue (BIR) approved such change in the registered principal office.

1.2 Approval of Financial Statements

The financial statements of the Company as of and for the year ended December 31, 2018 (including the comparative financial statements as of and for the year ended December 31, 2017) were authorized for issue by the Company's Board of Directors (BOD) on August 22, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized in the succeeding 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.

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

The effects of the adoption of PFRS 9 on the equity accounts presented in the statement of changes in equity as of January 1, 2018 are as follow:

	Effects on		
	Appropriated Retained Earnings	Unappropriated Retained Earnings	Total Equity
Balance at December 31, 2017 under PAS 39	P 200,000,000	P 626,501,193	P 1,601,991,693
Increase in allowance for impairment on loans and receivables	-	(253,177,343)	(253,177,343)
Appropriation of retained earnings for excess general loan loss provision per BSP requirements (see Notes 2.17 and 15.3)	23,187,283	(23,187,283)	-
Total impact of PFRS 9	23,187,283	(276,364,626)	(253,177,343)
Balance at January 1, 2018 under PFRS 9	P 223,187,283	P 350,136,567	P 1,348,814,350

(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 2018 that are Relevant to the Company*

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

PAS 40 (Amendments)	:	Investment Property – Transfers of Investment Property
PFRS 9	:	Financial Instruments
PFRS 15	:	Revenue from Contracts with Customers; Clarifications to PFRS 15
Annual Improvements to PFRS (2014-2016 Cycle)	:	
PFRS 1 (Amendments)	:	First-time Adoption of Philippine Financial Reporting Standards – Deletion of Short-term Exemptions

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

- (i) PAS 40 (Amendments), *Investment Property – Transfers of Investment Property*. The amendments state 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 amendments provided a non-exhaustive list of examples constituting change in use. The application of these amendments had no impact on the Company's financial statements.
- (ii) PFRS 9 (issued in 2014). This new standard on financial instruments replaced PAS 39, *Financial Instruments: Recognition and Measurement*, and PFRS 9 issued in 2009, 2010 and 2013. This standard contains, among others, the following:
- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments, i.e., financial assets at amortized costs, fair value through profit and loss (FVTPL), and fair value through other comprehensive income (FVOCI);

Management determined that except for gains arising from sale of non-financial assets, certain penalties and service fees, substantial amount of Company's revenues are generated from financial instruments, which are outside the scope of PFRS 15. For those revenues under the scope of PFRS 15, recognition and measurement did not significantly vary from PAS 18.

The adoption of PFRS 15 has resulted changes in its accounting policies (see Note 2.11), but no adjustments to the amounts recognized in the Company's financial statements. The application of this standard had no significant impact on Company's financial statements. Accordingly, no remeasurements nor reclassifications were recognized on January 1, 2018.

- (iv) Annual Improvements to PFRS 2014-2016 Cycle. Among the improvements, PFRS 1 (Amendments), *First-time Adoption of Philippine Financial Reporting Standards – Deletion of Short-term Exemptions*, is relevant to the Company but had no material impact on the Company's financial statements as these amendments merely clarify existing requirements. The amendments removed short-term exemptions in PFRS 1 covering PFRS 7, *Financial Instruments: Disclosures*, PAS 19, *Employee Benefits*, and PFRS 10, *Consolidated Financial Statements*, because the reporting period to which the exemptions applied have already transpired.

(b) *Effective in 2018 but not Relevant to the Company*

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

PFRS 2 (Amendments)	:	Share-based Payment – Classification and Measurement of Share-based Payment Transactions
PFRS 4 (Amendments)	:	Insurance Contracts – Applying PFRS 9 with PFRS 4, <i>Insurance Contracts</i>
IFRIC 22	:	Foreign Currency Transactions and Advance Consideration
Annual Improvements to PFRS (2014-2016 Cycle) PAS 28 (Amendments)	:	Investment in Associates and Joint Ventures – Measuring an Associate and Joint Ventures at Fair Value

(c) *Effective Subsequent to 2018 but not Adopted Early*

There are new PFRS, amendments, interpretations and annual improvements to existing standards effective for annual periods subsequent to 2018, 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) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendments clarify that prepayment features with negative compensation attached to financial instruments may still qualify under the “solely payments of principal and interests” (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVOCI.
- (ii) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*. For lessees, it requires to account for leases “on-balance sheet” by recognizing a “right-of-use” asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the “right-of-use” asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

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

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

- (iii) 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.
- (iv) 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.
- (v) Annual Improvements to PFRS 2015-2017 Cycle (effective from January 1, 2019). 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.
- (vi) Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material* (effective January 1, 2020). The amendments clarify the definition of 'materiality' in PAS 1 and how it should be applied. The amendments also improve the explanations of the definition and ensure consistency across all PFRSs and other pronouncements.

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.

(a) Classification, Measurement and Reclassification of Financial Assets in Accordance with PFRS 9 (Applicable to 2018)

The classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. All of the Company's financial assets are currently categorized as financial assets at amortized cost.

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

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

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

The Company's financial assets at amortized cost are presented in the statement of financial position as Cash and Cash Equivalents, Loans and Receivables and Refundable deposits under Other Assets account.

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise accounts with original maturities of three months or less, including cash. These generally 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.

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

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

(b) *Classification, Measurement and Reclassification of Financial Assets in Accordance with PAS 39 (Applicable to 2017)*

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

All of the Company's financial assets as of December 31, 2017 are categorized as 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. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets.

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 rate method (EIR), less impairment loss, if any.

A financial asset is reclassified out of the FVTPL category when the financial asset is no longer held for the purpose of selling or repurchasing it in the near term or under rare circumstances. A financial asset that is reclassified out of the FVTPL category is reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

(c) *Recognition of Interest and Leasing Income Using Effective Interest Rate Method*

Interest income on financial assets measured at amortized cost is recognized using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

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

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.

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the balance sheet with an increase or reduction in interest income.

The Company calculates interest income by applying the EIR to the gross carrying amount of financial assets, except for those that are subsequently identified as credit-impaired and or are purchased or originated credit-impaired assets.

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

(d) *Impairment of Financial Assets Under PFRS 9*

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

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

The Company's definition of credit risk and information on how credit risk is mitigated by the Company are disclosed in Note 4.2.

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

- *Probability of default (PD)* – It is an estimate of likelihood of a counterparty defaulting on its financial obligation over a given time horizon.
- *Loss given default (LGD)* – It is an estimate of loss arising in case where a default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Company would expect to receive, including the realization of any collateral.
- *Exposure at default (EAD)* – It represents the gross carrying amount of the financial instruments subject to the impairment calculation. In case of a loan commitment, the Company shall include the undrawn balance (up to the current contractual limit) at the time of default should it occur.

The Company measures the ECL of a financial asset in such manner that reflects: (i) the time value of money; and, (ii) reasonable and supportable information about past events, current conditions and forecasts of future economic conditions that affect the collectability of the future cash flows of the financial assets.

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

The Company's detailed ECL measurement as determined by the management

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

If 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.

(f) *Derecognition of Financial Assets*

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the 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

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

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.

