



**2009 ANNUAL REPORT**

## CORPORATE PROFILE

BDO Leasing and Finance, Inc., a BDO Unibank subsidiary, has established itself as a dominant force in the industry with its sterling track record of quality service and product innovation. It is a recognized leader in the market it serves with proven financial strength and expanding client base.

The Company's "customer-centric" approach, combined with the synergy and support of BDO, serve as the ideal formula for BDO Leasing in fully utilizing its capabilities, thereby providing the Company with a strong platform for attaining sustainable growth.

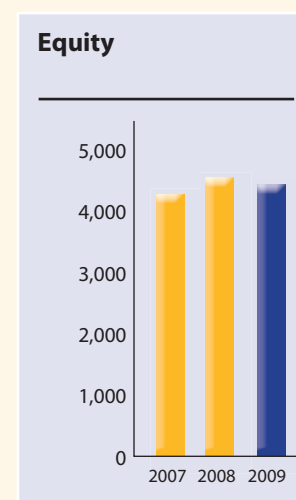
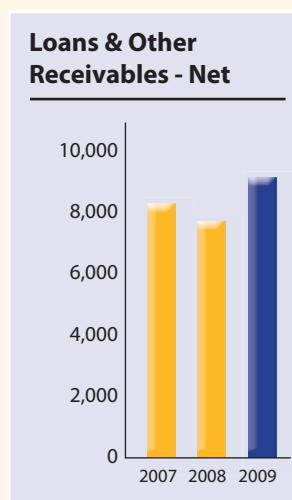
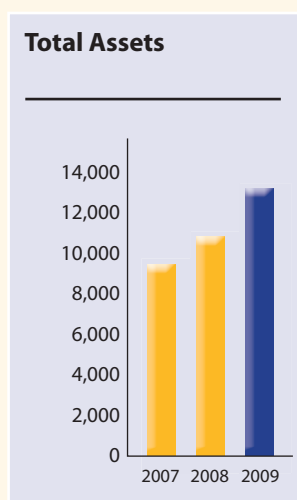
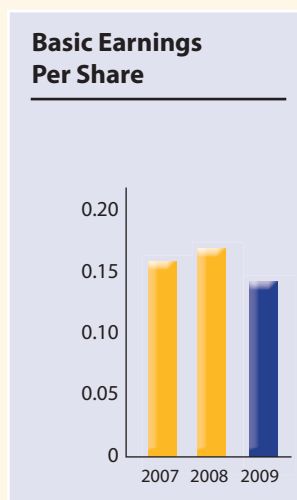
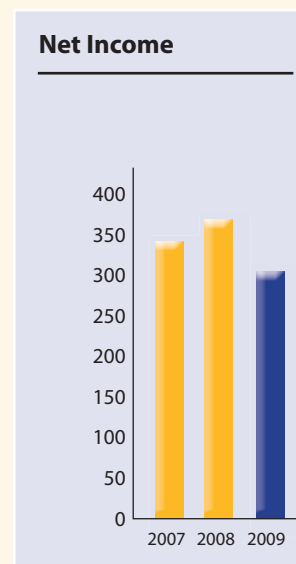
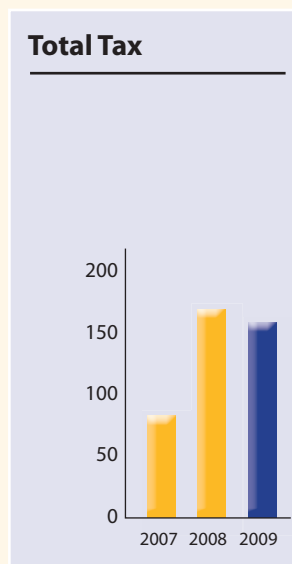
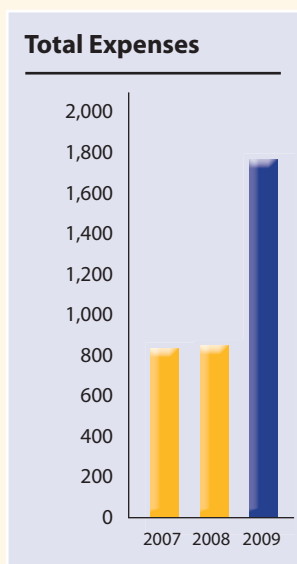
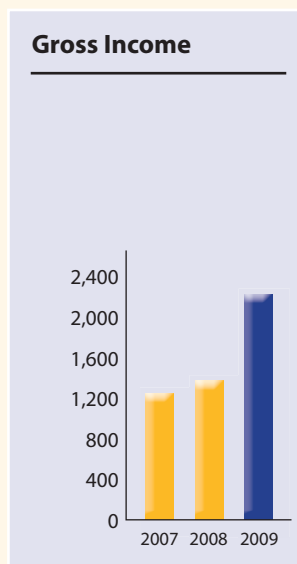
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# FINANCIAL HIGHLIGHTS

In Millions of Pesos (Except Basic Earnings Per Share)

<b>For the Year</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Gross Income	<b>2,210</b>	1,368	1,242
Total Expenses	<b>1,755</b>	838	818
Total Tax	<b>154</b>	165	82
Net Income	<b>300</b>	366	342
Basic Earnings Per Share	<b>0.14</b>	0.17	0.16
<b>At Year End</b>			
Total Assets	<b>13,052</b>	10,408	9,450
Loans & Other Receivables-Net	<b>9,143</b>	7,693	8,175
Equity	<b>4,375</b>	4,507	4,142



## TO OUR STOCKHOLDERS



  
Teresita T. Sy  
Chairperson

Notwithstanding the intense competition in a market still reeling from the global financial crisis, your Company ended 2009 with total assets of P13.05 billion on the back of heightened marketing efforts. This represents a solid 25% growth from P 10.41 billion the year before.

“We therefore look at 2010 with more optimism while anticipating continued challenges in a booming finance and leasing industry”



**Antonio N. Cotoco**  
Vice Chairman and  
Managing Director



Revenues also improved 61% to P2.21 billion at the end of 2009 from the previous year's P1.37 billion while net profit amounted to P300 million. Net income would have approximated 2008 net earnings had it not been for one-off adjustments for depreciation and provisions.

Considering the market temperature at the time, your Company did well in 2009 as it extensively marketed its products utilizing not only its own branches but also the wide BDO Unibank branch network to boost volume sales.

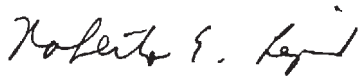
In the next 12 months, your Company expects the market to regain vigor as the economy shall have shaken off the lethargy of the past two years. Having

gained approval from the Securities and Exchange Commission to raise its Short-Term Commercial Paper (STCP) license from P4 billion to P8 billion, your Company is timely primed more than ever for a market turnaround.

We therefore look at 2010 with more optimism while anticipating continued challenges in a booming finance and leasing industry. We look forward to another productive year for the Company and for our shareholders and valued clients whom we wish to thank heartily for continuously taking the journey with us.

## REVIEW OF OPERATIONS

“The Company’s adaptive strategy produced excellent results, enabling BDO Leasing to live up to its proven track record”



**Roberto E. Lapid**  
President



### BDO Leasing posted a commendable performance in 2009 by staying ahead of the market needs.

The direction in 2009 was to align its customer and product priorities with the demand, utilizing its strong market presence on corporate clients and shifting its product focus on operating leases.

The Company posted a respectable 2009 net income of P300 million, withstanding the compression of net margins due to competition and the shifting of market and product focus. Net income

would have been at par with last year’s level if not for the one-off adjustments related to depreciation and more conservative loan provisioning.

Total financing income increased to P2.0 billion in 2009 or a 57% increase from the previous year, with the ratio of rent income to total financing income increasing to 57% in 2009 from 20% in 2008.

Consequently, the related depreciation expenses on operating leases also increased by almost six times to P1,034 million from P173 million the previous year. Operating expenses, excluding the operating lease depreciation and provisions, amounted to P627 million in 2009, or 6.3% higher from the previous year. Interest expenses went down by P3.1 million due to lower cost of funding while other business-related expenses increased by 13.2% in relation to the year-on-year growth in earning assets.

During the year, the Company capitalized on market opportunities and its size by participating in large corporate



fund-raising activities. Total assets grew by P2.6 billion or 25% to P13.1 billion in 2009 with net loans increasing by P1.4 billion and investments increasing by P1.3 billion.

The Board of Directors approved the payment of cash dividends to its stockholders in July and December 2009 amounting to P432 million at P0.20 per share. This is the highest dividend pay-out made by the company from the time it was listed in 1997.

In 2009, the Company obtained approval from the Securities and Exchange Commission to increase its Short-Term Commercial Paper

(STCP) license from P4 billion to P8 billion. The STCP issue was given a high rating of “PRS 2 plus”, which reaffirmed BDO Leasing’s above average capability in paying both principal and interest. The rating was issued by the Philippine Rating Services Corporation (PhilRatings) based on “BDO Leasing’s solid market position, sound capital base and the continuing benefits derived from its synergy with the parent company, BDO Unibank, as well as the relatively positive prospects for the local leasing and financing industry”. The STCP will be used to fund the anticipated growth in earning assets.

Management also implemented several cost-saving measures in 2009 including automation projects and centralization of back-room operations, the full impact of which will be reflected in next year’s operations.

The management of BDO Leasing had successfully instilled a dynamic mindset in the organization, effectively harnessing its resources for new processes to align with the shift in customer and product focus. The Company’s adaptive strategy produced excellent results, enabling BDO Leasing to live up to its proven track record and to be consistently distinguishing itself on the leading edge of the leasing and finance industry.

# BOARD OF DIRECTORS



**Teresita T. Sy**  
Chairperson



**Antonio N. Cotoco**  
Vice Chairman & Managing Director



**Roberto E. Lapid**  
Director & President



**Nestor V. Tan**  
Director



**Nazario S. Cabuquit, Jr.**  
Director



**Atty. Fulgencio S. Factoran, Jr.**  
Director



**Antonio A. Henson**  
Director



**Reynaldo P. Palmiery**  
Director





**Atty. Edmundo L. Tan**  
Director



**Exequiel P. Villacorta, Jr.**  
Director



**Walter C. Wassmer**  
Director



**Atty. Jesse H. T. Andres**  
Independent Director



**Ma. Leonora V. De Jesus**  
Independent Director



**Jesus G. Tirona**  
Independent Director



**Hon. Jeci A. Lapus**  
Adviser to the Board



**Atty. Richard Anthony D. Alcazar**  
Corporate Secretary/  
Corporate Information Officer

# STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

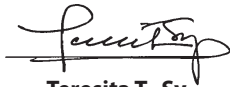
The management of BDO Leasing and Finance, Inc is responsible for all information and representations contained in the financial statements for the years ended December 31, 2009 and 2008. The financial statements have been prepared in conformity with Philippine Financial Reporting Standards (PFRS) and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the company's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

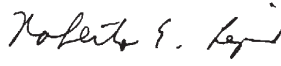
The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the company.

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has examined the financial statements of the company in accordance with Philippine Standards on Auditing and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and stockholders.

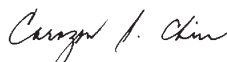
Signed under oath by the following:



**Teresita T. Sy**  
Chairperson



**Roberto E. Lapid**  
President



**Corazon S. Chiu**  
Comptroller

# REPORT OF INDEPENDENT AUDITORS

## **The Board of Directors and the Stockholders**

### **BDO Leasing and Finance, Inc.**

*(A Subsidiary of Banco de Oro Unibank, Inc.)*

BDO Leasing Centre, Corinthian Gardens

Ortigas Avenue, Quezon City

We have audited the accompanying financial statements of BDO Leasing and Finance, Inc. and subsidiary (the “Group”) and BDO Leasing and Finance, Inc. (the “Parent Company”) which comprise the statements of financial position as at December 31, 2009 and 2008, and the statements of comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2009, and notes to financial statements comprising of a summary of significant accounting policies and other explanatory notes.

### *Management’s Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditors’ Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements 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 entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of BDO Leasing and Finance, Inc. and subsidiary and of BDO Leasing and Finance, Inc. as of December 31, 2009 and 2008, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2009 in accordance with Philippine Financial Reporting Standards.

## **PUNONGBAYAN & ARAULLO**

  
**By: Benjamin P. Valdez**

Partner

CPA Reg. No. 0028485

TIN 136-619-880

PTR No. 2087602, January 4, 2010, Makati City

Partner’s SEC Accreditation No. 0009-AR-2

BIR AN 08-002511-11-2008 (Nov. 25, 2008 to 2011)

Firm BOA/PRC Cert. of Reg. No. 0002

Firm SEC Accreditation No. 0002-FR-2

March 3, 2010

## STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2009 AND 2008

(Amounts in Millions of Philippine Pesos)

	Notes	Group		Parent Company	
		2009	2008	2009	2008
<b>ASSETS</b>					
CASH AND CASH EQUIVALENTS	6	P 232.4	P 186.1	P 176.4	P 171.9
AVAILABLE-FOR-SALE FINANCIAL ASSETS	7	1,300.9	1.1	1,300.9	1.1
LOANS AND OTHER RECEIVABLES - Net	8	9,142.7	7,692.9	9,131.7	8,329.3
PROPERTY AND EQUIPMENT - Net	9	1,452.5	1,649.7	20.3	15.2
INVESTMENT PROPERTIES - Net	10	767.0	751.6	767.0	751.6
OTHER ASSETS - Net	11	156.6	127.1	315.3	100.9
<b>TOTAL ASSETS</b>		<b>P 13,052.1</b>	<b>P 10,408.5</b>	<b>P 11,711.6</b>	<b>P 9,370.0</b>
<b>LIABILITIES AND EQUITY</b>					
BILLS PAYABLE	12	P 6,143.0	P 3,681.6	P 5,263.5	P 3,093.6
ACCOUNTS PAYABLE AND OTHER LIABILITIES	13	232.4	194.1	234.5	159.5
LEASE DEPOSITS	14	2,301.9	2,025.5	1,974.1	1,742.9
<b>Total Liabilities</b>		<b>8,677.3</b>	<b>5,901.2</b>	<b>7,472.1</b>	<b>4,996.0</b>
CAPITAL STOCK	15	2,225.2	2,225.2	2,225.2	2,225.2
ADDITIONAL PAID-IN CAPITAL		571.1	571.1	571.1	571.1
TREASURY SHARES		( 81.8)	( 81.8)	( 81.8)	( 81.8)
RETAINED EARNINGS		1,660.6	1,793.1	1,525.3	1,659.8
UNREALIZED FAIR VALUE LOSS ON AVAILABLE-FOR-SALE SECURITIES	7	( 0.3)	( 0.3)	( 0.3)	( 0.3)
<b>Net Equity</b>		<b>4,374.8</b>	<b>4,507.3</b>	<b>4,239.5</b>	<b>4,374.0</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>P 13,052.1</b>	<b>P 10,408.5</b>	<b>P 11,711.6</b>	<b>P 9,370.0</b>

See Notes to Financial Statements.

## STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

(Amounts in Millions of Philippine Pesos)

	Notes	Group			Parent Company		
		2009	2008	2007	2009	2008	2007
<b>REVENUES</b>							
Rent	17	P 1,125.7	P 256.4	P 58.4	P -	P -	P -
Interest and discounts	8	864.9	1,012.5	1,077.8	892.5	1,018.5	1,077.8
Service fees		95.6	20.7	15.1	95.6	20.7	15.1
Other income	16	123.5	78.9	90.8	91.9	29.9	73.1
		<b>2,209.7</b>	<b>1,368.5</b>	<b>1,242.1</b>	<b>1,080.0</b>	<b>1,069.1</b>	<b>1,166.0</b>
<b>OPERATING COSTS AND EXPENSES</b>							
Occupancy and equipment-related expenses	9, 10, 11	1,087.1	221.2	72.8	53.6	48.5	50.2
Interest and financing charges	12, 14	281.4	284.5	301.4	206.5	255.2	286.8
Employee benefits	18	133.9	114.3	127.6	133.9	114.3	127.6
Impairment and credit losses	8	94.5	75.0	179.4	94.5	75.0	179.4
Taxes and licenses	20	92.3	80.7	71.8	85.5	78.3	70.6
Litigation/assets acquired expenses		23.8	26.6	27.4	23.8	26.6	27.4
Security, clerical and messengerial		7.3	6.1	5.6	7.3	6.0	5.5
Others		35.0	29.5	32.5	34.6	26.7	32.1
		<b>1,755.3</b>	<b>837.9</b>	<b>818.5</b>	<b>639.7</b>	<b>630.6</b>	<b>779.6</b>
<b>PROFIT BEFORE TAX</b>		<b>454.4</b>	<b>530.6</b>	<b>423.6</b>	<b>440.3</b>	<b>438.5</b>	<b>386.4</b>
<b>TAX EXPENSE</b>	20	<b>154.4</b>	<b>165.0</b>	<b>81.9</b>	<b>142.3</b>	<b>145.8</b>	<b>74.0</b>
<b>NET PROFIT</b>		<b>P 300.0</b>	<b>P 365.6</b>	<b>P 341.7</b>	<b>P 298.0</b>	<b>P 292.7</b>	<b>P 312.4</b>
<b>Basic / Diluted Earnings Per Share</b>	21	<b>P 0.14</b>	<b>P 0.17</b>	<b>P 0.16</b>	<b>P 0.14</b>	<b>P 0.14</b>	<b>P 0.14</b>

Note: The Group has no other comprehensive income in each of the three years in the period ended December 31, 2009.

*See Notes to Financial Statements.*

## STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

(Amounts in Millions of Philippine Pesos)

	Note	Group					Net Equity
		Capital Stock	Additional Paid-in Capital	Retained Earnings	Treasury Shares, At Cost	Unrealized Fair Value Loss on Available-for-Sale Securities	
Balance at January 1, 2009	P	2,225.2	P 571.1	P 1,793.1	(P 81.8)	(P 0.3)	P 4,507.3
Total comprehensive income		-	-	300.0	-	-	300.0
Cash dividends	15	-	-	(432.5)	-	-	(432.5)
<b>BALANCE AT DECEMBER 31, 2009</b>	<b>15</b>	<b><u>P 2,225.2</u></b>	<b><u>P 571.1</u></b>	<b><u>P 1,660.6</u></b>	<b><u>(P 81.8)</u></b>	<b><u>(P 0.3)</u></b>	<b><u>P 4,374.8</u></b>
Balance at January 1, 2008	P	2,225.2	P 571.1	P 1,427.5	(P 81.8)	(P 0.3)	P 4,141.7
Total comprehensive income		-	-	365.6	-	-	365.6
<b>BALANCE AT DECEMBER 31, 2008</b>		<b><u>P 2,225.2</u></b>	<b><u>P 571.1</u></b>	<b><u>P 1,793.1</u></b>	<b><u>(P 81.8)</u></b>	<b><u>(P 0.3)</u></b>	<b><u>P 4,507.3</u></b>
Balance at January 1, 2007	P	2,225.2	571.1	P 1,085.8	(P 81.8)	(P 0.3)	P 3,800.0
Total comprehensive income		-	-	341.7	-	-	341.7
<b>BALANCE AT DECEMBER 31, 2007</b>		<b><u>P 2,225.2</u></b>	<b><u>P 571.1</u></b>	<b><u>P 1,427.5</u></b>	<b><u>(P 81.8)</u></b>	<b><u>(P 0.3)</u></b>	<b><u>P 4,141.7</u></b>

**Note: The Group has no other comprehensive income in each of the three years in the period ended December 31, 2009.**

*See Notes to Financial Statements.*

## STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

(Amounts in Millions of Philippine Pesos)

Note	Parent Company						Net Equity
	Capital Stock	Additional Paid-in Capital	Retained Earnings	Treasury Shares, At Cost	Unrealized Fair Value Loss on Available-for-Sale Securities		
Balance at January 1, 2009	P 2,225.2	P 571.1	P 1,659.8	(P 81.8)	(P 0.3)	P 4,374.0	
Total comprehensive income	-	-	298.0	-	-	298.0	
Cash dividends	15	-	( 432.5)	-	-	( 432.5)	
<b>BALANCE AT DECEMBER 31, 2009</b>	<b>15</b>	<b><u>P 2,225.2</u></b>	<b><u>P 571.1</u></b>	<b><u>P 1,525.3</u></b>	<b><u>(P 81.8)</u></b>	<b><u>(P 0.3)</u></b>	<b><u>P 4,239.5</u></b>
Balance at January 1, 2008	P 2,225.2	P 571.1	P 1,367.1	(P 81.8)	(P 0.3)	P 4,081.3	
Total comprehensive income	-	-	292.7	-	-	292.7	
<b>BALANCE AT DECEMBER 31, 2008</b>		<b><u>P 2,225.2</u></b>	<b><u>P 571.1</u></b>	<b><u>P 1,659.8</u></b>	<b><u>(P 81.8)</u></b>	<b><u>(P 0.3)</u></b>	<b><u>P 4,374.0</u></b>
Balance at January 1, 2007	P 2,225.2	P 571.1	P 1,054.9	(P 81.8)	(P 0.3)	P 3,769.1	
Total comprehensive income	-	-	312.2	-	-	312.2	
<b>BALANCE AT DECEMBER 31, 2007</b>		<b><u>P 2,225.2</u></b>	<b><u>P 571.1</u></b>	<b><u>P 1,367.1</u></b>	<b><u>(P 81.8)</u></b>	<b><u>(P 0.3)</u></b>	<b><u>P 4,081.3</u></b>

**Note: The Group has no other comprehensive income in each of the three years in the period ended December 31, 2009.**

*See Notes to Financial Statements.*

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

(Amounts in Millions of Philippine Pesos)

	Notes	Group		
		2009	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before tax	P	454.4	P 530.6	P 423.6
Adjustments for:				
Interest income	8	( 864.9)	( 1,012.5)	( 1,077.8)
Interest received		891.3	1,014.1	1,030.6
Interest and financing charges	12, 14	275.6	284.5	301.4
Interest and financing charges paid		( 285.7)	( 283.2)	( 255.7)
Depreciation and amortization	9, 10, 11	1,064.6	195.8	48.3
Impairment and credit losses	8, 11	94.5	75.0	179.4
Fair value gains		( 69.9)	( 51.1)	( 87.4)
Loss (gain) on sale of investment properties	10	( 7.2)	( 3.9)	11.7
Loss (gain) on sale of property and equipment	9	( 10.7)	0.1	-
Operating profit before changes in operating assets and liabilities		1,542.0	749.4	574.1
Decrease (increase) in loans and other receivables		( 1,545.1)	391.5	( 152.9)
Decrease (increase) in other assets		( 57.3)	( 89.1)	11.3
Increase (decrease) in accounts payable and other liabilities		( 11.9)	75.2	5.5
Increase in lease deposits		316.4	489.9	109.5
Cash generated from (used in) operations		244.1	1,616.9	547.5
Cash paid for income tax		( 86.1)	( 231.4)	( 144.4)
Net Cash From (Used in) Operating Activities <i>(Carried Forward)</i>	P	158.0	P 1,385.5	P 403.1



		<b>Parent Company</b>	
<b>2009</b>	2008	2007	
<b>P 440.4</b>	P 438.5	P 386.2	
( 892.5)	( 1,018.5)	( 1,077.8)	
<b>891.1</b>	957.9	1,030.5	
<b>206.5</b>	255.2	286.8	
( 208.4)	( 171.2)	( 244.6)	
<b>31.1</b>	23.4	25.8	
<b>94.5</b>	75.0	179.4	
( 62.2)	( 1.5)	( 231.1)	
( 7.2)	( 3.9)	11.7	
-	0.1	-	
<b>493.3</b>	555.0	366.9	
( 897.6)	( 199.1)	20.5	
( 27.6)	( 26.9)	18.8	
<b>46.8</b>	( 49.8)	2.7	
<b>260.0</b>	192.8	100.0	
( 125.1)	472.0	508.9	
( 76.3)	( 212.8)	( 134.5)	
(P 201.4)	P 259.2	P 374.4	

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007  
(Amounts in Millions of Philippine Pesos)

	Notes	Group		
		2009	2008	2007
Net Cash From (Used in)				
Operating Activities ( <i>Brought Forward</i> )		P 158.0	P 1,385.5	P 403.1
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisition of available-for-sale financial assets		( 1,299.8)	-	-
Acquisition of property and equipment		( 847.6)	( 1,525.6)	( 99.0)
Net increase in investment properties		( 19.1)	( 50.1)	( 81.1)
Proceeds from disposal of property and equipment		25.9	8.5	9.1
Additional investment in a subsidiary		-	-	-
Net Cash Used in Investing Activities		( 2,140.6)	( 1,567.2)	( 171.0)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Availments of bills payable		32,503.1	7,638.0	4,822.8
Payments of bills payable		( 30,041.7)	( 7,480.4)	( 4,992.8)
Payments of cash dividends	15	( 432.5)	-	-
Net Cash From (Used in) Financing Activities		2,028.9	157.6	( 170.0)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		46.3	( 24.1)	62.1
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		186.1	210.2	148.1
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	6	P 232.4	P 186.1	P 210.2

### Supplemental Information on Non-cash Investing Activities

The following are the noncash investing activities that relate to the analysis of the cash flow statements:

- Additions to investment properties in settlement of loans and receivables amounted to P38.6 and P114.7 in 2009 and 2008, respectively (see Notes 8 and 10). In 2007, additions to investment properties in settlement of loans and receivables totaled P110.6.
- Additions to repossessed chattels and other equipment in settlement of loans and other receivables amounted to P7.2 and P28.9 in 2009 and 2008, respectively (see Notes 8 and 11). In 2007, additions to repossessed chattels and other equipment in settlement of loans and other receivables amounted to P57.1.

*See Notes to Financial Statements.*

2009	Parent Company	
	2008	2007
(P 201.4)	P 259.2	P 374.4
( 1,299.8)	-	-
( 14.6)	( 14.0)	( 4.7)
( 19.1)	( 50.1)	( 81.1)
-	1.9	8.8
( 198.0)	( 7.0)	( 30.0)
( 1,531.5)	( 69.2)	( 107.0)
26,352.1	6,240.2	4,736.8
( 24,182.2)	( 6,463.0)	( 4,940.1)
( 432.5)	-	-
1,737.4	( 222.8)	( 203.3)
4.5	( 32.8)	64.1
171.9	204.7	140.6
<u>P 176.4</u>	<u>P 171.9</u>	<u>P 204.7</u>

# NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009, 2008 AND 2007

(Amounts in Millions of Philippine Pesos, Except Per Share Data, Exchange Rates and As Indicated)

## 1. CORPORATE MATTERS

### 1.1 Incorporation and Operations

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

The Parent Company is a subsidiary of Banco de Oro Unibank, Inc. (BDO Unibank or the "Ultimate Parent Company"), an expanded commercial bank incorporated and doing business in the Philippines.

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

The Parent Company's principal office is located at BDO Leasing Centre, Corinthian Gardens, Ortigas Avenue, Quezon City. It has nine branches located in the cities of Makati, Cebu, Davao, Dagupan, San Pablo, Cagayan de Oro, Iloilo, Pampanga and Cavite. The registered address of BDO Unibank is located at BDO Corporate Center, 7899 Makati Avenue, Makati City.

### 1.2 Change in Corporate Name

On July 30, 2007, the Board of Directors (BOD) approved the change in the Parent Company's corporate name from PCI Leasing and Finance, Inc. to BDO Leasing and Finance, Inc. This change was subsequently approved by the SEC on June 13, 2008.

### 1.3 Approval of Financial Statements

The accompanying financial statements of BDO Leasing and BDO Rental (the "Group") and of the Parent Company for the year ended December 31, 2009 (including the comparatives for the years ended December 31, 2008 and 2007) were authorized for issue by the BOD on March 3, 2010.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. The 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 (PFRS)

The financial statements of the Group have been prepared in accordance with PFRSs. PFRSs are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. These financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial assets. 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 PAS 1 (Revised 2007), *Presentation of Financial Statements*. The Group presents all items of income and expenses in a single statement of comprehensive income. Two comparative periods are presented for the statement of financial position when the Group applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements, or reclassifies items in the financial statements.

## NOTES TO FINANCIAL STATEMENTS

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(Amounts in Millions of Philippine Pesos, Except Per Share Data, Exchange Rates and As Indicated)

(c) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Company's functional currency (the currency of the primary economic environment in which the Company operates), and all values represent absolute amounts except when otherwise indicated (see also Note 2.15).