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

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 Other Income and Expense Recognition

Prior to January 1, 2018, 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 expenses and costs incurred and to be incurred can be measured reliably. Upon adoption of PFRS 15 beginning January 1, 2018, revenue is recognized only when (or as) the Company satisfies a performance obligation by transferring control of the promised services to the customer. A contract with a customer that results in a recognized financial instrument in the Company's financial statements may be partially within the scope of PFRS 9 and partially within the scope of PFRS 15. In such case, the Company first applies PFRS 9 to separate and measure the part of the contract that is in-scope of PFRS 9, and then applies PFRS 15 to the residual part of the contract. Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on accrual basis.

The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Company concluded that it is acting as a principal in all of its revenue arrangements.

The following specific recognition criteria must also be met before revenue is recognized:

(a) Revenues within the scope of PFRS 15

(i) Penalties and Service fees

Penalties and service fees are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collectability.

(ii) 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 upon completion of earnings process and the collectability of the sale prices is reasonably assured.

(iii) Miscellaneous Income

The Company assessed that there is no difference in accounting for the fees indicated in the previous page and miscellaneous income under PFRS 15 and PAS 18.

(b) *Revenues outside the scope of PFRS 15*

(i) *Interest and Leasing Income*

Interest and leasing income are recognized in profit or loss for all financial instruments measured at amortized cost using the EIR method of accounting [see Note 2.4(c)].

(ii) *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.

(iii) *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.

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 current tax and deferred tax not recognized in other comprehensive income or directly in equity, if any.

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

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

Appropriated retained earnings pertain to the following:

- (a) Accumulated amount set aside for stock dividend declaration purposes.
- (b) Accumulated amount of appropriation from Unappropriated retained earnings made by the Company arising from the excess of the one-percent general loan loss provisions for outstanding loans as required by the BSP under Circular No. 1011, *Guidelines on the Adoption of PFRS 9* (Circular No. 1011) over the computed allowance for ECL for Stage 1 financial instruments (see Note 15.3).

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

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

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

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

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

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

(c) *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.

(d) *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. Management has determined that it has transferred all the significant risks and rewards of ownership of the properties which are leased out on finance lease arrangements.

(e) *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.

(f) *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 21.

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) *Estimation of Allowance for ECL (2018)*

When measuring allowance for ECL for relevant categories of financial assets, management applies judgment in defining the criteria in assessing whether a financial asset has experienced SICR since initial recognition, and in the estimation of the contractual cash flows due from counterparty and those that the Company would expect to receive, taking into account the cash flows from the realization of collateral and integral credit enhancements. The Company's ECL calculations are outputs of complex models with a number of underlying assumptions about future economic conditions and credit behavior of counterparties (e.g., the likelihood of counterparties defaulting and the resulting losses). The computation of the ECL also consider the use of reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other that may result in different levels of loss allowance.

Significant factors affecting the estimates on the ECL model include:

- internal rating matrix which determines the PD to be assigned to a financial asset;
- criteria for assessing if there has been a SICR and when a financial asset will be transferred between the three stages;
- the Company's definition of default for different segments of credit exposures that considers the regulatory requirements;
- establishing groups of similar financial assets (i.e., segmentation) for the purposes of measuring ECL on a collective basis;
- establishment of LGD parameters based on historical recovery rates of claims against defaulted counterparties across different group of financial instruments; and,
- establishing the number and relative weightings of forward-looking scenarios

The explanation of inputs, assumptions and estimation techniques used in measuring ECL and the analysis of the allowance for ECL on various groups of financial instruments is further discussed in Note 4.2.

(b) *Impairment of Loans and Receivables (2017)*

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 used 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.

(c) *Estimation of Useful Lives of Investment Properties, Property and Equipment, and Other Properties Acquired*

The Company estimates the useful lives of investment properties, property and equipment, and other properties acquired based on the period over which the assets are expected to be available for use. The estimated useful lives of investment properties, property and equipment and other properties acquired 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, property and equipment and other properties acquired are analyzed in Notes 10 and 11, respectively. Based on management's assessment as at December 31, 2018 and 2017, 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.

(d) *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.

(e) *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, 2018 and 2017 will be fully utilized in the coming years. The carrying value of deferred tax assets as of those dates is disclosed in Note 18.

(f) *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 Bank, 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, 2018 and 2017, 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

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, 2018 and 2017 are presented below.

	2018				
	One to Three Months	Three Months to One Year	One to Five Years	More Than Five Years	Total
Assets:					
Cash and cash equivalents	P 93,683,945	P -	P -	P -	P 93,683,945
Loans and receivables*	<u>816,034,970</u>	<u>382,477,548</u>	<u>1,814,626,780</u>	<u>60,142,067</u>	<u>3,073,281,365</u>
	909,718,915	382,477,548	1,814,626,780	60,142,067	3,166,965,310
Liability-					
Bills payable	<u>932,500,000</u>	<u>181,666,667</u>	-	-	<u>1,114,166,667</u>
	932,500,000	181,666,667	-	-	1,114,166,667
Periodic gap	(P 22,781,085)	P 200,810,881	P 1,814,626,780	P 60,142,067	P 2,052,798,643
Cumulative gap	(P 22,781,085)	P 178,029,796	P 1,992,656,576	P 2,052,798,643	P 2,052,798,643
	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 -	P 90,316,688
Loans and receivables*	<u>1,436,482,317</u>	<u>192,415,904</u>	<u>1,567,089,917</u>	<u>18,225,770</u>	<u>3,214,213,908</u>
	1,526,799,005	192,415,904	1,567,089,917	18,225,770	3,304,530,596
Liability-					
Bills payable	<u>902,310,601</u>	<u>198,750,000</u>	<u>215,555,556</u>	-	<u>1,316,616,157</u>
	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

*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 allowances 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) *Credit Risk Assessment*

The Company's credit risk assessment is performed based on the different segments of financial asset portfolio such as lease contract, loans and finance receivables. The Company also established credit risk assessment procedures for sales contract receivables and other risk assets including accounts receivables.

Loans, regardless if the accounts have been fully paid, extended or renewed in subsequent year or period, are subjected to evaluation for possible losses. The Company's estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions (or industry performance), expected cash flows, and the passage of time. The assessment of credit risk of a portfolio of assets requires further estimations as to the PDs occurring, of the associated loss ratios, and of default correlations between counterparties; accordingly, such credit risk is measured using PD, LGD, and EAD, for purposes of measuring ECL.

The Company uses its 10-grade internal credit risk rating (ICRR) system to determine any evidence of potential deterioration in the quality of an instrument that take into consideration both quantitative and qualitative criteria. The rating system classifies performing accounts from a scale of one (1) indicating an extremely strong capacity of the counterparty to meet financial commitments down to ratings lower than seven (7) demonstrating weakness in the counterparty's economic and financial condition that could lead to payment default on financial commitments. The model on risk ratings is assessed and updated regularly. Validation of the risk rating is performed by the Risk Management Division to maintain accurate and consistent risk ratings across the credit portfolio. Past due accounts and those that exhibit the characteristics of classified loans shall be risk-rated following the guidelines on credit classification per BSP Manual of Regulations for Non-Bank Financial Institutions and under Section 4178Q, i.e., Especially Mentioned, Substandard, Doubtful or Loss. These guidelines are used by the Company to assign the individually assessed loan within a particular portfolio segment to a specific stage category under the PFRS 9 loan impairment standards (i.e., Stage 1, 2, 3).