### 2.2 *Impact of New Amendments and Interpretations to Existing Standards*

(a) *Effective in 2009 that are Relevant to the Group*

In 2009, the Group adopted for the first time the following new interpretation and amended standards which are mandatory in 2009:

Philippine Accounting Standard	
(PAS) 1 (Revised 2007)	: Presentation of Financial Statements
PAS 27 (Revised)	: Consolidated and Separate Financial Statements
PFRS 7 (Amendments)	: Financial Instruments: Disclosures
PFRS 8	: Operating Segments
Various Standards	: 2008 Annual Improvements to PFRS

- (i) PAS 1 (Revised 2007), *Presentation of Financial Statements*. The amendment requires an entity to present all items of income and expense recognized in the period in a single statement of comprehensive income or in two statements: a separate statement of income and a statement of comprehensive income. Income and expense recognized in profit or loss is presented in the statement of income in the same way as the previous version of PAS 1. The statement of comprehensive income includes the profit or loss for the period and each component of income and expense recognized outside of profit or loss or the "non-owner changes in equity," which are no longer allowed to be presented in the statements of changes in equity, classified by nature (e.g., gains or losses on available-for-sale assets or translation differences related to foreign operations). A statement showing an entity's financial position at the beginning of the previous period is also required when the entity retrospectively applies an accounting policy or makes a retrospective restatement, or when it reclassifies items in its financial statements.

The Group has applied PAS 1 (Revised 2007) in its 2009 consolidated financial statements and its adoption of this amendment did not result in any material adjustments in its financial statements as the change in accounting policy only affects presentation aspects. The Group has elected to present a single statement of comprehensive income since there are no other comprehensive income in each of the three years in the period ended December 31, 2009.

- (ii) PAS 27 (Revised), *Consolidated and Separate Financial Statements* (effective from July 1, 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the equity is re-measured to fair value, and a gain or loss is recognized in profit or loss. Since there are no non-controlling interests in the subsidiaries within the Group, this revised standard has no impact in the Group's financial statements.
- (iii) PFRS 7 (Amendments), *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*. The amendments require additional disclosures for financial instruments that are measured at fair value in the statement of financial position. These fair value measurements are categorized into a three-level fair value hierarchy (see Note 3.2), which reflects the extent to which they are based on observable market data. A separate quantitative maturity analysis must be presented for derivative financial liabilities that shows the remaining contractual maturities, where these are essential for an understanding of the timing of cash flows. All disclosures relating to financial instruments, including all comparative information, have been updated to reflect the new requirements. The Group has taken advantage of the transitional provisions in the amendments and has not provided comparative information with respect to the new requirements. Moreover, as the change in accounting policy only results in additional disclosures, there is no significant impact on the Group's financial statements.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009, 2008 AND 2007

(Amounts in Millions of Philippine Pesos, Except Per Share Data, Exchange Rates and As Indicated)

- (iv) PFRS 8, *Operating Segments*, (effective from January 1, 2009). Under this new standard, a reportable operating segment is identified based on the information about the components of the entity that management uses to make decisions about operating matters. In addition, segment assets, liabilities and performance, as well as certain disclosures, are to be measured and presented based on the internal reports prepared for and reviewed by the chief decision makers. The Group identifies operating segments and reports on segment assets, liabilities and performance based on internal management reports, hence, the adoption of this new standard did not have material impact on the Group's financial statements.
- (v) 2008 Annual Improvements to PFRS. The FRSC has adopted the *Improvements to International Financial Reporting Standards 2008* which became effective in the Philippines in annual periods beginning on or after January 1, 2009. Among those improvements, the following are the amendments relevant to the Group:
- PAS 1 (Amendment), *Presentation of Financial Statements*. The amendment clarifies that financial instruments classified as held for trading in accordance with PAS 39 are not necessarily required to be presented as current assets or current liabilities. Instead, normal classification principles under PAS 1 should be applied. Since the Group has no financial instruments held for trading, the amendment had no impact in the Group's financial statements.
  - PAS 19 (Amendment), *Employee Benefits*. The amendment includes the following:
    - Clarification that a curtailment is considered to have occurred to the extent that benefit promises are affected by future salary increases and a reduction in the present value of the defined benefit obligation results in negative past service cost.
    - Change in the definition of return of plan assets to require the deduction of plan administration costs in the calculation of plan assets return only to the extent that such costs have been excluded from measurement of the defined benefit obligation.
    - Distinction between short-term and long-term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.
    - Removal of the reference to recognition in relation to contingent liabilities in order to be consistent with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, which requires contingent liabilities to be disclosed and not recognized.

The Group has assessed that this amendment has no significant impact on its financial statements.

- PAS 36 (Amendment), *Impairment of Assets*. Where fair value less cost to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. Since there were no impairment losses recognized on non-financial assets, the adoption of this amendment did not have significant impact in the Group's financial statements.
- PAS 40 (Amendment), *Investment Property*. PAS 40 is amended to include property under construction or development for future use as investment property in its definition of investment property. This results in such property being within the scope of PAS 40; previously, it was within the scope of PAS 16. Also, if an entity's policy is to measure investment property at fair value, but during construction or development of an investment property the entity is unable to reliably measure its fair value, then the entity would be permitted to measure the investment property at cost until construction or development is complete. At such time, the entity would be able to measure the investment property at fair value. The adoption had no material effect on its 2009 financial statements as the Group has no property under construction or development for future use as investment property and investment properties pertain to assets acquired in settlement of loans.

## NOTES TO FINANCIAL STATEMENTS

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(b) *Effective in 2009 but not Relevant to the Group*

The following amendments, interpretations and improvements to published standards are mandatory for accounting periods beginning on or after January 1, 2009 but are not relevant to the Group's operations:

PAS 23 (Revised 2007)	:	Borrowing Costs
PAS 32 and PAS 1 (Amendments)	:	Financial Instruments: Presentation and Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation
PFRS 1 (Revised 2008)	:	Amendments to PFRS 1: <i>First-time Adoption of PFRS</i>
PFRS 2 (Amendment)	:	Share-based Payment
Philippine Interpretations	:	
IFRIC 13	:	Customer Loyalty Programmes
IFRIC 16	:	Hedges of a Net Investment in a Foreign Operation

(c) *Effective Subsequent to 2009*

There are new PFRS, revisions, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2009. Among those, management has initially determined the following, which the Group will apply in accordance with its transitional provisions, to be relevant to its financial statements:

PFRS 9	:	Financial Instruments
2009 Annual Improvements	:	
PAS 1 (Amendment)	:	Presentation of Financial Statements
PAS 7 (Amendment)	:	Statement of Cash Flows
PAS 17 (Amendment)	:	Leases
PAS 18 (Amendment)	:	Revenue

Below is a discussion of the possible impact of these new accounting standards.

- (i) PFRS 9, *Financial Instruments*. The FRSC is yet to adopt International Financial Reporting Standard (IFRS) 9, *Financial Instruments* as of the financial report date. With IFRS 9, which will become effective for annual periods beginning January 1, 2013, the IASB aims to replace IAS 39 (PAS 39 in the Philippines), *Financial Instruments: Recognition and Measurement*, in its entirety by the end of 2010. IFRS 9 is the first part of Phase 1 of this project. The main phases are (with a separate project dealing with derecognition):

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

IFRS 9 introduces major simplifications of the classification and measurement provisions under IAS 39. These include reduction from four measurement categories into two categories, i.e. fair value and amortized cost, and from several impairment methods into one method.

Management is yet to assess the impact that this amendment is likely to have on the financial statements of the Group. However, management does not expect to implement the amendments until all chapters of PAS 39 replacement have been published and the impact of all changes can be comprehensively assessed.

- (ii) 2009 Annual Improvements to PFRS. The FRSC has adopted the *Improvements to International Financial Reporting Standards 2009*. Most of the amendments will become effective in the Philippines in annual periods beginning on or after January 1, 2010. Among those improvements, only the following amendments were identified to be relevant to the Group's financial statements.

- PAS 7 (Amendment), *Statement of Cash Flows*. PAS 7 amendment states explicitly that only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities. The amendment will not result to material impact in the financial statements since only recognized assets are classified by the Group as cash flow from investing activities.

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- PAS 17 (Amendment), *Leases*. The amendment clarifies that when a lease includes both land and building elements, an entity assesses the classification of each element as finance or an operating lease separately in accordance with the general guidance on lease classification set out in PAS 17. Management has initially determined that this will not have material impact since the Group does not enter into a lease agreement in the capacity of the lessor or lessee that includes both land and building.
- PAS 18 (Amendment), *Revenue*. The amendment provides guidance on determining whether an entity is acting as a principal or as an agent. Management will apply this amendment prospectively in its 2010 financial statements.

### 2.3 *Separate Consolidated Financial Statements and Basis of Consolidation*

These financial statements are prepared as the Group's separate consolidated financial statements from BDO Unibank Group. The Group presents separate consolidated financial statements available for public use that comply with PFRS since the Parent Company's equity securities are traded in a public market.

The Group obtains and exercises control through voting rights. The Group's financial statements comprise the accounts of the Parent Company and its subsidiary, after the elimination of material intercompany transactions. All intercompany balances and transactions with its subsidiary, including income, expenses and dividends, are eliminated in full.

The financial statements of the subsidiary are prepared for the same reporting period as the Group, using consistent accounting principles.

A subsidiary is an entity over which the Group has the power to control the former's financial and operating policies. The Group obtains and exercises control through voting rights. A subsidiary is consolidated from the date the Group obtains control until such time that such control ceases.

An acquired subsidiary is subject to the application of the purchase method for acquisitions. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the Group statements of financial position at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies.

The results of subsidiary acquired or disposed of during the year, if any, are included in the Group statements of comprehensive income from the date of acquisition or up to the date of disposal, as appropriate.

### 2.4 *Segment Reporting*

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

### 2.5 *Financial Assets*

Financial assets, which are recognized when the Company becomes a party to the contractual terms of the financial instrument, include cash and cash equivalents, and other financial instruments. Financial assets are classified into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. Except for financial assets at fair value through profit or loss, the designation of financial assets is re-evaluated at every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.



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Regular purchase and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at fair value through profit or loss are initially recognized at fair value, plus transaction costs. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in profit or loss.

The foregoing categories of financial instruments relevant to the Group are more fully described below.

(a) *Loans and Receivables*

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

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses. Any change in their value is recognized in profit or loss, except for changes in fair values of reclassified financial assets under PAS 39 and PFRS 7 (Amendments). Increases in estimates of future cash receipts from such financial assets shall be recognized as an adjustment to the effective interest rate from the date of the change in estimate rather than as an adjustment to the carrying amounts of the financial assets at the date of the change in estimate.

Impairment losses is the estimated amount of losses in the Group's loan portfolio, based on the evaluation of the estimated future cash flows discounted at the loan's original effective interest rate. Impairment loss is provided when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. Loans and receivables are written off against the allowance for impairment losses when management believes that the collectibility of the principal is unlikely.

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

(b) *Available-for-sale Financial Assets*

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in Other Comprehensive Income. Gains and losses arising from securities classified as available-for-sale are recognized in the Statement of Other Comprehensive Income when these are sold or when the investment is impaired.

In case of impairment, any loss previously recognized in equity is transferred to the statement of comprehensive income. Losses recognized in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. Losses recognized in prior period statement of comprehensive income resulting from the impairment of debt instruments are reversed through the statement of comprehensive income, when there is recovery in the amount of previously recognized impairment losses.

Available-for-sale Financial Assets are presented as a separate line item in the statement of financial position.

Impairment losses recognized on financial assets are included as part of Impairment and Credit Losses under Operating Costs and Expenses in the statement of comprehensive income.

For investments that are actively traded in organized financial markets, fair value is determined by reference to stock exchange-quoted market bid prices at the close of business on each reporting date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows (such as dividend income) of the underlying net asset base of the investment.

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(Amounts in Millions of Philippine Pesos, Except Per Share Data, Exchange Rates and As Indicated)

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

Derecognition of financial assets occurs when the rights to receive cash flows from the financial instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

### 2.6 *Property and Equipment*

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

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and amortization and any impairment losses are removed from the accounts and any resulting gain or loss is reflected in income for the period.

Except for certain equipment which are depreciated based on the rate of utilization, depreciation is computed on the straight-line method over the estimated useful lives of the depreciable assets as follows:

Transportation and other equipment	2-8 years
Furniture, fixtures, and others	3-5 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.17).

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

An item of property and equipment 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 the statement of comprehensive income in the period the item is derecognized.

### 2.7 *Investment Properties*

Investment properties are stated at cost. The cost of an investment property comprises its purchase price and directly attributable cost incurred. This also includes properties acquired by the Group from defaulting borrowers not held for sale in the next twelve months. For these assets, the cost is recognized initially at the fair market value. Investment properties except land are depreciated on a straight-line basis over a period of 10 years.

Subsequent to initial recognition, investment property is stated at cost less accumulated depreciation and any impairment in value.

The Group adopted the cost model in measuring its investment properties, hence, these are carried at cost less accumulated depreciation and any impairment in value. Depreciation and impairment loss are recognized in the same manner as in Property and Equipment.

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Investment property is 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 an investment property is recognized in the statement of comprehensive income in the year of retirement or disposal.

### 2.8 Financial Liabilities

Financial liabilities of the Group include bills payable, accounts payable and other liabilities and lease deposits, which are measured at amortized cost using the effective interest method.

Financial liabilities are recognized when the Group becomes a party to the contractual agreements of the instrument. All interest-related charges are included as part of Interest and Financing Charges under Operating Costs and Expenses in the statement of comprehensive income.

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

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

Lease deposits are initially recognized at fair value. The excess of the principal amount of the deposits over its fair value is immediately recognized and is included as part of Fair Value Gains under Other Income in the statement of comprehensive income (see Note 16). Meanwhile, interest expense on the lease deposits is accrued using the effective interest method and is included as part of Interest and Financing Charges under Operating Costs and Expenses in the statement of comprehensive income.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration.

### 2.9 Provisions

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the statement of financial position date, including the risks and uncertainties associated with the present obligation.

Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, not exceeding the amount of the related provision.

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. In addition, long-term provisions are discounted to their present values, where time value of money is material.

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.

## NOTES TO FINANCIAL STATEMENTS

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Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements.

### 2.10 Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

### 2.11 Residual Value of Leased Assets

The residual value of leased assets, which approximates the amount of lease deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the disposal of the leased asset at the end of the lease term. At the end of the lease term, the residual value receivable of the leased asset is generally applied against the lease deposit of the lessee.