In the process of applying the Company's ICRR system in determining indications of impairment on the loans and receivables, the Company analyzes the credit quality of the borrowers and counterparties through a set of criteria and rating scale classified into the following:

Credit Quality	ICRR System Grade	Description
High grade	1	Excellent
	2	Strong
Standard grade	3	Good
	4	Satisfactory
	5	Acceptable
	6	Watchlist
Substandard grade	7	Especially mentioned
	8	Substandard
Impaired	9	Doubtful
	10	Loss

- (1) *Excellent* – The rating is given to a borrower with a very low probability of going into default in the coming year. The borrower has a high degree of stability, substance and diversity and has access to public markets to raise substantial amounts of funds at any time; has a very strong debt service capacity and has conservative balance sheet leverage. The track record of the borrower in terms of profit is very good and exhibits highest quality under virtually all economic conditions.
- (2) *Strong* – This rating is given to borrowers with low probability of going into default in the coming year. Normally has a comfortable degree of stability, substance and diversity. Under normal market conditions, borrower has good access to public markets to raise funds. Borrower has a strong market and financial position with a history of successful performance. Overall debt service capacity is deemed very strong; critical balance sheet ratios are conservative.
- (3) *Good* – This rating is given to smaller corporations with limited access to public capital markets or to alternative financial markets. Probability of default is quite low and it bears some degree of stability and substance. However, borrower may be susceptible to cyclical changes and more concentration of business risk, by product or by market. Typical for this type of borrower is the combination of comfortable asset protection and an acceptable balance sheet structure.

The debt service capacity of the borrower is strong and has reported profits for the past three years and is expected to be profitable again in the current year.

- (4) *Satisfactory* – This rating is given to a borrower where clear risk elements exist, the probability of default is somewhat greater and normally has limited access to public markets. The probability is reflected in volatility of earnings and overall performance. The borrower should be able to withstand normal business cycles, but any prolonged unfavorable economic period would create deterioration beyond acceptable levels. The borrower has the combination of reasonably sound asset and cash flow protection with adequate debt service capacity and has reported profits in the past year and is expected to report a profit in the current year.

- (5) *Acceptable* – This rating is given to a borrower whose risk elements are sufficiently pronounced to withstand normal business cycles but any prolonged unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels. The risk to this borrower is still acceptable as there is sufficient cash flow either historically or expected for the future; new business or projected finance transaction; an existing borrower where the nature of the exposure represents a higher risk because of extraordinary developments but for which a decreasing risk within an acceptable period can be expected.
- (6) *Watchlist* – This rating is given to a borrower which incurs net losses and has salient financial weaknesses, specifically in profitability, reflected on its financial statements. Credit exposure is not at risk of loss at the moment but performance of the borrower has weakened and unless present trends are reversed, could lead to losses.
- (7) *Especially Mentioned* – This rating is given to a borrower that exhibits potential weaknesses that deserve management's close attention. No immediate threat to the repayment of the loan exists through normal course of business but factors may exist that could adversely affect the credit worthiness of the borrower.
- (8) *Substandard* – This rating is given to a borrower where repayment of the loan, through normal course of business, may be in jeopardy due to adverse events. There exists the possibility of future losses to the institution unless given closer supervision.
- (9) *Doubtful* – This rating is given to a borrower who is unable or unwilling to service debt over an extended period of time and near future prospects of orderly debt service is doubtful. Existing facts, conditions, and values make full collection or liquidation highly improbable and in which substantial loss is probable.
- (10) *Loss* – This rating is given to a borrower whose loans or portions thereof are considered uncollectible. The collectible amount, with no collateral or which collateral is of little value, is difficult to measure and more practical to write-off than to defer even though partial recovery may be obtained in the future.
- (b) *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:

	Note	2018	2017
Cash and cash equivalents	7	P 93,683,945	P 90,316,688
Loans and receivables	8	2,681,630,440	3,149,293,311
Refundable deposits	11	779,767	779,767

As part of Company policy, bank deposits are only maintained with reputable financial institutions. Cash in banks which are insured by the Philippine Deposit Insurance Corporation (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.

The tables below show the credit quality per class of loans and receivables, based on the Company's rating system (gross of allowance for credit and impairment losses and unearned discounts) as of December 31, 2018.

	Stage 1	Stage 2	Stage 3	Total
Receivables from customers:				
High grade	P 11,887,796	P -	P 1,009,711	P 12,897,507
Standard grade	1,946,623,502	409,052,908	41,320,510	2,396,996,920
Substandard grade	-	25,215,042	212,388,478	237,603,520
Impaired	-	-	425,783,418	425,783,418
	<u>1,958,511,298</u>	<u>434,267,950</u>	<u>680,502,117</u>	<u>3,073,281,365</u>
Other receivables:				
High grade	11,618,676	-	-	11,618,676
Standard grade	1,478,509	2,424,780	95,638	3,998,927
Substandard grade	-	2,009,749	124,061	2,133,810
Impaired	-	-	694,637	694,637
	<u>13,097,185</u>	<u>4,434,529</u>	<u>914,336</u>	<u>18,446,050</u>
	P 1,971,608,483	P 438,702,479	P 681,416,453	P 3,091,727,415

Movements during 2018 for receivables from customers and other receivables follow:

	Stage 1	Stage 2	Stage 3	Total
Receivables from customers:				
Balance at January 1, 2018	P 2,316,886,422	P 173,082,141	P 724,245,345	P 3,214,213,908
New assets originated or purchased	3,919,046,048	397,809,697	277,470,761	4,594,326,506
Assets derecognized or repaid	(4,126,380,641)	(242,801,050)	(259,612,609)	(4,628,794,300)
Amounts written off	-	-	(106,464,749)	(106,464,749)
Transfer to/(from) Stage 1	(160,197,493)	89,258,721	70,938,772	-
Transfer to/(from) Stage 2	3,275,929	(3,275,929)	-	-
Transfer to/(from) Stage 3	5,881,033	20,194,370	(26,075,403)	-
	<u>1,958,511,298</u>	<u>434,267,950</u>	<u>680,502,117</u>	<u>3,073,281,365</u>
Other receivables:				
Balance at January 1, 2018	21,748,347	1,695,293	1,093,872	24,537,512
New assets originated or purchased	12,784,666	3,058,797	616,503	16,459,966
Assets derecognized or repaid	(19,817,642)	(1,860,432)	(873,354)	(22,551,428)
Transfer to/(from) Stage 1	(1,625,269)	1,422,310	202,959	-
Transfer to/(from) Stage 3	7,083	118,561	(125,644)	-
	<u>13,097,185</u>	<u>4,434,529</u>	<u>914,336</u>	<u>18,446,050</u>
	P 1,971,608,483	P 438,702,479	P 681,416,453	P 3,091,727,415

The table below shows the credit quality of the Company's loans and receivables as of December 31, 2017.