### 2.12 Equity

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

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

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

Fair value loss on available-for-sale securities pertains to cumulative mark-to-market valuation of available-for-sale securities.

Retained earnings include all current and prior period results as disclosed in the statement of comprehensive income.

### 2.13 Revenue and Expense Recognition

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

- (a) *Interest income on finance lease receivables* – The interest income on finance lease is allocated over the lease term on a systematic and rational basis. The recognition of interest income on finance lease is based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.
- (b) *Interest* – Interest income and expenses are recognized in profit or loss for all instruments measured at amortized cost using the effective interest method.

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

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

- (c) *Rent* – Revenue is recognized in profit or loss on a straight-line basis over the lease term, or on another systematic basis which is more representative of the time pattern in which the use or benefit derived from the leased asset is diminished.
- (d) *Service fees* – Fees related to the administration and servicing a loan are recognized as revenue as the services are rendered.

Operating costs and expenses are recognized in profit or loss upon utilization of the assets or services or at the date they are incurred.

### 2.14 Leases

The Group accounts for its leases as follows:

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

Finance leases, where the Group transfers substantially all the risk and benefits incidental to ownership of the leased item to the lessee, are included in the statements of financial position under Loans and Other Receivables account. A lease receivable is recognized at an amount equal to the net investment in the lease. The difference between the gross lease receivable and the net investment in the lease is recognized as unearned finance income.

All income resulting from the receivable is included as part of Interest and Discounts in the statement of comprehensive income. Leases where the Group does not transfer substantially all the risk and benefits of ownership of the assets are classified as operating leases.

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

#### (b) *Group as Lessee*

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the statement of comprehensive income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

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

### 2.15 Foreign Currency Transactions

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

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

### 2.16 Impairment of Financial Assets

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

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

- (a) *Assets carried at amortized cost.* The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Group includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

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

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

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

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

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

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

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

If, in a subsequent period, the amount of the impairment loss decrease 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 amount of the reversal is recognized in profit or loss.

- (b) *Assets carried at fair value with changes charged to other comprehensive income.* In the case of investments classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the statement of comprehensive income. Impairment losses recognized in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income.

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

- (c) *Assets carried at cost.* The Group assesses at the end of each reporting period whether there is objective evidence that any of the unquoted equity securities and derivative assets linked to and required to be settled in such unquoted equity instruments, which are carried at cost and for which objective evidence of impairment exist. The amount of impairment loss is the difference between the carrying amount of the equity security and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset. Impairment losses on assets carried at cost cannot be reversed.

### 2.17 Impairment of Non-financial Assets

The Group's property and equipment, investment properties and other assets are subject to impairment testing.

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

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. Impairment loss is charged pro-rata to the other assets in the cash generating unit.

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

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### 2.18 Employee Benefits

#### (a) Retirement Benefit Obligations

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

The liability recognized in the statement of financial position for defined benefit pension plans is the present value of the defined benefit obligation (DBO) at the end of each reporting period less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past-service costs. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses are not recognized as an income or expense unless the total unrecognized gain or loss exceeds 10% of the greater of the obligation and related plan assets. The amount exceeding this 10% corridor is charged or credited to profit or loss over the employees' expected average remaining working lives.

Actuarial gains and losses within the 10% corridor are disclosed separately. Past-service costs are recognized immediately in the statement of comprehensive income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into an independent entity (such as the Social Security System). The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

#### (b) Termination Benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: (i) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (ii) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of each reporting period are discounted to present value.

#### (c) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of each reporting period.

They are included in Accounts Payable and Other Liabilities account at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.



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### 2.19 Income Taxes

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

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

Deferred tax is provided, 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 deferred tax asset can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date 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.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of each reporting period.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss. Only changes in deferred tax assets or liabilities that relate to items recognized in other comprehensive income or directly in equity are recognized in other comprehensive income or directly in equity.

### 2.20 Earnings Per Share (EPS)

Basic earnings per common share is determined by dividing net income by the weighted average number of common shares subscribed and issued during the year, after retroactive adjustment for any stock dividend declared in the current period. The Group does not have dilutive common shares.

## 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The Group's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect 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 Group's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

#### (a) Operating and Finance Leases

The Group has determined that it has transferred all the significant risks and rewards of ownership of the properties which are leased out on finance lease arrangements. Interest earned on finance lease arrangements amounted to P379.7, P455.6 and P432.5 in 2009, 2008 and 2007, respectively (see Note 8).

The subsidiary's operations involve operating leases. The Group has determined that it retains all the significant risks and rewards of ownership over the properties which are leased out on operating lease arrangements. The Group's rent income on operating lease arrangements amounted to P1,125.7, P256.4 and P58.4 in 2009, 2008 and 2007, respectively (see Note 17).

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The Group has entered in various lease arrangements as a lessee. Critical judgment was exercised by management to distinguish each lease arrangement as either an operating or finance lease by looking at the transfer or retention of significant risks and rewards of ownership of the properties covered by the agreements.

Rental expense charged to operations included as part of Occupancy and Equipment-Related Expenses under Operating Costs and Expenses in the statements of comprehensive income amounted to P16.1 in 2009, P13.6 in 2008 and P13.5 in 2007 in the Group and Parent Company financial statements.

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

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

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

(c) *Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2.9 and relevant disclosures are presented in Note 22.

### 3.2 *Key Sources of Estimation Uncertainty*

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

(a) *Useful Lives of Property and Equipment*

The Group estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment 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.

Property and equipment, net of accumulated depreciation and amortization, amounted to P1,452.5 and P1,649.7 as of December 31, 2009 and 2008, respectively, in the Group financial statements and P20.3 and P15.2 as of December 31, 2009 and 2008, respectively, in the Parent Company financial statements (see Note 9).

There is no change in estimated useful lives of property and equipment during the year.

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(b) *Allowance for Impairment of Loans and Other Receivables*

Allowance is made for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Group's relationship with the customers, the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience.

Impairment losses on loans and other receivables amounted to about P94.5 in 2009, P75.0 in 2008 and P157.3 in 2007 in the Group and Parent Company financial statements (see Note 8).

(c) *Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at each reporting date 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.

Deferred tax assets recognized gross of deferred tax liabilities, amounted to P72.4 and P62.5 as of December 31, 2009 and 2008, respectively, in the Group financial statements and P72.4 and P57.8 as of December 31, 2009 and 2008, respectively, in the Parent Company financial statements (see Note 20).

(d) *Impairment of Non-financial Assets*

Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indicators are present. The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.17. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these 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.

No impairment losses on investment properties and other assets were recognized in 2009, 2008 and 2007.

(e) *Retirement and Other Benefits*

The determination of the Group's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 18 and include, among others, discount rates, expected return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the expense and obligation to be recognized in such future periods.

The retirement benefit obligation and net unrecognized actuarial losses amounted to P13.8 and P50.2, respectively, in 2009, and the retirement benefit obligation and net unrecognized actuarial losses amounted to P14.7 and P27.0, respectively, in 2008 (see Note 18).

(f) *Fair Value of Financial Assets and Liabilities*

The Group adopted the amendments to PFRS 7, *Improving Disclosures about Financial Instruments*, effective January 1, 2009. These amendments require the Group to present certain information about financial instruments measured at fair value in the statement of financial position. In the first year of application, comparative information need not be presented for the disclosures required by the amendment. Accordingly, the disclosure for the fair value hierarchy is only presented for December 31, 2009.

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In accordance with this amendment, financial assets and liabilities measured at fair value in the statement of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

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

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

As of December 31, 2009, AFS financial assets is the only financial asset (nil for liabilities) measured at fair value in the statement of financial position and the value is determined under Level 2. AFS financial assets pertain to investments in San Miguel Corporation (SMC) preferred shares that were purchased by the Group in December 2009 (see Note 7). The financial asset's fair value represents the purchase price. These securities will be remeasured in October 2010 at fair value when these shares are scheduled to be listed with the PSE.

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

	2009							
	Group				Parent			
	Cost		Fair Value		Cost		Fair Value	
Cash and cash equivalents	P	232.6	P	232.6	P	176.4	P	176.4
Loans and other receivables		9,142.5		5,743.1		9,131.7		5,732.1
Bills payable		6,138.7		4,579.6		5,261.0		3,704.6
Accounts payable and other liabilities		232.4		232.4		234.5		234.5
Lease deposits		2,301.9		*		1,974.1		*

	2008							
	Group				Parent			
	Cost		Fair Value		Cost		Fair Value	
Cash and cash equivalents	P	186.1	P	186.1	P	171.9	P	171.9
Loans and other receivables		7,692.9		5,677.7		8,329.3		6,345.2
Bills payable		3,670.9		3,623.6		3,089.3		3,044.6
Accounts payable and other liabilities		194.1		194.1		159.5		159.5
Lease deposits		2,025.5		*		1,742.9		*

\* not determined

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

(i) *Cash and cash equivalents*

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

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(ii) *Loans and other receivables*

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

(iii) *Bills payable*

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

(iv) *Accounts payable and other liabilities*

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

(v) *Lease deposits*

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

#### 4. BUSINESS SEGMENTS

For management purposes, the Group is organized into three major business segments, namely: leasing, financing and others. These are also the basis of the Group in reporting its primary segment information.

The products under the leasing segment are the following:

- Operating leases; and
- Finance leases.

The products under the financing segment are the following:

- Amortized commercial loans;
- Amortized retail loans;
- Installment paper purchases;
- Discounting of receivables; and
- Factoring of receivables.

The Group's products and services are marketed in the Metro Manila head office and in its nine branches.



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Segment expenses are allocated on the basis of gross income.

Net segment assets are comprised of the following:

	2009		2008	
	Leasing	Financing	Leasing	Financing
Receivables	P 3,395.2	P 6,078.0	P 3,587.1	P 3,643.5
Residual value of leased assets	1,919.6	-	1,664.8	-
Unearned income	( 554.4)	( 1,466.1)	( 526.5)	( 515.9)
Client's equity	-	( 137.4)	-	( 127.3)
	<b>4,760.4</b>	<b>4,474.5</b>	<b>4,725.4</b>	<b>3,000.3</b>
Allowance for impairment	-	( 175.6)	( 4.0)	( 120.2)
	<b>4,760.4</b>	<b>4,298.9</b>	<b>4,721.4</b>	<b>2,880.1</b>
Equipment under lease	2,380.2	-	1,769.2	-
	<b>P 7,140.6</b>	<b>P 4,298.9</b>	<b>P 6,490.6</b>	<b>P 2,880.1</b>

Bills payable to BDO Unibank amounting to P254.0 as of December 31, 2008 (nil as of December 31, 2009) is allocated between the leasing and financing segments based on the carrying amounts of receivables of these segments as of December 31, 2008. Deposits on lease amounting to P2,301.9 and P2,025.5 as of December 31, 2009 and 2008, respectively, are included in the leasing segment.

### 5. RISK MANAGEMENT

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

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

#### 5.1 Foreign Currency Risk

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

The Parent Company's foreign-currency denominated financial assets and liabilities translated into Philippine pesos at the closing rate at December 31, 2009 and 2008, and Philippine peso-denominated financial assets and liabilities as of December 31, 2009 and 2008, are as follows:

	2009			2008		
	U.S. Dollar	Philippine Peso	Total	U.S. Dollar	Philippine Peso	Total
Cash and cash equivalents	P 6.8	P 225.7	P 232.4	P 3.7	P 182.4	P 186.1
Loans and other receivables	-	9,142.7	9,142.7	-	7,692.9	7,692.9
Lease deposits	20.8	2,281.2	2,301.9	21.4	2,004.1	2,025.5

At December 31, 2009 and 2008, the currency exchange rates used to translate U.S. dollar denominated financial assets and liabilities to the Philippine pesos are P46.2 and P47.52, respectively.

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The following table illustrates the sensitivity of the net result for the year and equity with regard to the Group's financial assets and financial liabilities and the U.S. dollar – Philippine peso exchange rate. It assumes a +/-7.00% change and +/-6.57% change of the Philippine peso/U.S. dollar exchange rate at December 31, 2009 and 2008, respectively. These percentages have been determined based on the average market volatility in exchange rates in the previous 12 months. The sensitivity analysis is based on the Group's foreign currency financial instruments held at the end of each reporting period.

If the Philippine peso at December 31, 2009 and 2008 had strengthened against the U.S. dollar at the foregoing volatilities, then this would have the following impact on the Group's and the Parent Company's financial statements:

<u>Decrease In</u>	<u>2009</u>	<u>2008</u>
Income before tax	(P 0.5)	(P 0.8)
Equity	( 0.3)	( 1.2)

If the Philippine peso at December 31, 2009 and 2008 had weakened against the U.S. dollar at the foregoing volatilities, then this would have the following impact on the Group's and Parent Company's financial statements:

<u>Increase In</u>	<u>2009</u>	<u>2008</u>
Income before tax	P 0.5	P 0.8
Equity	0.3	1.2

### 5.2 Interest Rate Risk

At December 31, 2009 and 2008, the Group is exposed to changes in market interest rates through its bills payable and a portion of BDO Leasing's loans and other receivables, which are subject to periodic interest rate repricing. All other financial assets and liabilities have fixed rates.

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

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

The following table illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates for bills payable of +/-15.43% at December 31, 2009 and +/-5.25% at December 31, 2008 to a reasonably possible change in interest rates for loans and other receivables of +/-27.59% at December 31, 2009 and +/-39.55% at December 31, 2008. These changes are considered to be reasonably possible based on observation of current market conditions for the past 12 months. The calculations are based on the Group's financial instruments held at the end of each reporting period. All other variables are held constant.