Individually impaired	
Grade 1: Fully and/or partially secured	P 491,041,339
Grade 2: Unsecured	<u>247,709,437</u>
Gross amount	738,750,776
Allowance for impairment	(<u>173,183,341</u>)
Carrying amount	<u>565,567,435</u>
Neither past due nor impaired	
Gross amount	2,741,262,551
Unearned discount and interest	(<u>157,536,675</u>)
Carrying amount	<u>2,583,725,876</u>
Total carrying amount	<u>P3,149,293,311</u>

An analysis of changes in the ECL allowances in 2018 is as follows:

	Stage 1	Stage 2	Stage 3	Total
Receivables from customers:				
Balance at January 1, 2018	P -	P 1,351,133	P 526,212,520	P 527,563,653
Provisions (reversals)	-	(6,880,324)	82,381,269	75,500,945
Reclassifications/reallocation	(3,691,199)	2,005,803	(7,702,165)	(9,387,561)
Amounts written off	-	-	(100,018,617)	(100,018,617)
Transfer to/(from) Stage 2	196,585	(196,585)	-	-
Transfer to/(from) Stage 3	<u>3,494,614</u>	<u>5,846,005</u>	(<u>9,340,619</u>)	-
	<u>-</u>	<u>2,126,032</u>	<u>491,532,388</u>	<u>493,658,420</u>
Other receivables:				
Balance at January 1, 2018	-	10,905	664,988	675,893
Provisions	-	2,383	30,625	33,008
Reclassifications/reallocation	-	3,891	-	3,891
Transfer to/(from) Stage 3	-	<u>186,578</u>	(<u>186,578</u>)	-
	-	<u>203,757</u>	<u>509,035</u>	<u>712,792</u>
	<u>P -</u>	<u>P 2,329,789</u>	<u>P 492,041,423</u>	<u>P 494,371,212</u>

The breakdown of provision (recovery) for impairment losses for the period December 31, 2018 is shown below.

	Stage 1	Stage 2	Stage 3	Total
Receivables from customers	P -	(P 6,880,324)	P 82,381,269	P 75,500,945
Other receivables	-	2,383	30,625	33,008
	<u>P -</u>	<u>(P 6,877,941)</u>	<u>P 82,411,894</u>	<u>P 75,533,953</u>

The amounts of "Transfers to (from)" include the changes in the ECL on the exposures transferred from one stage to another during the year.

The increase in the ECL allowances was driven by an increase in the gross size of the portfolio and movements between stages as a result of increase in credit risk and improvement in economic conditions.

(c) *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.

	<u>2018</u>	<u>2017</u>
Against impaired		
Chattel mortgage	P 123,263,183	P 84,533,499
Real estate mortgage	46,834,486	46,802,986
Finance lease	154,725,980	268,201,874
Against neither past due but not impaired		
Chattel mortgage	543,253,716	638,877,356
Real estate mortgage	80,154,118	28,223,474
Finance lease	<u>882,885,290</u>	<u>825,413,926</u>
	<u>P 1,831,116,773</u>	<u>P 1,892,053,115</u>

(d) *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.

	<u>Cash and Cash Equivalents</u>		<u>Loans and Receivables*</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Concentration by sector:				
Financial institutions	P 93,683,945	P 90,316,688	P -	P -
Trading/Commercial	-	-	956,575,689	1,148,391,426
Manufacturing	-	-	816,992,618	828,779,741
Services	-	-	266,699,706	202,332,911
Others	-	-	<u>1,033,013,352</u>	<u>1,034,709,830</u>
	<u>P 93,683,945</u>	<u>P 90,316,688</u>	<u>P 3,073,281,365</u>	<u>P 3,214,213,908</u>

*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, 2018 and 2017, the Company's financial liabilities (except tax-related liabilities) have contractual maturities which are presented below.

	2018			
	One to three months	More than three months to one year	More than one year to three years	Total
Bills payable	P 939,433,836	P 190,773,105	P -	P 1,130,206,941
Accrued expenses and other liabilities	115,630,594	200,000,000	-	315,630,594
Deposit on lease contracts	43,504,045	42,982,072	177,259,336	263,745,453
	P 1,098,568,475	P 433,755,177	P 177,259,336	P 1,709,582,988
	2017			
	One to three months	More than three months to one year	More than one year to three years	Total
Bills payable	P 905,225,134	P 211,281,389	P 266,300,667	P 1,382,807,190
Accrued expenses and other liabilities	75,661,417	-	200,000,000	275,661,417
Deposit on lease contracts	53,727,703	17,807,586	181,735,752	253,271,041
	P 1,034,614,254	P 229,088,975	P 648,036,419	P 1,911,739,648

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.

	Notes	2018		2017	
		Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
Financial Assets					
Cash and cash equivalents	7	P 93,683,945	P 93,683,945	P 90,316,688	P 90,316,688
Loans and receivables	8	2,681,630,440	3,034,309,365	3,149,293,311	3,068,142,900
Refundable deposits	11	779,767	779,767	779,767	779,767
		P2,776,094,152	P3,128,773,077	P3,240,389,766	P3,159,239,355
Financial Liabilities					
Bills payables	12	P 1,114,166,667	P 1,114,166,667	P 1,316,616,157	P 1,316,616,157
Accounts payables and other liabilities	13	315,630,594	315,630,594	275,661,417	275,661,417
Deposit on lease contracts	8	263,745,453	263,745,453	253,271,041	253,271,041
		P1,693,542,714	P1,693,542,714	P1,845,548,615	P1,845,548,615

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 2018 and 2017 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 P1.02 billion and P1.03 billion as of December 31, 2018 and 2017, respectively, can be offset by the amount of deposits on lease contracts amounting to P263.75 million and P253.27 million as of December 31, 2018 and 2017, respectively (see Note 8). The balance of lease contract receivables net of deposits on lease contracts amounted to P0.76 billion and P0.78 billion as of December 31, 2018 and 2017, respectively.

The Company also has cash in banks to which it has outstanding bills payable. In case of Company's default on repayment of bills payable, cash in bank amounting to P10.30 million and P14.88 million as of December 31, 2018 and 2017, respectively, can be partially applied against the outstanding bills payable amounting to P1.11 billion and P1.32 billion as of December 31, 2018 and 2017, respectively (see Note 12).

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.

	2018			
	Level 1	Level 2	Level 3	Total
Financial Assets:				
Cash and cash equivalents	P 93,683,945	P -	P -	P 93,683,945
Loans and receivables	-	-	3,034,309,365	3,034,309,365
Refundable deposits	-	-	779,767	779,767
	P 93,683,945	P -	P 3,035,089,132	P 3,128,773,077
Financial Liabilities:				
Bills payables	P -	P -	P 1,114,166,667	P 1,114,166,667
Accounts payables and other liabilities	-	-	315,630,594	315,630,594
Deposit on lease contracts	-	-	263,745,453	263,745,453
	P -	P -	P 1,693,542,714	P 1,693,542,714
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	-	-	3,068,142,900	3,068,142,900
Refundable deposits	-	-	779,767	779,767
	P 90,316,688	P -	P 3,068,922,667	P 3,159,239,355
Financial Liabilities:				
Bills payables	P -	P -	P 1,316,616,157	P 1,316,616,157
Accounts payables and other liabilities	-	-	275,661,417	275,661,417
Deposit on lease contracts	-	-	253,271,041	253,271,041
	P -	P -	P 1,845,548,615	P 1,845,548,615

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 the instrument are not observable.

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.