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	2009		2008	
Loans and other receivables	+27.59%	-27.59%	+39.55%	-39.55%
Bills payable	+15.43%	-15.43%	+5.25%	-5.25%
<b>Group</b>				
Increase (decrease) in:				
Income before tax	P 7.8	(P 7.8)	P 6.5	(P 6.5)
Equity	5.5	( 5.5)	4.2	( 4.2)
<b>Parent Company</b>				
Increase (decrease) in:				
Income before tax	P 6.9	(P 6.9)	P 5.5	(P 5.5)
Equity	4.8	( 4.8)	3.6	( 3.6)

### 5.3 Credit Risk

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

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

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

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

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

### Group

	2009		
	Cash and Cash Equivalents	Loans and Other Receivables	Available- for-sale Securities
Concentration by sector:			
Manufacturing	P -	P 1,383.2	P -
Financial intermediaries	232.4	1,007.2	-
Transportation and communication	-	2,142.6	-
Wholesale and retail trade and personal activities	-	1,268.3	-
Real estate, renting and business activities	-	1,296.1	-
Agriculture, fishing and forestry	-	344.6	-
Other community, social and personal activities	-	1,700.7	1,300.9
	<b>P 232.4</b>	<b>P 9,142.7</b>	<b>P 1,300.9</b>

	2008		
	Cash and Cash Equivalents	Loans and Other Receivables	Available- for-sale Securities
Concentration by sector:			
Manufacturing	P -	P 2,240.7	P -
Financial intermediaries	186.1	129.7	-
Transportation and communication	-	1,198.8	-
Wholesale and retail trade and personal activities	-	1,338.3	-
Real estate, renting and business activities	-	239.7	-
Agriculture, fishing and forestry	-	35.1	-
Other community, social and personal activities	-	2,510.6	1.1
	<b>P 186.1</b>	<b>P 7,692.9</b>	<b>P 1.1</b>

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### Parent Company

	<b>2009</b>		
	<b>Cash and Cash Equivalents</b>	<b>Loans and Other Receivables</b>	<b>Available- for-sale Securities</b>
Concentration by sector:			
Manufacturing	P -	P 1,383.2	P -
Financial intermediaries	176.4	1,007.2	-
Transportation and communication	-	2,142.6	-
Wholesale and retail trade and personal activities	-	1,268.3	-
Real estate, renting and business activities	-	1,296.1	-
Agriculture, fishing and forestry	-	344.6	-
Other community, social and personal activities	-	1,689.7	1,300.9
	<b>P 176.4</b>	<b>P 9,131.7</b>	<b>P 1,300.9</b>

	<b>2008</b>		
	<b>Cash and Cash Equivalents</b>	<b>Loans and Other Receivables</b>	<b>Available- for-sale Securities</b>
Concentration by sector:			
Manufacturing	P -	P 2,240.7	P -
Financial intermediaries	171.9	129.7	-
Transportation and communication	-	1,198.8	-
Wholesale and retail trade and personal activities	-	1,338.3	-
Real estate, renting and business activities	-	897.0	-
Agriculture, fishing and forestry	-	35.1	-
Other community, social and personal activities	-	2,489.7	1.1
	<b>P 171.9</b>	<b>P 8,329.3</b>	<b>P 1.1</b>

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The carrying amount of financial assets recorded in the Group financial statements represents the Group's maximum exposure to credit risk without taking into account the value of any collateral obtained.

	2009	
	Loans and Other Receivables	Available- for-sale Securities
<b>Carrying amount</b>	<b>P 9,142.7</b>	<b>P -</b>
<b>Individually impaired</b>		
Grade D: Impaired	437.4	-
Grade E: Impaired	197.2	-
Grade F: Impaired	80.8	-
Gross amount	715.4	-
Allowance for impairment	( 175.7)	-
Carrying amount	539.7	-
<b>Past due but not impaired</b>		
Grade A	-	-
<i>Aging of past due</i>		
30-60 days	-	-
61-90 days	-	-
91-180 days	-	-
More than 180 days	-	-
Carrying amount ( <i>forward</i> )	-	-
<b>Neither past due nor impaired</b>		
Grade A	8,603.0	1,300.9
Total carrying amount	<b>P 9,142.7</b>	<b>P 1,300.9</b>
	2008	
	Loans and Other Receivables	Available- for-sale Securities
Carrying amount	P 7,692.9	P 1.1
<b>Individually impaired</b>		
Grade D: Impaired	196.9	-
Grade E: Impaired	247.5	-
Grade F: Impaired	45.8	-
Gross amount	490.2	-
Allowance for impairment	( 124.1)	-
Carrying amount	P 366.1	P -

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	2008	
	Loans and Other Receivables	Available- for-sale Securities
Past due but not impaired	P 144.7	P -
Grade A		
<i>Aging of past due</i>		
30-60 days	0.2	-
61-90 days	2.5	-
91-180 days	90.1	-
More than 180 days	52.0	-
Carrying amount	144.8	-
Neither past due nor impaired		
Grade A	7,182.0	1.1
Total carrying amount	P 7,692.8	P 1.1

The Group holds collateral against loans and other receivables in the form of mortgage interests over real and personal properties. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral is not held against available-for-sale securities, and no such collateral was held at December 31, 2009 and 2008.

The Group holds collateral against loans and other receivables in the form of real and personal properties. An estimate of the fair value of collateral and other security enhancements held against loans and other receivables as of December 31, 2009 and 2008 is shown below:

	2009	2008
Against past due but not impaired		
Real property	P 98.0	P 54.7
Personal property	430.8	112.8
Against neither past due nor impaired		
Real property	7,330.7	997.9
Personal property	629.0	9,120.1
	P 8,488.5	P 10,285.5

### 5.4 Liquidity Risk

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

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

The Group believes that it currently has adequate debt funding from banks, other financial institutions, and through the issuance of Short-Term Commercial Papers (STCPs). The Group has a license from the SEC to issue P8 billion STCPs.

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

Presented below are the financial assets and liabilities as of December 31, 2009 and 2008 analyzed according to when these are expected to be recovered or settled. The amounts of financial liabilities disclosed in the maturity analysis are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amounts included in the statement of financial position because the statement of financial position amounts are based on discounted cash flows.

### 2009

	One to Three Months	Three Months to One Year	One to Three Years	More than Three Years	Total
<b>Group</b>					
Financial assets					
Cash and cash equivalents	P 232.4	P -	P -	P -	P 232.4
Loans and other receivables	2,054.6	1,604.5	3,304.7	2,178.9	9,142.7
Other assets	161.7	-	-	-	161.7
	<b>P 2,448.7</b>	<b>P 1,604.5</b>	<b>P 3,304.7</b>	<b>P 2,178.9</b>	<b>P 9,536.8</b>
Financial liabilities					
Bills payable	P 5,461.5	P 300.0	P 54.6	P 326.9	P 6,143.0
Accounts payable and other liabilities	241.0	-	-	-	241.0
Lease deposits	377.2	632.9	1,011.8	399.4	2,421.3
	<b>P 6,079.7</b>	<b>P 932.9</b>	<b>P 1,066.4</b>	<b>P 726.3</b>	<b>P 8,805.3</b>
	One to Three Months	Three Months to One Year	One to Three Years	More than Three Years	Total
<b>Parent Company</b>					
Financial assets					
Cash and cash equivalents	P 176.4	P -	P -	P -	P 176.4
Loans and other receivables	2,043.6	1,604.5	3,304.6	2,178.8	9,131.5
Other assets	317.2	-	-	-	317.2
	<b>P 2,537.2</b>	<b>P 1,604.5</b>	<b>P 3,304.6</b>	<b>P 2,178.8</b>	<b>P 9,625.1</b>
Financial liabilities					
Bills payable	P 4,582.0	P 300.0	P 54.6	P 326.9	P 5,263.5
Accounts payable and other liabilities	241.0	-	-	-	241.0
Lease deposits	375.2	348.5	940.4	399.4	2,063.5
	<b>P 5,198.2</b>	<b>P 648.5</b>	<b>P 995.0</b>	<b>P 726.3</b>	<b>P 7,327.0</b>

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2008

	One to Three Months	Three Months to One Year	One to Three Years	More than Three Years	Total
<b>Group</b>					
<b>Financial assets</b>					
Cash and cash equivalents	P 186.1	P -	P -	P -	P 186.1
Loans and other receivables	2,099.9	2,155.0	2,708.5	730.0	7,693.4
Other assets	1.1	-	-	-	1.1
	<u>P 2,287.1</u>	<u>P 2,155.0</u>	<u>P 2,708.5</u>	<u>P 730.0</u>	<u>P 7,880.6</u>
<b>Financial liabilities</b>					
Bills payable	P 3,136.9	P 544.7	P -	P -	P 3,681.6
Accounts payable and other liabilities	158.8	-	-	14.7	173.5
Lease deposits	168.7	430.0	1,321.8	223.8	2,144.3
	<u>P 3,464.4</u>	<u>P 974.7</u>	<u>P 1,321.8</u>	<u>P 238.5</u>	<u>P 5,999.4</u>
<b>Parent Company</b>					
<b>Financial assets</b>					
Cash and cash equivalents	P 171.9	P -	P -	P -	P 171.9
Loans and other receivables	2,501.3	2,389.7	2,708.5	729.8	8,329.3
Other assets	1.1	-	-	-	1.1
	<u>P 2,674.3</u>	<u>P 2,389.7</u>	<u>P 2,708.5</u>	<u>P 729.8</u>	<u>P 8,502.3</u>
<b>Financial liabilities</b>					
Bills payable	P 2,549.0	P 544.7	P -	P -	P 3,093.7
Accounts payable and other liabilities	144.8	-	-	14.7	159.5
Lease deposits	167.1	423.9	995.0	220.0	1,806.0
	<u>P 2,860.9</u>	<u>P 968.6</u>	<u>P 995.0</u>	<u>P 234.7</u>	<u>P 5,059.2</u>

### 6. CASH AND CASH EQUIVALENTS

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

	Group		Parent Company	
	2009	2008	2009	2008
Cash on hand and in banks	P 156.6	P 184.1	P 141.6	P 169.8
Cash equivalents	75.8	2.0	34.8	2.1
	<u>P 232.4</u>	<u>P 186.1</u>	<u>P 176.4</u>	<u>P 171.9</u>

Cash in banks earn interest at rates based on daily bank deposit rates. Cash equivalents represent a special savings account and time-deposit with annual interest rate ranging from 1.00% to 2.75% in 2009 and 2.375% to 3.00% in 2008.

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### 7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The balance of available-for-sale financial assets as of December 31, 2009 of P1,300.0 pertains to the Group's investment in San Miguel Corporation's (SMC) Series "1" preferred shares (the SMC shares) representing 17.3 million shares purchased at P75 per share on December 22, 2009 or for a total of P1,300.0. The SMC shares bear an interest rate of 8% per annum, subject to adjustment at the end of the fifth year after October 2, 2009 if the SMC shares are not redeemed at the option of SMC. The rate will be the higher between the dividend rate or the 10-year PDSTF rate prevailing at the end of the fifth year from October 2, 2009 plus a spread of 3%.

The SMC shares are carried at their cost of P1,300.0 which is deemed to be the fair value as of December 31, 2009.

The remaining P0.9 balance of AFS financial assets at December 31, 2009 and 2008 consist of Philippine Long Distance Telephone Co. (PLDT) preferred and golf and country club shares of stock that are carried at their fair value equal to P0.9.

### 8. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	Group		Parent	
	2009	2008	2009	2008
Receivable from customers:				
Finance lease receivables	P 3,395.2	P 3,587.1	P 3,395.2	P 3,587.1
Residual value of leased assets	1,919.6	1,664.8	1,919.6	1,664.8
Unearned lease income	( 554.4)	( 526.5)	( 554.4)	( 526.5)
	<u>4,760.4</u>	<u>4,725.4</u>	<u>4,760.4</u>	<u>4,725.4</u>
Loans and receivables financed	6,078.0	3,643.5	6,078.0	4,306.4
Unearned finance income	( 1,466.0)	( 515.9)	( 1,466.0)	( 521.5)
Client's equity	( 137.4)	( 127.3)	( 137.4)	( 127.3)
	<u>4,474.6</u>	<u>3,000.3</u>	<u>4,474.6</u>	<u>3,657.6</u>
Other receivables:				
Accounts receivable	39.7	52.2	28.8	31.4
Sales contract receivable	52.0	47.5	51.9	47.4
Accrued interest receivable	0.3	0.4	0.3	0.4
	<u>92.0</u>	<u>100.1</u>	<u>81.0</u>	<u>79.2</u>
Total	9,327.0	7,825.8	9,316.0	8,462.2
Allowance for impairment losses	( 184.3)	( 132.9)	( 184.3)	( 132.9)
	<u>P 9,142.7</u>	<u>P 7,692.9</u>	<u>P 9,131.7</u>	<u>P 8,329.3</u>

As of December 31, 2009 and 2008, 41% and 61%, respectively, of the total receivables from customers of the Group are subject to periodic interest repricing. Remaining receivables from customers earn annual fixed interest rates ranging from 6% to 49% in 2009 and 9% to 37% in 2008.

The fair value loss on initial recognition of the residual value receivables under finance lease amounted to P62.6, P14.2 and P93.6 in 2009, 2008 and 2007, respectively, and is presented as part of Fair Value Gains - net under Other Income in the Group and Parent Company statements of comprehensive income (see Note 16).

Interest income on receivables pertaining to the residual value of assets under finance lease accrued using the effective interest method amounted to P19.3, P31.1 and P47.9 in 2009, 2008 and 2007, respectively, and is presented as part of Interest and Discounts in the Group statements of comprehensive income.



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

	Group		Parent	
	2009	2008	2009	2008
Secured:				
Real state mortgage	P 562.8	P 944.4	P 562.8	P 944.4
Chattel mortgage	7,601.7	5,949.5	7,601.7	5,982.6
	<u>8,164.5</u>	<u>6,893.9</u>	<u>8,164.5</u>	<u>6,927.0</u>
Unsecured	<u>978.2</u>	<u>799.0</u>	<u>967.2</u>	<u>1,402.3</u>
	<u>P 9,142.7</u>	<u>P 7,692.9</u>	<u>P 9,131.7</u>	<u>P 8,329.3</u>

An analysis of the Group's and Parent Company's finance lease receivables as of December 31, 2009 and 2008 follows:

	2009	2008
Maturity of gross investment in:		
Finance lease receivables		
Within one year	P 1,740.0	P 2,263.0
Beyond one year but not beyond five years	<u>1,655.2</u>	<u>1,324.1</u>
	<u>3,395.2</u>	<u>3,587.1</u>
Residual value of leased assets		
Within one year	616.9	569.0
Beyond one year but not beyond five years	<u>1,302.7</u>	<u>1,095.8</u>
	<u>1,919.6</u>	<u>1,664.8</u>
Gross finance lease receivable	5,314.8	5,251.9
Unearned lease income	<u>(554.4)</u>	<u>(526.5)</u>
Net investment in finance lease receivables	<u>P 4,760.4</u>	<u>P 4,725.4</u>

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

	2009	2008
Due within one year	P 2,057.6	P 2,763.9
Due beyond one year but not beyond five years	<u>2,702.8</u>	<u>1,961.5</u>
Net investment in finance lease receivables	<u>P 4,760.4</u>	<u>P 4,725.4</u>

Past due finance lease receivables amounted to P400.0 and P344.9 as of December 31, 2009 and 2008, respectively.

Past due loans and receivables financed amounted to P315.3 and P290.1 as of December 31, 2009 and 2008, respectively.

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In 2009 and 2008, the BOD approved the write-off of certain loans and receivables financed and finance lease receivables with total amount of P43.7 and P157.9, respectively.

Interest and discounts in the statements of comprehensive income consists of interest on:

	<b>Group</b>		
	<b>2009</b>	2008	2007
Loans and receivables financed	P 473.7	P 556.0	P 644.1
Finance lease receivables	379.7	455.6	432.5
Due from affiliates and other loans	10.8	0.4	0.8
Cash and cash equivalents	0.7	0.5	0.4
	<b>P 864.9</b>	<b>P 1,012.5</b>	<b>P 1,077.8</b>
	<b>Parent Company</b>		
	<b>2009</b>	2008	2007
Loans and receivables financed	P 479.2	P 562.1	P 644.1
Finance lease receivables	379.7	455.6	432.5
Due from affiliates and other loans	32.9	0.3	0.8
Cash and cash equivalents	0.7	0.5	0.4
	<b>P 892.5</b>	<b>P 1,018.5</b>	<b>P 1,077.8</b>

The changes in the allowance for impairment losses are summarized below:

	<b>Group</b>		<b>Parent Company</b>	
	<b>2009</b>	2008	<b>2009</b>	2008
Balance at beginning of year	P 132.9	P 215.9	P 132.9	P 215.9
Impairment losses during the year	94.5	75.0	94.5	75.0
Accounts written off	( 43.1)	( 158.0)	( 43.1)	( 158.0)
Balance at end of year	<b>P 184.3</b>	<b>P 132.9</b>	<b>P 184.3</b>	<b>P 132.9</b>

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### 9. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of 2009 and 2008 are shown below.

<u>Group</u>	<u>Transportation and Other Equipment</u>	<u>Furniture, Fixtures and Others</u>	<u>Leasehold Improvements</u>	<u>Total</u>
December 31, 2009				
Cost	P 2,440.7	P 16.2	P 19.2	P 2,476.1
Accumulated depreciation and amortization	( 1,008.5)	( 10.5)	( 4.6)	( 1,023.6)
Net carrying amount	<b>P 1,432.2</b>	<b>P 5.7</b>	<b>P 14.6</b>	<b>P 1,452.5</b>
December 31, 2008				
Cost	P 1,847.9	P 18.8	P 9.8	P 1,876.5
Accumulated depreciation and amortization	( 213.4)	( 12.0)	( 1.4)	( 226.8)
Net carrying amount	<b>P 1,634.5</b>	<b>P 6.8</b>	<b>P 8.4</b>	<b>P 1,649.7</b>
January 1, 2008				
Cost	P 345.5	P 19.5	P 3.2	P 368.2
Accumulated depreciation and amortization	( 43.7)	( 13.8)	( 0.7)	( 58.2)
Net carrying amount	<b>P 301.8</b>	<b>P 5.7</b>	<b>P 2.5</b>	<b>P 310.0</b>
<u>Parent Company</u>				
December 31, 2009				
Cost	P -	P 16.2	P 19.2	P 35.4
Accumulated depreciation and amortization	-	( 10.5)	( 4.6)	( 15.1)
Net carrying amount	<b>P -</b>	<b>P 5.7</b>	<b>P 14.6</b>	<b>P 20.3</b>
December 31, 2008				
Cost	P -	P 18.8	P 9.8	P 28.6
Accumulated depreciation and amortization	-	( 12.0)	( 1.3)	( 13.3)
Net carrying amount	<b>P -</b>	<b>P 6.8</b>	<b>P 8.5</b>	<b>P 15.2</b>
January 1, 2008				
Cost	P -	P 19.5	P 3.1	P 22.7
Accumulated depreciation and amortization	-	( 13.8)	( 0.6)	( 14.4)
Net carrying amount	<b>P -</b>	<b>P 5.7</b>	<b>P 2.5</b>	<b>P 8.3</b>

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A reconciliation of the carrying amounts of property and equipment at the beginning and end of 2009 and 2008 is shown below.

**Group**

	<b>Transportation and Other Equipment</b>	<b>Furniture, Fixtures and Others</b>	<b>Leasehold Improvements</b>	<b>Total</b>
Balance at January 1, 2009, net of accumulated depreciation and amortization	P 1,634.5	P 6.8	P 8.4	P 1,649.7
Additions	832.9	2.6	12.0	847.5
Disposals	( 15.6)	-	( 0.5)	( 16.1)
Reclassifications	13.8	0.7	( 0.2)	14.3
Depreciation and amortization charges for the year	<u>( 1,033.4)</u>	<u>( 4.4)</u>	<u>( 5.1)</u>	<u>( 1,042.9)</u>
Balance at December 31, 2009, net of accumulated depreciation and amortization	<b><u>P 1,432.2</u></b>	<b><u>P 5.7</u></b>	<b><u>P 14.6</u></b>	<b><u>P 1,452.5</u></b>
Balance at January 1, 2008, net of accumulated depreciation and amortization	P 301.8	P 5.7	P 2.6	P 310.1
Additions	1,511.6	6.4	7.6	1,525.6
Disposals	( 6.5)	( 1.6)	( 0.4)	( 8.5)
Depreciation and amortization charges for the year	<u>( 172.4)</u>	<u>( 3.7)</u>	<u>( 1.4)</u>	<u>( 177.5)</u>
Balance at December 31, 2008, net of accumulated depreciation and amortization	<b><u>P 1,634.5</u></b>	<b><u>P 6.8</u></b>	<b><u>P 8.4</u></b>	<b><u>P 1,649.7</u></b>

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### Parent

	<u>Transportation and Other Equipment</u>	<u>Furniture, Fixtures and Others</u>	<u>Leasehold Improvements</u>	<u>Total</u>
Balance at January 1, 2009, net of accumulated depreciation and amortization	P -	P 6.8	P 8.0	P 14.8
Additions	-	2.6	12.0	14.6
Disposals	-	-	( 0.5)	( 0.5)
Reclassification	-	0.7	( 0.2)	0.9
Depreciation and amortization charges for the year	<u>-</u>	<u>( 4.4)</u>	<u>( 5.1)</u>	<u>( 9.5)</u>
Balance at December 31, 2009, net of accumulated depreciation and amortization	<u>P -</u>	<u>P 5.7</u>	<u>P 14.6</u>	<u>P 20.3</u>
Balance at January 1, 2008, net of accumulated depreciation and amortization	P -	P 5.7	P 2.5	P 8.2
Additions	-	6.4	7.6	14.0
Disposals	-	( 1.6)	( 0.4)	( 2.0)
Depreciation and amortization charges for the year	<u>-</u>	<u>( 3.6)</u>	<u>( 1.4)</u>	<u>( 5.0)</u>
Balance at December 31, 2008, net of accumulated depreciation and amortization	<u>P -</u>	<u>P 6.9</u>	<u>P 8.3</u>	<u>P 15.2</u>

Depreciation and amortization charges for the year are included as part of Occupancy and Equipment-related Expenses account in the statements of comprehensive income.

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In 2009 and 2008, the Group entered into sale and lease back transactions classified as operating lease with a lessee, with lease terms ranging from 20 to 24 months, involving various equipment with gross carrying amount and accumulated depreciation as of December 31, 2008 as follows:

	<u>2009</u>	<u>2008</u>
Cost	P 730.0	P 1,370.0
Accumulated depreciation	( 318.5)	( 95.4)
	<u>P 411.5</u>	<u>P 1,274.6</u>

Total operating lease income earned from the leases presented as part of Rent in the Group statements of comprehensive income amounted to P1,026 in 2009 and P111 in 2008 (none for the Parent Company). The carrying amount of lease deposits payable to the lessee amounted to P281.8 and P239.8 as of December 31, 2009 and 2008. Interest expense accrued on such lease deposits included as part of Interest and Financing Charges account in the Group statements of comprehensive income amounted to P42.0 in 2009 and P1.8 in 2008.

As of December 31, 2009 and 2008, the net book value of transportation and other equipment leased out by the Group (none for the Parent Company) under operating lease arrangements amounted to P1,104.2 and P1,580.4, respectively.

In 2009, the Group disposed of certain transportation equipment with carrying value of P16.1 for P25.8, resulting to gain on sale of P9.7. The gain is included as of part of Other Income in the 2009 statement of comprehensive income (see Note 16) for the Group and Parent Company.

### 10. INVESTMENT PROPERTIES

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

The carrying amounts and accumulated depreciation at the beginning and end of 2009 and 2008 in the Group and Parent Company financial statements are shown below.

	<u>Land</u>	<u>Building and Improvements</u>	<u>Total</u>
December 31, 2009			
Cost	P 709.6	P 106.5	P 816.1
Accumulated depreciation	-	( 34.7)	( 34.7)
Accumulated impairment	-	( 14.4)	( 14.4)
	<u>P 709.6</u>	<u>P 57.4</u>	<u>P 767.0</u>
Net carrying amount			

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	<u>Land</u>	<u>Building and Improvements</u>	<u>Total</u>
December 31, 2008			
Cost	P 682.4	P 110.3	P 792.7
Accumulated depreciation	-	( 26.0)	( 26.0)
Accumulated impairment	-	( 15.1)	( 15.1)
	<u>682.4</u>	<u>69.2</u>	<u>751.6</u>
Net carrying amount	P 682.4	P 69.2	P 751.6
January 1, 2008			
Cost	P 613.6	P 134.3	P 747.9
Accumulated depreciation	-	( 18.7)	( 18.7)
Accumulated impairment	-	( 22.9)	( 22.9)
	<u>613.6</u>	<u>92.7</u>	<u>706.3</u>
Net carrying amount	P 613.6	P 92.7	P 706.3

A reconciliation of the carrying amounts at the beginning and end of 2009 and 2008 of investment properties in the Group and Parent Company financial statements is shown below.

	<u>Land</u>	<u>Building and Improvements</u>	<u>Total</u>
Balance at January 1, 2009, net of accumulated depreciation and impairment	P 682.4	P 69.2	P 751.6
Additions	36.6	2.0	38.6
Disposals	( 9.4)	( 2.9)	( 12.3)
Depreciation and amortization charges for the year	-	( 10.9)	( 10.9)
	<u>709.6</u>	<u>57.4</u>	<u>767.0</u>
Balance at December 31, 2009, net of accumulated depreciation and impairment	P 709.6	P 57.4	P 767.0

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	<u>Land</u>	<u>Building and Improvements</u>	<u>Total</u>
Balance at January 1, 2008, net of accumulated depreciation and impairment	P 613.6	P 92.7	P 706.3
Additions	82.9	31.8	114.7
Disposals	( 14.1)	( 46.6)	( 60.7)
Depreciation and amortization charges for the year	<u>-</u>	<u>( 8.7)</u>	<u>( 8.7)</u>
Balance at December 31, 2008, net of accumulated depreciation and impairment	<u>P 682.4</u>	<u>P 69.2</u>	<u>P 751.6</u>

The appraised values of the investment properties as of December 31, 2009 and 2008 follow:

	<u>2009</u>	<u>2008</u>
Land	<b>P 941.6</b>	P 950.3
Building and improvements	<u>137.4</u>	<u>115.7</u>
	<b><u>P 1,079.0</u></b>	<b><u>P 1,066.0</u></b>

Income (loss) from sale of investment properties lodged under Other Income amounted to P7.2, P3.9 and (P11.7) in 2009, 2008 and 2007, respectively.

### 11. OTHER ASSETS

Other assets consist of the following:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Prepaid expenses	<b>P 71.9</b>	P 27.6	<b>P 25.4</b>	P 26.6
Repossessed chattels and other equipment - net	<b>18.3</b>	23.0	<b>18.3</b>	23.0
Input value-added tax (VAT)	<b>32.1</b>	85.5	-	-
Investment in subsidiary	-	-	<b>237.5</b>	46.9
Miscellaneous - net	<u>34.3</u>	<u>4.8</u>	<u>34.1</u>	<u>4.4</u>
	<b>156.6</b>	140.9	<b>315.3</b>	100.9
Allowance for impairment losses	<u>-</u>	<u>( 13.8)</u>	<u>-</u>	<u>-</u>
	<b><u>P 156.6</u></b>	<b><u>P 127.1</u></b>	<b><u>P 315.3</u></b>	<b><u>P 100.9</u></b>



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The gross carrying amounts and accumulated depreciation of repossessed chattels and other equipment are shown below.

	<u>2009</u>		<u>2008</u>
Cost	<b>P 37.1</b>	P	31.7
Accumulated depreciation	<b>( 18.8)</b>	(	8.7)
	<b><u>P 18.3</u></b>	P	<u>23.0</u>

A reconciliation of the carrying amounts of repossessed chattels and other equipment at the beginning and end of 2009 and 2008 is shown below.

	<u>2009</u>		<u>2008</u>
Balance at January 1, net of accumulated depreciation	<b>P 23.0</b>	P	18.3
Additions	<b>7.2</b>		28.9
Disposals	<b>( 1.2)</b>	(	14.5)
Depreciation charges for the year	<b>( 10.7)</b>	(	9.7)
Net carrying amount	<b><u>P 18.3</u></b>	P	<u>23.0</u>

No impairment loss was recognized on repossessed chattels and other equipment in 2009 and 2008.

Input VAT includes transitional input tax and the VAT due or paid by the Group on purchases of goods, properties, and services, including lease or use of properties in the ordinary course of business.

Investment in a subsidiary represents 100% ownership of the Group in BDO Rental.

The movements of this account are presented below.

	<u>2009</u>		<u>2008</u>
Balance at beginning of year	<b>P 46.9</b>	P	40.0
Additional investment during the year	<b>197.5</b>		-
	<b><u>244.4</u></b>		<u>40.0</u>
Increase (decrease) in deposit for future stock subscription	<b>( 6.9)</b>	(	6.9
Net carrying amount	<b><u>P 237.5</u></b>	P	<u>46.9</u>

In 2009, the Parent Company acquired additional 110 million common shares at P1 per share and 82.5 million preferred shares at P1 per share in BDO Rental's capital stock.