	2018			
	Level 1	Level 2	Level 3	Total
Investment property:				
Land	P -	P -	P 60,006,000	P 60,006,000
Building and improvements	-	-	40,494,000	40,494,000
	-	-	100,500,000	100,500,000
Other properties acquired – machineries and other equipment	-	-	37,357,000	37,357,000
	<u>P -</u>	<u>P -</u>	<u>P 137,857,000</u>	<u>P 137,857,000</u>
	2017			
	Level 1	Level 2	Level 3	Total
Investment property:				
Land	P -	P -	P 104,309,016	P 104,309,016
Building and improvements	-	-	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
	<u>P -</u>	<u>P -</u>	<u>P 287,978,634</u>	<u>P 287,978,634</u>

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 determined on the basis of 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 for Building and Improvements*

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

(c) *Fair Value Measurement of Transportation 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:

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Cash on hand and in banks	17.1	P 86,336,153	P 83,119,782
Short-term placements		<u>7,347,792</u>	<u>7,196,906</u>
		<u>P 93,683,945</u>	<u>P 90,316,688</u>

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods from 30 to 90 days and earn effective interest ranging from 1.5% to 3.25% in 2018 and 1.3% to 1.4% in 2017.

In 2018 and 2017, interest income recognized from cash and cash equivalents amounted to P0.59 million and P0.46 million, respectively, and is presented as part of Interest Income in the statements of comprehensive income (see Note 8).

8. LOANS AND RECEIVABLES

This account is composed of the following:

	<u>2018</u>	<u>2017</u>
Receivables from customers:		
Lease contracts receivables	P 990,556,557	P 972,262,249
Residual value of leased properties	234,460,376	217,520,364
Deferred leasing income	(125,150,475)	(116,904,300)
Less: Allowance for credit and impairment losses	(<u>76,807,672</u>)	(<u>38,522,613</u>)
	<u>1,023,058,786</u>	<u>1,034,355,700</u>
Loans receivable	693,490,946	724,990,443
Less: Allowance for credit and impairment losses	(<u>75,806,275</u>)	(<u>11,830,592</u>)
	<u>617,684,671</u>	<u>713,159,851</u>
Finance receivables:		
Check discounting	689,586,930	647,357,145
Invoice discounting	473,166,994	708,281,076
Unearned finance income:		
Check discounting	(22,178,576)	(5,961,423)
Invoice discounting	(4,670,006)	(21,738,616)
Less: Allowance for credit and impairment losses	(<u>219,227,820</u>)	(<u>76,003,125</u>)
	<u>916,677,522</u>	<u>1,251,935,057</u>
Restructured receivables	226,479,938	161,322,995
Residual value of leased properties under restructured receivables	22,240,943	23,741,543
Capitalized interest and other charges	(20,428,025)	(12,932,336)
Less: Allowance for credit and impairment losses	(<u>121,816,653</u>)	(<u>46,151,118</u>)
	<u>106,476,203</u>	<u>125,981,084</u>
Other receivables:		
Sales contracts receivable	9,550,010	11,203,467
Accounts receivable	3,105,837	7,270,770
Accrued interest receivable	2,143,004	2,568,740
Others	3,647,199	3,494,535
Less: Allowance for credit and impairment and losses	(<u>712,792</u>)	(<u>675,893</u>)
	<u>17,733,258</u>	<u>23,861,619</u>
	 <u>P2,681,630,440</u>	 <u>P3,149,293,311</u>

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

	<u>2018</u>	<u>2017</u>
Lease contracts receivable:		
Due within one year	P 93,248,031	P 84,885,498
Due beyond one year but not beyond five years	<u>897,308,526</u>	<u>887,376,751</u>
	<u>P 990,556,557</u>	<u>P 972,262,249</u>
Residual value of leased properties:		
Due within one year	P 62,308,640	P 30,241,570
Due beyond one year but not beyond five years	<u>172,151,736</u>	<u>187,278,794</u>
	<u>P 234,460,376</u>	<u>P 217,520,364</u>
Gross investment in lease contract receivable	P1,225,016,933	P1,189,782,613
Less: Deferred leasing income	<u>(125,150,475)</u>	<u>(116,904,300)</u>
Net investment in lease contracts receivable	<u>P1,099,866,458</u>	<u>P1,072,878,313</u>

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

	<u>2018</u>	<u>2017</u>
Due within one year	P 150,728,643	P 107,414,197
Due beyond one year but not beyond five years	<u>949,137,815</u>	<u>965,464,116</u>
	<u>P1,099,866,458</u>	<u>P1,072,878,313</u>

As at December 31, 2018 and 2017, residual value of leased properties amounting to P256.70 million and P241.26 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 18.00% and 7.00% to 15.00% in 2018 and 2017, respectively. The Company recognized interest income from lease contracts receivable amounting to P75.73 million and P72.60 million in 2018 and 2017, 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 2018 and 2017.

Loans receivable by contractual maturity dates is analyzed as follows:

	<u>2018</u>	<u>2017</u>
Due within one year	P 68,450,485	P 92,555,614
Due beyond one year but not beyond five years	<u>625,040,461</u>	<u>632,434,829</u>
	<u>P 693,490,946</u>	<u>P 724,990,443</u>

Restructured receivables earn annual interest at rates ranging from 7.25% to 11.00% and 8.00% to 12.50% in 2018 and 2017, respectively.

The breakdown of the Company's interest income follows:

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Finance receivables		P 95,414,541	P 114,397,478
Loans receivable		61,107,607	80,995,788
Restructured receivables		8,111,764	7,805,014
Sales contract receivable		1,186,600	1,585,571
Cash in banks	4	<u>587,174</u>	<u>463,104</u>
		<u>P 166,407,686</u>	<u>P 205,246,955</u>

As at December 31, 2018 and 2017, non-performing loans (NPLs) not fully covered by allowance for credit losses amounted to P463.73 million and P525.80 million, respectively.

As at December 31, 2018 and 2017, secured and unsecured NPLs follow:

	<u>2018</u>	<u>2017</u>
Secured	P 302,892,578	P 291,094,952
Unsecured	<u>160,836,630</u>	<u>234,709,437</u>
	<u>P 463,729,208</u>	<u>P 525,804,389</u>

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, 2018							
As previously reported		P 38,522,613	P 11,830,592	P 76,003,125	P 46,151,118	P 675,893	P 173,183,341
Effect of adoption of PFRS 9		<u>83,950,919</u>	<u>64,311,384</u>	<u>132,179,711</u>	<u>74,614,191</u>	-	<u>355,056,205</u>
As restated		122,473,532	76,141,976	208,182,836	120,765,309	675,893	528,239,546
Losses (reversals)	16.2	(14,739,891)	(1,255,192)	69,429,772	22,066,256	33,008	75,533,953
Reclassifications/reallocation		443,546	2,159,740	(2,484,423)	(9,506,424)	3,891	(9,383,670)
Write-off		(31,369,515)	(1,240,249)	(55,900,365)	(11,508,488)	-	(100,018,617)
At December 31, 2018		<u>P 76,807,672</u>	<u>P 75,806,275</u>	<u>P 219,227,820</u>	<u>P 121,816,653</u>	<u>P 712,792</u>	<u>P 494,371,212</u>
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)	16.2	33,613	(6,305,272)	67,060,212	3,068,381	-	63,856,934
Reclassifications		(5,056,263)	(1,813,017)	(13,457,143)	(894,867)	-	(21,221,290)
Write-off		(54,531)	(1,508,250)	(39,955,794)	(7,268,217)	-	(48,786,792)
At December 31, 2017		<u>P 38,522,613</u>	<u>P 11,830,592</u>	<u>P 76,003,125</u>	<u>P 46,151,118</u>	<u>P 675,893</u>	<u>P 173,183,341</u>

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 P5.38 million and P5.64 million at December 31, 2018 and 2017, 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 that 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.