The allowance for impairment on input VAT of P13.8 in 2008 represents the provisions for losses on input taxes that were deferred by the Group for the purchase of BDO Rental of equipment in 2006 which was put on hold. In 2009, the Group reversed the said allowance since based on recent developments, the management believes that the transaction is likely to push through.

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### 12. BILLS PAYABLE

This account consists of borrowings from:

	<b>Group</b>		<b>Parent</b>	
	<b>2009</b>	2008	<b>2009</b>	2008
Banks	<b>P 1,525.5</b>	P 1,635.3	<b>P 1,525.5</b>	P 1,053.7
Others	<b>4,613.1</b>	2,035.6	<b>3,735.6</b>	2,035.5
Accrued interest	<b>4.4</b>	10.7	<b>2.4</b>	4.4
	<b><u>P 6,143.0</u></b>	<u>P 3,681.6</u>	<b><u>P 5,263.5</u></b>	<u>P 3,093.6</u>

Bills payable to banks represent peso borrowings from local banks (including BDO Unibank as of December 31, 2008 – see Note 19), with annual interest rates ranging from 4.75% to 6.25% in 2009 and 6.00% to 9.25% in 2008. As of December 31, 2009 and 2008, bills payable - others represent short-term notes issued to individual investors, with annual interest rates ranging from 4.00% to 6.25% and 4.00% to 7.48%, respectively.

The breakdown of bills payable as to secured and unsecured follows:

	<b>Group</b>		<b>Parent</b>	
	<b>2009</b>	2008	<b>2009</b>	2008
Secured - real estate mortgage	<b>P -</b>	P 255.1	<b>P -</b>	P 255.1
Unsecured	<b>6,143.0</b>	3,426.5	<b>5,263.5</b>	2,838.5
	<b><u>P 6,143.0</u></b>	<u>P 3,681.6</u>	<b><u>P 5,263.5</u></b>	<u>P 3,093.6</u>

Interest and financing charges consist of interest on:

<b>Group</b>	<b>2009</b>	2008	2007
	Bills payable - banks	<b>P 54.1</b>	P 150.8
Bills payable - others	<b>158.1</b>	80.9	46.5
Amortization on lease deposits	<b>69.2</b>	52.8	72.4
	<b><u>P 281.4</u></b>	<u>P 284.5</u>	<u>P 301.4</u>
<b>Parent Company</b>	<b>2009</b>	2008	2007
Bills payable - banks	<b>P 27.6</b>	P 130.3	P 171.4
Bills payable - others	<b>143.1</b>	80.8	46.4
Amortization on lease deposits	<b>35.8</b>	44.1	69.0
	<b><u>P 206.5</u></b>	<u>P 255.2</u>	<u>P 286.8</u>

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### 13. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities consist of the following:

	Notes	Group		Parent	
		2009	2008	2009	2008
Income tax payable - current		P 73.5	P 8.9	P 73.5	P 0.2
Deferred tax liability - net	20	66.6	72.3	71.9	79.2
Accounts payable		43.8	40.8	42.2	29.9
Retirement benefit obligation	18	13.8	14.7	13.8	14.7
Withholding taxes payable		11.0	4.3	10.9	4.2
Accrued taxes and other expenses		7.8	13.7	6.9	13.1
Deferred rent		-	20.7	-	-
Other liabilities		15.9	18.7	15.3	18.2
		<b>P 232.4</b>	<b>P 194.1</b>	<b>P 234.5</b>	<b>P 159.5</b>

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

### 14. LEASE DEPOSITS

Lease deposits consist of deposits on:

	Group		Parent Company	
	2009	2008	2009	2008
Finance leases	P 1,974.1	P 1,742.9	P 1,974.1	P 1,742.9
Operating leases	327.8	282.6	-	-
	<b>P 2,301.9</b>	<b>P 2,025.5</b>	<b>P 1,974.1</b>	<b>P 1,742.9</b>

The fair value gains on initial recognition of lease deposits (representing excess of principal amount over fair value of leased deposits) amounted to P62.6, P65.3 and P180.0 in 2009, 2008 and 2007, respectively, and are included as part of Fair Value Gains under Other Income in the Group statements of comprehensive income, net of fair value losses recognized on initial recognition of residual value receivables under finance lease (see Note 16).

Interest expense on lease deposits accrued using the effective interest method amounted to P69.2, P52.8 and P72.4 in 2009, 2008 and 2007, respectively, and is included as part of Interest and Financing Charges under Operating Costs and Expenses in the Group statements of comprehensive income.

### 15. EQUITY

#### 15.1 Capital Management Objectives, Policies and Procedures

The Group's capital management objectives are:

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

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

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The Group's capital and overall financing as of December 31, 2009 and 2008 are computed as follows:

	<u>2009</u>		<u>2008</u>
Total equity	P 4,374.8	P	4,507.3
Cash and cash equivalents	( 232.4)	(	186.1)
Net capital	<u>P 4,142.4</u>	P	<u>4,321.2</u>
Bills payable	P 6,143.0	P	3,681.6
Lease deposits	2,301.9		2,025.5
Total equity	<u>4,374.8</u>		<u>4,507.3</u>
Overall financing	<u>P 12,819.7</u>	P	<u>10,214.4</u>
Capital-to-overall financing ratio	<u>1:3.09</u>		<u>1:2.36</u>

As in previous years, there are no externally imposed capital requirements.

### 15.2 Capital Stock

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

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

None of these authorized preferred shares are issued as of December 31, 2009, 2008 and 2007.

As of December 31, 2009, 2008 and 2007, out of the total authorized capital stock of 3,400,000,000 common shares with par value of P1 per share, 2,225,169,030 common shares amounting to P2,225,169,030 are issued and outstanding.

On November 11, 2009, the BOD approved the declaration of cash dividends amounting to P432.5 at P0.20 per share on the 2,162,475,312 shares outstanding at the date of declaration.

### 16. OTHER INCOME

This account is composed of the following:

<u>Group</u>	<u>2009</u>		<u>2008</u>		<u>2007</u>
Gain on sale of receivable	P 62.6	P	-	P	-
Fair value gains - net	7.3		51.1		87.4
Miscellaneous	53.6		27.8		3.4
	<u>P 123.5</u>	P	<u>78.9</u>	P	<u>90.8</u>

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	2009	2008	2007
<b>Parent Company</b>			
Gain on sale of receivable	P 62.6	P -	P -
Fair value gain (losses) - net	( 0.4)	1.5	69.3
Miscellaneous	29.7	28.4	3.8
	<b>P 91.9</b>	<b>P 29.9</b>	<b>P 73.1</b>

In 2009, the Group sold certain receivables with carrying amount of P501.4 for P564.0 to BDO Unibank, resulting to gain on sale amounting to P62.6 (see Note 19).

Miscellaneous income is composed of the following:

<b>Group</b>	2009	2008	2007
Gain (loss) on sale and exchange of assets acquired	P 17.9	P 9.2	(P 17.7)
Recovery of allowance for impairment on input VAT	13.8	-	-
Recovery of accounts written off	11.1	4.7	4.6
Rent	2.9	6.8	6.2
Others	7.9	7.2	10.3
	<b>P 53.6</b>	<b>P 27.9</b>	<b>P 3.4</b>

<b>Parent Company</b>	2009	2008	2007
Recovery of accounts written off	P 11.1	P 4.7	P 4.6
Gain (loss) on sale and exchange of assets acquired	7.2	9.2	( 17.7)
Rent	2.9	6.8	6.2
Others	8.4	7.6	10.7
	<b>P 29.6</b>	<b>P 28.3</b>	<b>P 3.8</b>

### 17. LEASES

The Group's finance lease contracts generally have lease terms ranging from 24 to 60 months.

In the ordinary course of business, the Group enters into various operating leases with lease terms ranging from 6 to 60 months. Operating lease income presented under Rent account in the Group statements of comprehensive income for the years ended December 31, 2009, 2008 and 2007 amounted to P1,125.7, P256.4 and P58.4, respectively.

Future minimum rentals receivable under operating leases follow:

	2009	2008
Within one year	P 1.1	P 765.4
After one year but not more than five years	898.2	457.8
	<b>P 899.3</b>	<b>P 1,223.2</b>

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### 18. EMPLOYEE BENEFITS

#### 18.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are presented below:

	<u>2009</u>		<u>2008</u>		<u>2007</u>
Salaries and wages	<b>P 75.5</b>	P	65.1	P	47.9
Bonuses	<b>23.8</b>		23.9		44.4
Retirement - defined benefit plan	<b>14.2</b>		7.9		22.2
Social security costs	<b>3.5</b>		2.9		2.4
Other benefits	<b>16.9</b>		14.5		10.7
	<b><u>P 133.9</u></b>	P	<u>114.3</u>	P	<u>127.6</u>

#### 18.2 Post-employment Benefit

The Parent Company maintains a wholly-funded, tax-qualified, noncontributory retirement plan that is being administered by a trustee covering all regular full-time employees. Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions.

The amounts of retirement benefit obligation presented in the statements of financial position as part Accounts Payable and Other Liabilities, respectively, are determined as follows (see Note 13):

	<u>2009</u>		<u>2008</u>
Present value of the obligation	<b>P 115.3</b>	P	86.3
Fair value of plan assets	<b>( 51.3)</b>	(	44.6)
Excess of obligation	<b>64.0</b>		41.7
Unrecognized actuarial losses	<b>( 50.2)</b>	(	27.0)
	<b><u>P 13.8</u></b>	P	<u>14.7</u>

The movements in the present value of the retirement benefit obligation recognized in the books follow:

	<u>2009</u>		<u>2008</u>
Balance at beginning of year	<b>P 86.3</b>	P	67.4
Current service cost and interest cost	<b>16.7</b>		11.6
Actuarial losses	<b>24.9</b>		18.9
Benefits paid by the plan	<b>( 12.5)</b>	(	11.6)
Balance at end of year	<b><u>P 115.4</u></b>	P	<u>86.3</u>

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The movements in the fair value of plan assets are presented below.

	2009		2008	
Balance at beginning of year	<b>P</b>	<b>44.6</b>	P	46.4
Contributions paid into the plan		<b>15.0</b>		6.9
Benefits paid by the plan	(	<b>12.5)</b>	(	11.6)
Actuarial gains (losses)		<b>0.9</b>	(	0.7)
Expected return on plan assets		<b>3.2</b>		3.7
Balance at end of year	<b>P</b>	<b>51.3</b>	P	44.6

Actual return on plan assets amounted P4.1 in 2009 and P3.0 in 2008.

The amounts of retirement benefits expense recognized in the statements of comprehensive income are as follows:

	2009		2008		2007	
Current service costs	<b>P</b>	<b>6.9</b>	P	6.0	P	4.1
Interest costs		<b>9.8</b>		5.6		2.3
Expected return on plan assets	(	<b>3.2)</b>	(	3.7)	(	3.9)
Effect of asset limit		-		-	(	3.0)
Other benefits		<b>0.7</b>		-		22.7
	<b>P</b>	<b>14.2</b>	P	7.9	P	22.2

In determining the retirement benefits, the following actuarial assumptions were used:

	2009		2008	
Discount rates		<b>9.28%</b>		11.38%
Expected rate of return on plan assets		<b>5.00%</b>		7.00%
Expected rate of salary increases		<b>10.00%</b>		10.00%

For 2010, the Group expects to contribute P17.0 to the plan.

### 19. RELATED PARTY TRANSACTIONS

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

- a. As of December 31, 2009 and 2008, total savings and demand deposit accounts maintained in BDO Unibank by the Group amounted to P71.2 and P54.2, respectively. Interest income earned on deposits amounted to P0.8, P0.6, P0.9 in 2009, 2008 and 2007, respectively. Cash equivalents totaling P66 is also maintained with BDO Unibank as of December 31, 2009.
- b. Total bills payable to BDO Unibank amounted to P254.0 as of December 31, 2008 (nil as of December 31, 2009). Interest expense incurred on bills payable amounted to P14.2, P11.3 and P22.5 in 2009, 2008 and 2007, respectively.

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- c. The Parent Company leases its head office premises from BDO Unibank for a period of five years from July 1, 2005 to June 30, 2010, renewable for such period and under such terms and conditions as may be agreed upon with the Parent Company. Related rent expense incurred amounted to P16.1, P12.7 and P12.5 in 2009, 2008 and 2007, respectively.
- d. In 2008, the Parent Company granted short-term unsecured loan to BDO Rental amounting to P668 presented as part of Loans and Other Receivables in the Parent Company's statements of financial position. The loan bears annual interest rates ranging from 4.00% to 5.75%. As of December 31, 2008, the carrying amount of the loan amounted to P657.2 and was fully paid as of December 31, 2009. Total interest income earned by the Parent Company amounted to P27.6 in 2009 and P6.1 in 2008 and is presented as part of Interest and Discounts in the Parent Company's statements of comprehensive income.
- e. In 2009, the Group sold certain receivables with carrying amount of P501.4 for P564.0 to BDO Unibank, resulting to gain on sale of P62.6. The gain is included as presented as Gain on Sale of Receivable under Other Income (see Note 16).
- f. Compensation of key management personnel (covering officer positions starting from Assistant Vice President and up) amounted to P24.6 in 2009, P20.7 in 2008 and P17.6 in 2007 and is included as part of Employee Benefits under Operating Costs and Expenses in the statements of comprehensive income of the Group and Parent Company. Short-term employee benefits include salaries, paid annual leave and paid sick leave, profit sharing and bonuses, and non-monetary benefits.

## 20. TAXES

### 20.1 Taxes and Licenses

This account is composed of the following:

#### Group

	2009	2008	2007
Gross receipts tax	P 56.9	P 53.9	P 50.5
Documentary stamp tax	24.2	16.7	12.0
Local taxes	8.3	7.1	6.7
Others	2.9	3.0	2.6
	<u>P 92.3</u>	<u>P 80.7</u>	<u>P 71.8</u>

#### Parent Company

	2009	2008	2007
Gross receipts tax	P 56.9	P 53.9	P 50.5
Documentary stamp tax	19.4	14.8	11.1
Local taxes	7.1	6.6	6.3
Others	2.1	3.0	2.7
	<u>P 85.5</u>	<u>P 78.3</u>	<u>P 70.6</u>



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### 20.2 Current and Deferred Income Taxes

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

	<b>Group</b>		
	<b>2009</b>	2008	2007
Current tax expense:			
Regular corporate income tax (RCIT) at 30% in 2009 and at 35% in 2008 and 2007	<b>P 157.9</b>	P 133.3	P 90.8
Final tax at 20%, 10% and 7.5%	<b>2.1</b>	0.1	0.2
	<b>160.0</b>	133.4	91.0
Deferred tax expense (income)			
Deferred tax relating to origination and reversal of temporary difference	<b>( 5.6)</b>	37.3	( 9.1)
Deferred tax relating to reduction in tax rate	<b>-</b>	( 5.7)	-
	<b>( 5.6)</b>	31.6	( 9.1)
Tax expense reported in profit or loss	<b>P 154.4</b>	P 165.0	P 81.9

	<b>Parent Company</b>		
	<b>2009</b>	2008	2007
Current tax expense:			
Regular corporate income tax (RCIT) at 30% in 2009 and at 35% in 2008 and 2007	<b>P 147.5</b>	P 107.3	P 86.2
Final tax at 20%, 10% and 7.5%	<b>2.2</b>	0.1	0.2
	<b>149.7</b>	107.4	86.4
Deferred tax expense (income)			
Deferred tax relating to origination and reversal of temporary difference	<b>( 7.4)</b>	44.2	( 12.4)
Deferred tax relating to reduction in tax rate	<b>-</b>	( 5.8)	-
	<b>( 7.4)</b>	38.4	( 12.4)
Tax expense reported in profit or loss	<b>P 142.3</b>	P 145.8	P 74.0

## NOTES TO FINANCIAL STATEMENTS

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

	<b>Group</b>		
	<b>2009</b>	2008	2007
Tax on pretax income at 30% in 2009 and at 35% in 2008 and 2007	<b>P 136.3</b>	P 185.8	P 148.2
Adjustment for income subjected to lower tax rates	<b>( 1.4)</b>	( 0.1)	( 0.3)
Tax effects of:			
Non-deductible expense	<b>26.4</b>	25.1	68.1
Non-taxable income	<b>( 8.0)</b>	( 34.0)	( 134.3)
Non-deductible interest expense	<b>1.1</b>	0.3	0.2
Reduction in deferred tax rate	<b>-</b>	( 12.1)	-
Tax expense reported in profit or loss	<b>P 154.4</b>	P 165.0	P 81.9

	<b>Parent Company</b>		
	<b>2009</b>	2008	2007
Tax on pretax income at 30% in 2009 and at 35% in 2008 and 2007	<b>P 132.1</b>	P 153.5	P 135.2
Adjustment for income subjected to lower tax rates	<b>( 1.4)</b>	( 0.1)	( 0.3)
Tax effects of:			
Non-deductible expense	<b>16.3</b>	21.9	66.9
Non-taxable income	<b>( 5.8)</b>	( 16.6)	( 128.0)
Non-deductible interest expense	<b>1.1</b>	0.3	0.2
Reduction in deferred tax rate	<b>-</b>	( 13.2)	-
Tax expense reported in profit or loss	<b>P 142.3</b>	P 145.8	P 74.0

## NOTES TO FINANCIAL STATEMENTS

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The components of deferred tax liabilities and deferred tax expense (income) as of December 31, 2009 and 2008 and for the years then ended follow:

	Statements of Financial Position			
	Group		Parent Company	
	2009	2008	2009	2008
Deferred tax assets:				
Allowance for impairment and credit losses	P 59.7	P 48.6	P 59.7	P 44.4
Accumulated depreciation on investment properties	7.8	7.8	7.8	7.8
Retirement benefit obligation	4.5	4.4	4.5	4.4
Others	0.4	1.7	0.4	1.2
	<u>72.4</u>	<u>62.5</u>	<u>72.4</u>	<u>57.8</u>
Deferred tax liabilities:				
Lease income differential	( 137.4)	( 133.2)	( 142.6)	( 135.4)
Unrealized gain on exchange of assets	( 1.6)	( 1.6)	( 1.6)	( 1.6)
	<u>( 139.0)</u>	<u>( 134.8)</u>	<u>( 144.2)</u>	<u>( 137.0)</u>
Net deferred tax liabilities	<u>(P 66.6)</u>	<u>(P 72.3)</u>	<u>(P 71.8)</u>	<u>(P 79.2)</u>

	Group Statements of Comprehensive Income		
	2009	2008	2007
Allowance for impairment losses	(P 11.1)	P 39.8	(P 3.8)
Lease income differential	4.2	( 9.5)	9.0
Accumulated depreciation on investment properties	-	( 1.2)	( 4.6)
Unrealized gain on exchange of assets	-	0.6	( 3.7)
Retirement liability (asset)	( 0.1)	0.4	( 7.4)
Others	1.3	1.5	1.4
Deferred tax expense (income)	<u>(P 5.7)</u>	<u>P 31.6</u>	<u>(P 9.1)</u>

	Parent Company Statements of Comprehensive Income		
	2009	2008	2007
Allowance for impairment losses	(P 15.3)	P 39.1	(P 3.8)
Lease income differential	7.2	( 2.3)	5.7
Accumulated depreciation on investment properties	-	( 1.2)	( 4.6)
Unrealized gain on exchange of assets	-	0.6	( 3.7)
Retirement liability (asset)	( 0.1)	0.4	( 7.4)
Others	0.8	1.8	1.4
Deferred tax expense (income)	<u>(P 7.4)</u>	<u>P 38.4</u>	<u>(P 12.4)</u>

## NOTES TO FINANCIAL STATEMENTS

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(Amounts in Millions of Philippine Pesos, Except Per Share Data, Exchange Rates and As Indicated)

### 20.3 Relevant Tax Regulations

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

- a. The RCIT tax of 32% (30% starting January 1, 2009) is imposed on taxable income net of applicable deductions;
- b. Fringe benefits tax (same rate as the RCIT) is imposed on the grossed-up value of the benefits given by employers to their managerial and supervisory employees (this is a final tax to be paid by the employer);
- c. Minimum corporate income tax (MCIT) of 2% based on gross income, as defined under the Tax Code, is required to be paid at the end of the year starting on the fourth year from the date of registration with the Bureau of Internal Revenue (BIR) whenever the RCIT is lower than the MCIT. On October 19, 2007, the BIR issued RR No. 12-2007 which requires the quarterly computation and payment of the MCIT beginning on the income tax return for the fiscal quarter ending September 30, 2007. This RR amended certain provisions of RR No. 9-98 which specifically provides for the computation of the MCIT at end of each taxable year. Thus, in the computation of the tax due for the taxable quarter, if the computed quarterly MCIT is higher than the quarterly normal income tax, the tax due to be paid for such taxable quarter at the time of filing the quarterly corporate income tax return shall be the MCIT which is 2% of the gross income as of the end of the taxable quarter;
- d. Net operating loss carryover (NOLCO) can be claimed as deduction against taxable income within three years after NOLCO is incurred;
- e. Effective July 2008, Republic Act 9504 was approved giving corporate taxpayers an option to claim itemized deduction or optional standard deduction (OSD) equivalent to 40% of gross sales. Once the option to use OSD is made, it shall be irrevocable for the taxable year for which the option was made; and
- f. The amount of interest expense allowed as income tax deduction is reduced by an amount equal to 33% of the interest income subjected to final tax.

### 20.4 Gross Receipts Tax (GRT)/ VAT

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

On January 29, 2004, Republic Act 9238 reverts the imposition of GRT on banks and financial institutions. This law is retroactive to January 1, 2004. The Parent Company complied with the transitional guidelines provided by the BIR on the final disposition of the uncollected Output VAT as of December 31, 2004.

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

## NOTES TO FINANCIAL STATEMENTS

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### 21. EARNINGS PER SHARE

Basic earnings per share were computed as follows:

<b>Group</b>	<b>2009</b>	2008	2007
Net income	<b>P 300.0</b>	P 365.6	P 341.7
Divided by the weighted average number of outstanding common shares	<u>2,162</u>	<u>2,162</u>	<u>2,162</u>
Basic earnings per share	<u><b>P 0.14</b></u>	<u>P 0.17</u>	<u>P 0.16</u>
 <b>Parent Company</b>	 <b>2009</b>	 2008	 2007
Net income	<b>P 298.0</b>	P 292.7	P 312.4
Divided by the weighted average number of outstanding common shares	<u>2,162</u>	<u>2,162</u>	<u>2,162</u>
Basic earnings per share	<u><b>P 0.14</b></u>	<u>P 0.14</u>	<u>P 0.14</u>

There were no outstanding dilutive potential common shares as of December 31, 2009, 2008 and 2007.

### 22. CONTINGENT LIABILITIES AND COMMITMENTS

In addition to those already mentioned in the preceding notes, in the ordinary course of business, the Group incurs contingent liabilities and commitments arising from normal business transactions which are not reflected in the accompanying financial statements. As of December 31, 2009, management does not anticipate significant losses from these contingencies and commitments that would adversely affect the Group's financial position and results of operations.

# OFFICERS

## SENIOR OFFICERS as of December 31, 2009

### Antonio N. Cotoco

*Vice Chairman and  
Managing Director*

### Renato G. Oñate

*First Vice President and Treasurer*

### Edwin R. Aquino

*Assistant Vice President*

### Florecita R. Gonzales

*Assistant Vice President*

### Roberto E. Lapid

*President*

### Rosario C. Crisostomo

*Senior Assistant Vice President*

### Sergio M. Ceniza

*Assistant Vice President*

### Edenila D. Tuazon

*Assistant Vice President*

### Gerard M. Aguirre

*First Vice President*

### Ma. Theresa M. Soriano

*Senior Assistant Vice President*

### Corazon S. Chiu

*Assistant Vice President*

## NORTHERN PROVINCIAL DIVISION

### REGION GROUP

Sheryl G. Calamiong  
*Admin. Officer*

### CAVITE BRANCH

Fermin E. Laguna  
*Officer-in-Charge/  
Branch Manager*

Roberto H. Evangelista  
Caroline A. Monteza  
*Marketing Officers*

Alberto I. Estrella, Jr.  
*Branch Accountant*

### DAGUPAN BRANCH

Michael John S. Ugto  
*Branch Manager*

Arthur Anthony C. Bueno  
Jayson R. Coquia  
Joeven Y. Handig  
Arisknowell L. Leaño  
Randi T. Melchor  
*Marketing Officers*

### SAN PABLO BRANCH

Jovenal N. Jose  
*Marketing Officer*

### PAMPANGA BRANCH

Rommel I. Paguio  
*Marketing Officer*

Virgilio M. Serafica  
*Branch Accountant*

## SOUTHERN DIVISION

### CEBU BRANCH

Vicente T. Sarigumba  
*Officer-in-Charge*

Ted S. Garcia  
Ahnalyn O. Gregorio  
*Marketing Officers*

Mary Christy Y. Elizalde  
*Branch Accountant*

### CAGAYAN DE ORO BRANCH

Pedro Ony C. Alaba  
*Branch Manager*

Mildy B. Acuram  
*Branch Accountant*

Crescencio Al C. Co Untian  
Pepito C. Dumaluan  
Frisco E. Tangara  
Melchor C. Tubeo  
*Marketing Officers*

### DAVAO BRANCH

Emiliano A. Hipolito  
*Branch Manager*

Emmanuel D. Amores  
Reinero D. Condag  
*Marketing Officers*

### ILOILO BRANCH

Edmund T. Abapo  
*Officer-in-Charge*

Erwin D. Subong  
R.S. Angelo M. Alba  
*Marketing Officers*

Dohlmier P. Bayona  
*Branch Accountant*

## DIVISION AND DEPARTMENT OFFICERS

### CREDIT DIVISION

Nancy S. Bansil  
Nur Haida A. Nero  
Evangeline M. Belarmino  
Maria Roxime M. Lacdao  
Lilia M. Bien

### TREASURY DIVISION

Lawrence S. Sanchez  
Scandutch Theresa D.  
Macainag

### ACCOUNTING

Cecilia L. Naranjo  
Marcelino C. Obmaces  
Ronabel Joyce A. Garrovillas

### PERSONNEL AND ADMINISTRATION

Carlos M. Andaya  
Razel V. Clemente

### LEGAL AND COLLECTION

Ernesto V. Aguilar, Jr.  
Manolo O. Diaz

### COMPLIANCE

Mannette D. Vicente  
Analyn V. Mirandilla

## METRO MANILA DIVISION

Frieda Conception T. Jimenez  
Francisca D. Katigbak  
*Team Leaders*

Rey Francis E. Ato  
Jefferson M. Alfonso  
Vanessa Joyce C. Benavidez  
Randy P. Borbe  
Elmer J. Cruz  
Vernie C. Dela Cruz  
Thyrza M. Flores  
Rethel Anne C. Lopez  
Evelyn I. Pangan  
Lara May B. Pangilinan  
Jonathan C. Pollante  
Ma. Aurora R. Purugganan  
Cynthia M. Ramos  
Ferdinand W. Ravara  
Peter Paul I. Rigor  
Christopher A. Rivera  
Ruvero P. Ruanto  
*Marketing Officers*

# PRODUCTS

- **Leasing**

  - **Financial Lease**

  - **Operating Lease**

- **Amortized Commercial Loan**

- **Installment Paper Purchase**

- **Floor Stock Financing**

- **Factoring**

## BRANCH DIRECTORY

### HEAD OFFICE

BDO Leasing Centre, Corinthian Gardens  
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(02) 635-6416  
Fax Nos: 635-3898, 635-5811, 633-7721, 635-3892  
635-5802, 635-6453

### PACIFIC STAR BUILDING

G/F Pacific Star Bldg.  
Sen. Gil Puyat Ave. corner  
Makati Ave., Makati City  
(02) 840-7000 loc. 6346/6355

### DAGUPAN BRANCH

2/F BDO Bldg., AB Fernandez Avenue  
Dagupan City, Pangasinan 2400  
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### SAN PABLO BRANCH

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Fax No: (049)562-4789

### CAVITE BRANCH

2/F BDO Bldg., Dasma Technopark Branch,  
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Fax No: (02) 529-8121

### PAMPANGA BRANCH

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Fax No: (045) 636-4279

### CEBU BRANCH

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**BDO** Leasing

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