	<u>2018</u>	<u>2017</u>
Cost	<u>P 4,025,000</u>	<u>P 4,025,000</u>
Accumulated share in net profit:		
Balance at beginning of the year	1,125,724	957,713
Share in net profit	<u>167,204</u>	<u>168,011</u>
Balance at end of the year	<u>1,292,928</u>	<u>1,125,724</u>
Accumulated share in other comprehensive income:		
Balance at beginning of the year	490,500	116,000
Share in other comprehensive income (loss)	<u>(427,500)</u>	<u>374,500</u>
Balance at end of the year	<u>63,000</u>	<u>490,500</u>
Carrying amount of investment	<u>P 5,380,928</u>	<u>P 5,641,224</u>

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 2018 and 2017. There were no income recognized related to these assets in 2018 and 2017.

The carrying amounts of investment properties presented in the statements of financial position as at December 31, 2018 and 2017 are shown below.

	<u>2018</u>	<u>2017</u>
Cost	<u>P 95,151,120</u>	<u>P 105,135,054</u>
Accumulated depreciation	<u>(1,569,402)</u>	<u>(117,847)</u>
Accumulated impairment	<u>(9,691,008)</u>	<u>(13,646,624)</u>
Net carrying amount	<u>P 83,890,710</u>	<u>P 91,370,583</u>

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

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Balance at beginning of the year		P 91,370,583	P 60,035,422
Additions		422,484	40,071,516
Reallocation of impairment		1,230,759	-
Depreciation	16.2	(1,451,555)	(117,847)
Disposals		(7,681,561)	(8,618,508)
Balance at end of the year		<u>P 83,890,710</u>	<u>P 91,370,583</u>

The aggregate appraised values of the investment properties as of December 31, 2018 and 2017 are P100.50 million and P144.80 million, respectively. Other information about the fair value measurement and disclosures related to the investment properties are presented in Note 6.3.

Gain on sale of investment properties amounted to P2.06 million for both 2018 and 2017, and is presented as part of Loss on sale of assets – net acquired under the Other Income account in the statements of comprehensive income (see Note 16.1).

11. OTHER ASSETS

This account consists of:

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Other properties acquired – net	11.1	P 32,179,036	P 64,487,045
Property and equipment – net	11.2	12,242,433	13,116,563
Prepaid expenses		6,736,106	8,140,818
Refundable deposits		779,767	779,767
Others		<u>2,201,590</u>	<u>999,150</u>
		<u>P 54,138,932</u>	<u>P 87,523,343</u>

11.1 Other Properties Acquired

The movements of other properties acquired are presented below.

	Note	2018	2017
Cost			
Balance at beginning of year		P 90,438,847	P 87,586,742
Additions		16,037,000	64,930,484
Disposal		(45,319,627)	(62,078,379)
Balance at the end of year		<u>61,156,220</u>	<u>90,438,847</u>
Accumulated Depreciation			
Balance at the beginning of year		21,245,401	44,182,488
Depreciation during the year	16.2	12,451,886	18,112,237
Disposal		(12,799,329)	(41,049,324)
Balance at the end of year		<u>20,897,958</u>	<u>21,245,401</u>
Allowance for Impairment Losses			
Balance at the beginning of year		4,706,401	4,732,438
Reallocation		7,902,256	-
Impairment during the year	16.2	28,971	-
Disposal		(4,558,402)	(26,037)
Balance at the end of year		<u>8,079,226</u>	<u>4,706,401</u>
Net Book Value		<u>P 32,179,036</u>	<u>P 64,487,045</u>

In 2018 and 2017, the Company recognized net gain on foreclosure of other properties acquired amounting to P2.32 million and P41.43 million, respectively, and presented under Gain on foreclosure under the Other Income account in the statements of comprehensive income (see Note 16.1).

In addition, the Company incurred a loss on sale of other properties acquired amounting to P7.33 million and P14.11 million in 2018 and 2017, respectively, and is presented as part of Loss on sale of assets acquired – net under the Other Income account in the statements of comprehensive income (see Note 16.1).

The aggregate appraised values of other properties acquired as of December 31, 2018 and 2017 are P37.36 million and P143.18 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 2018 and 2017 are shown below and in the succeeding page.

	Furniture, Fixtures and Office Equipment	Transportation Equipment	Leasehold Improvements	Total
December 31, 2018				
Cost	P 8,305,731	P 4,136,303	P 8,475,907	P 20,917,941
Accumulated depreciation and amortization	(5,985,974)	(1,555,701)	(1,163,022)	(8,704,697)

	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	<u>P 2,409,532</u>	<u>P 3,157,254</u>	<u>P 7,549,777</u>	<u>P 13,116,563</u>
January 1, 2017				
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	<u>P 1,626,909</u>	<u>P 2,778,784</u>	<u>P 23,322</u>	<u>P 4,429,015</u>

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

	Furniture, Fixtures and Office Equipment	Transportation Equipment	Leasehold Improvements	Total
Balance at January 1, 2018 net of accumulated depreciation and amortization	P 2,409,532	P 3,157,254	P 7,549,777	P 13,116,563
Additions	705,258	805,001	-	1,510,259
Disposal	-	(315,434)	-	(315,434)
Reclassification	-	(223,999)	223,999	-
Adjustment	-	-	(18,513)	(18,513)
Depreciation and amortization charges for the year	(795,033)	(812,220)	(443,189)	(2,050,442)
Balance at December 31, 2018 net of accumulated depreciation and amortization	<u>P 2,319,757</u>	<u>P 2,610,662</u>	<u>P 7,312,074</u>	<u>P 12,242,433</u>
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	<u>P 2,409,532</u>	<u>P 3,157,254</u>	<u>P 7,549,777</u>	<u>P 13,116,563</u>

As of December 31, 2018 and 2017, the gross carrying amount of the Company's fully depreciated property and equipment that are still in use is P11.49 million and P7.20 million, respectively.

12. **BILLS PAYABLE**

This account consists of borrowings from:

	<u>2018</u>	<u>2017</u>
Rizal Commercial Banking Corporation	P 550,000,000	P 150,000,000
Philippine National Bank	170,000,000	100,000,000
Bank of Commerce	140,000,000	507,032,823
Banco De Oro	100,000,000	100,000,000
Security Bank	100,000,000	-
Robinsons Bank	30,833,333	182,500,000
Eastwest Bank	23,333,334	137,083,334
Bank of the Philippine Islands	-	140,000,000
	<u>P 1,114,166,667</u>	<u>P 1,316,616,157</u>

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 5.15% to 7.25% in 2018 and 2.25% to 5.50% in 2017. Interest expense from bills payable amounted to P71.58 million and P74.40 million in 2018 and 2017, respectively, and is presented as Interest Expense in the statements of comprehensive income. Interest which remained unpaid as of December 31, 2018 and 2017 amounted to P2.39 million and P2.17 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).

13. **ACCOUNTS PAYABLES AND OTHER LIABILITIES**

This account consists of the following as of December 31:

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
Dividends payable	15.3	P 200,000,000	P 200,000,000
Accounts payable		105,887,862	71,578,575
Accrued taxes and licenses		5,780,229	4,398,736
Withholding tax payable		3,756,074	1,750,197
Accrued interest on bills payable	12	2,391,610	2,174,272
Accrued other expenses	17.3	<u>7,351,122</u>	<u>1,908,570</u>
		<u>P 325,166,897</u>	<u>P 281,810,350</u>

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. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

	2018			2017		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Assets						
Cash and cash equivalents	P 93,683,945	P -	P 93,683,945	P 90,316,688	P -	P 90,316,688
Loans and receivables - gross	1,268,872,787	1,907,128,865	3,176,001,652	1,669,472,239	1,653,004,413	3,322,476,652
Refundable deposits	-	779,767	779,767	-	779,767	779,767
	1,362,556,732	1,907,908,632	3,270,465,364	1,759,788,927	1,653,784,180	3,413,573,107
Allowance for credit and impairment losses	(330,993,487)	(143,377,725)	(494,371,212)	(154,242,201)	(18,941,140)	(173,183,341)
	1,031,563,245	1,744,530,907	2,776,094,152	1,605,546,726	1,634,843,040	3,240,389,766
Non Financial Assets						
Investment in a subsidiary - net	-	5,380,928	5,380,928	-	5,641,224	5,641,224
Investment properties - net	-	83,890,710	83,890,710	-	91,370,583	91,370,583
Deferred tax asset-net	-	153,078,515	153,078,515	-	29,544,092	29,544,092
Other assets - net	8,937,696	44,421,469	53,359,165	9,139,968	77,603,608	86,743,576
	8,937,696	286,771,622	295,709,318	9,139,968	204,159,507	213,299,475
	P 1,040,506,941	P 2,031,302,529	P 3,071,809,470	P 1,614,686,694	P 1,839,002,547	P 3,453,689,241
Financial Liabilities						
Bills payable	P 1,114,166,667	P -	P 1,114,166,667	P 1,101,060,601	P 215,555,556	P 1,316,616,157
Accounts payables and other liabilities	315,630,594	-	315,630,594	75,661,417	200,000,000	275,661,417
Deposit on lease contracts	86,486,117	177,259,336	263,745,453	71,535,289	181,735,752	253,271,041
	1,516,283,378	177,259,336	1,693,542,714	1,248,257,307	597,291,308	1,845,548,615
Non Financial Liabilities						
Other liabilities	9,536,303	-	9,536,303	6,148,933	-	6,148,933
	P 1,525,819,681	P 177,259,336	P 1,703,079,017	P 1,254,406,240	P 597,291,308	P 1,851,697,548

15. EQUITY

15.1 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:

	2018	2017
Total liabilities	P1,703,079,017	P1,851,697,548
Total equity	1,368,724,453	1,601,991,693
Debt-to-equity ratio	1.24:1.00	1.16:1.00

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,

The Company is subject to an externally imposed capital requirement of a minimum of P10.00 million paid-up capital [see Note 19.1(a)]. The Company's paid-up capital as of December 31, 2018 and 2017 amounted to P775.00 million, which amount is in excess of the externally imposed capital requirement (see Note 15.2).

15.2 Capital Stock

The Company has authorized capital stock of P1.00 billion divided into 10,000,000 shares with par value of P100 per share. As of December 31, 2018 and 2017, the Company has issued and outstanding capital stock of 7,750,000 shares or a total of P775.00 million.

As of December 31, 2018 and 2017, the Company has only one stockholder owning 100 or more shares of the Company's capital stock.

15.3 Retained Earnings

Pursuant to the requirements under Circular No. 1011, the Company shall recognize general loan loss provisions equivalent to one percent of all outstanding loans as of the end of the reporting period, except for accounts considered as credit risk-free under the existing BSP regulations. In cases when the computed allowance for ECL on those exposures under Stage 1 is less than one percent of the general loan loss provisions required, the deficiency is recognized through appropriation from the Company's available Unappropriated retained earnings. The outstanding balance of appropriation for general loan loss reserves as of December 31, 2018 include appropriation recognized at January 1, 2018 upon adoption of the ECL model under PFRS 9 amounting to P23.19 million and the reversal of appropriation made in 2018 amounting to P3.59 million [see Note 2.1(b)].

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 and to be paid on December 31, 2019 (see Note 13).

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.

16. OTHER INCOME AND OPERATING EXPENSES

16.1 Other Income

This account consists of:

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
Gain on sale of receivables	17.2	P 11,597,333	P 42,860,947
Service charges and penalties		9,736,762	13,398,435
Gain on foreclosure	11.1	2,315,525	41,429,393
Loss on sale of assets acquired – net	10, 11.1	(5,275,823)	(12,046,983)
Miscellaneous		<u>4,947,804</u>	<u>10,436,882</u>

16.2 Other Operating Expenses

The details of other operating expenses are shown below.

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
Impairment and credit losses	8, 11.1	P 75,562,924	P 63,856,934
Salaries and employee benefits		48,717,708	43,790,041
Taxes and licenses	19.2, 23(e)	27,286,229	31,911,675
Depreciation and amortization	10, 11.1, 11.2	15,953,883	20,806,645
Occupancy	17.3, 21.1	11,219,613	7,676,894
Litigation and others legal expenses		5,218,338	12,449,149
Communication and utilities		3,896,425	2,647,934
Management and professional fees		786,950	1,239,839
Representation and entertainment		515,541	92,180
Miscellaneous expense		<u>3,890,124</u>	<u>4,238,841</u>
		<u>P 193,047,735</u>	<u>P 188,710,132</u>

17. RELATED PARTY TRANSACTIONS

The Company, in the normal course of business, has various transactions with the Parent Bank, and key management personnel.

The amounts of these transactions and outstanding balances as of and for the years ended December 31, 2018 and 2017 are presented below.

<u>Related Party Category</u>	<u>Note</u>	<u>2018</u>		<u>2017</u>	
		<u>Amount of Transaction</u>	<u>Outstanding Balance</u>	<u>Amount of Transaction</u>	<u>Outstanding Balance</u>
Parent Bank					
Cash in bank	17.1	P 7,644,057	P 71,229,023	P 266,777,944	P 63,584,966
Sale of receivables	17.2	730,851,206	-	727,056,553	-
Occupancy cost	17.3	5,813,497	-	3,404,511	-
Key Management Personnel					
Compensation	17.4	12,128,282	-	15,675,671	-

17.1 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).

17.2 Sale of Receivables

In 2018 and 2017, the Company sold lease contract receivables and other loan receivables on a without recourse basis amounting to P730.85 million and P727.06 million, respectively, to the Parent Bank. The recognized gain on such sale amounted to P11.60 million and P42.86 million in 2018 and 2017, respectively, and is presented as Gain on sale of receivables under Other Income account in the statements of comprehensive income (see Note 16.1).

17.3 Lease Agreement

The Company has existing agreement with the Parent Bank for the lease of its office space which are renewable every five 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 16.2) and the unpaid rentals as of December 31, 2018 and 2017 are presented as part of Accrued other expenses under Accounts Payables and Other Liabilities account in the statements of financial position (see Note 13).

17.4 Key Management Personnel Compensation

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

	<u>2018</u>	<u>2017</u>
Salaries	P 11,826,082	P 15,228,321
Others short-term benefits	<u>302,200</u>	<u>447,350</u>
	<u>P 12,128,282</u>	<u>P 15,675,671</u>

18. TAXES

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

	<u>2018</u>	<u>2017</u>
Current tax expense:		
Minimum corporate income tax (MCIT)	P 2,210,154	P -
Final tax at 20%	111,322	92,681
Regular corporate income tax (RCIT)	<u>-</u>	<u>33,109,849</u>
	2,321,476	33,202,530
Deferred tax expense (income) relating to origination and reversal of temporary differences	(<u>21,655,561</u>)	<u>18,117,363</u>

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:

	<u>2018</u>	<u>2017</u>
Tax on pretax profit at 30%	P 301,055	P 33,295,836
Adjustment for income subjected to lower income tax rates	(64,830)	(46,310)
Tax effects of:		
Net operating loss carry-over (NOLCO)	(17,047,987)	-
Loss on sale of assets acquired	(6,189,537)	-
Non-deductible interest and other expenses	2,447,666	1,089,818
Unrecognized MCIT	2,210,154	-
Net deferred tax adjustments	(940,445)	17,030,952
Non-taxable income	<u>(50,161)</u>	<u>(50,403)</u>
	<u>(P 19,334,085)</u>	<u>P 51,319,893</u>

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

	<u>Statements of Financial Position</u>		<u>Statements of Comprehensive Income</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Deferred tax assets:				
Allowance for impairment NOLCO	P 153,642,434	P 62,098,909	P 10,335,337	P 2,272,397
Accumulated depreciation on investment properties and other properties acquired	17,047,987	-	(17,047,987)	-
Accrued expenses	6,740,208	6,408,975	(331,233)	6,823,135
Deferred tax liabilities:				
Lease income differential between finance and operating lease method	(23,657,456)	(26,534,974)	(2,877,518)	(2,682,917)
Unrealized gain on foreclosed assets	<u>(694,658)</u>	<u>(12,428,818)</u>	<u>(11,734,160)</u>	<u>10,072,379</u>
Deferred tax assets - net	<u>P 153,078,515</u>	<u>P 29,544,092</u>	<u>(P 21,655,561)</u>	<u>P 18,117,363</u>
Deferred tax expense (income)				

The adoption of PFRS 9 has resulted to an increase in deferred tax assets amounting to P101.88 million from the recognition of ECL adjustment on the Company's loans and receivables [see Note 2.2(a)(ii)].

The Company recognized a deferred tax asset related to the reported NOLCO in 2018, which amounted to P56.83 million, since management believes that it is likely that the carry forward tax credit will be realized in the next three years.

The Company is subject to MCIT, which is computed at 2% of gross income, as defined under tax regulations or RCIT, whichever is higher. In 2018, the Company is subject to MCIT amounted to P2.21 million as the MCIT is higher than RCIT. In 2017, no MCIT was reported as the RCIT was higher than MCIT.

19. **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 below and in the succeeding page are the significant provisions under R.A. No. 8556 that are applicable to the Company.

19.1 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, 2018 and 2017, 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 first 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, 2018 and 2017 (see Note 15.1).

- (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).

19.2 Licensing Fees

Under Section 10 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, 2018 and 2017 are presented as part of Taxes and licenses under the Other Operating Expenses account in the statements of comprehensive income (see Note 16.2).

19.3 Loans and Investments

The following are the provisions under Section 11 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, 2018 and 2017, 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

For the years ended December 31, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017, 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.

20. SELECTED FINANCIAL PERFORMANCE INDICATORS

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

	<u>2018</u>	<u>2017</u>
Current ratio	68%	129%
Debt-to-equity ratio	124%	116%
Return on equity	1%	4%
Return on assets	1%	2%
Net interest margin	5%	6%
Loans-to-assets	87%	91%
CAR	38%	36%

21. COMMITMENTS AND CONTINGENCIES

21.1 Operating Lease Commitments – Company as Lessee

The Company is a lessee under various operating leases covering certain warehouse and office space. These leases have terms of three to five years, with renewal options, and include annual escalation rate of 3% and 5%, respectively. Rent expense arising from these leases amounted to P11.22 million and P7.68 million in 2018 and 2017, respectively, which are presented as Occupancy under Other Operating Expenses account in the statements of comprehensive income (see Note 16.2).

Future minimum rental payments under these operating lease contracts as of December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Within one year	P 8,198,601	P 6,668,478
More than one year but less than five years	<u>20,722,926</u>	<u>15,400,000</u>
	<u>P 28,921,527</u>	<u>P 22,068,478</u>

21.2 Legal Claims and Other Commitments

As of December 31, 2018 and 2017, 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, 2018 and 2017, 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.

22. 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.

	<u>Bills Payable (See Note 12)</u>	<u>Dividends Payable (See Notes 13 and 15)</u>	<u>Total</u>
Balance as of January 1, 2018	P 1,316,616,157	P 200,000,000	P 1,516,616,157
Cash flows from financing activities			
Repayment of bills payable	(2,062,749,490)	-	(2,062,749,490)
Proceeds from availments of bills payable	<u>1,860,300,000</u>	<u>-</u>	<u>1,860,300,000</u>
Balance as of December 31, 2018	<u>P 1,114,166,667</u>	<u>P 200,000,000</u>	<u>P 1,314,166,667</u>
Balance as of January 1, 2017	P 1,674,587,062	P -	P 1,674,587,062
Cash flows from financing activities			
Repayment of bills payable	(2,183,593,420)	-	(2,183,593,420)
Proceeds from availments of bills payable	<u>1,825,622,515</u>	<u>-</u>	<u>1,825,622,515</u>
Dividends declared	<u>-</u>	<u>200,000,000</u>	<u>200,000,000</u>
Balance as of December 31, 2017	<u>P 1,316,616,157</u>	<u>P 200,000,000</u>	<u>P 1,516,616,157</u>

23. **SUPPLEMENTAL INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE**

Presented below and in the succeeding page is the supplementary information which is required by the BIR Revenue Regulation (RR) No. 15-2010 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR No. 15-2010 are presented below and in the succeeding page.

(a) *Gross Receipts Tax (GRT)*

In lieu of the value-added tax, the Company is subject to the 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 23(e)] is broken down as follows:

<u>Taxable Transactions</u>	<u>Tax Base</u>	<u>GRT</u>
Royalties, rentals of property, (real or personal), profits from exchange and all other gross income – 7%	P 784,005	P 54,880
Interest, commissions and discounts from lending activities with maturity period of five years or less – 5%	255,744,195	12,787,210
Interest, commissions and discounts from lending activities with maturity period of more than 5 years – 1%	1,044,380	10,444
All other items treated as gross income – 5%	<u>19,001,373</u>	<u>950,069</u>
	<u>P 276,573,953</u>	<u>P 13,802,603</u>

(b) *Excise Tax*

The Company did not pay excise tax in 2018 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, 2018, DST paid and accrued amounting to P8.03 million 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 2018 statement

(e) *Taxes and Licenses*

The details of Taxes and licenses under Other Operating Expenses account in 2018 are as follows:

	<u>Notes</u>	
GRT	23(a)	P 13,802,603
Documentary stamps	23(d)	8,027,392
Fringe benefit tax		4,703,906
Others		<u>752,328</u>
	16.2	<u>P 27,286,229</u>

(f) *Withholding Taxes*

The details of total withholding taxes for the year ended December 31, 2018 are shown below:

Expanded	P 11,387,136
Other percentage tax	1,550,282
Value-added tax	<u>1,275,135</u>
	<u>P 14,212,553</u>

The Company did not have any transaction subject to final and compensation withholding taxes for the year ended December 31, 2018.

(g) *Deficiency Tax Assessment and Tax Cases*

As of December 31, 2018, 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.