

April 23, 2013

**THE DISCLOSURE DEPARTMENT**

3<sup>rd</sup> Floor, Philippine Stock Exchange Plaza  
Ayala Triangle, Ayala Avenue  
Makati City

**Attention: Ms. Janet A. Encarnacion**  
*Head, Disclosure Department*

Gentlemen:

We hereby submit with this letter the SEC Form 17-A or the Annual Report of BDO Leasing and Finance, Inc. submitted today to the Securities and Exchange Commission.

Thank you very much.

Very truly yours,



**RODOLFO M. CARLOS JR.**  
Compliance Officer

BDO Leasing & Finance, Inc.  
BDO Leasing Centre  
Corinthian Gardens, Ortigas Avenue  
Quezon City, Philippines  
Tel +63(2) 635 6416  
Fax +63(2) 635 5811, 635 5805, 635 3898

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S.E.C. Registration Number

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

( Company's Full Name )

B D O L E A S I N G C E N T R E , C O R I N T H I A N  
G A R D E N S O R T I G A S A V E . Q . C . M . M .

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

RODOLFO M. CARLOS JR.

Contact Person

635-64-16

Company Telephone Number

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Month

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Day

Fiscal Year

SEC Form 17-A

FORM TYPE

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

Annual Meeting

n/a

Secondary License Type, If Applicable

C F D

Dept. Requiring this Doc

Amended Articles Number / Sec.

Total Amount of Borrowings

Total No. of Stockholders

Domestic

-

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

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STAMPS



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( Company's Full Name )

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

RODOLFO M. CARLOS JR.
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Contact Person

635-64-16
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Fiscal Year

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FORM TYPE

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Annual Meeting

n/a
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Total No. of Stockholders

Total Amount of Borrowings
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Domestic
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Foreign
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To be accomplished by SEC Personnel concerned

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A  
ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF CORPORATION CODE OF THE PHILIPPINES



1. For the fiscal year ended December 31, 2012
2. SEC Identification Number 97869
3. BIR Tax Identification No. 000-486-050-000
4. Exact name of registrant as specified in its charter BDO LEASING AND FINANCE, INC.
5. Metro Manila, Philippines  
Province, country or other jurisdiction of incorporation
6.   (SEC Use Only)  
Industry Classification Code:
7. BDO Leasing Centre, Corinthian Gardens  
Ortigas Avenue, Quezon City, Philippines  
Address of principal office
- 1100  
Postal Code
8. (632) 635-6416  
Registrant's telephone number, including area code
9. PCI Leasing and Finance, Inc.  
Former name or former address, if changed since last report
10. Securities registered pursuant to Section 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
<b>Common Stock, P1.00 par value</b>	<b>2,162,475,312</b>

11. Are any or all of these securities listed on Stock Exchange.

Yes (X)      No ( )

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange

Common Stock

12. Check whether the issuer:

(a) has filed all the reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);

Yes (X)      No ( )

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

Yes (X)      No ( )

13. Aggregate market value of the voting stock held by non-affiliates : P644,369,020



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## **PART I - BUSINESS & GENERAL INFORMATION**

### **ITEM 1. BUSINESS**

**BDO LEASING AND FINANCE, INC.** (the “**Company**”), is a domestic corporation incorporated with the Philippine Securities and Exchange Commission (SEC) in 1981 under Republic Act No. 8556 (the “**Financing Company Act**”), and listed with the Philippine Stock Exchange (PSE) on January 6, 1997. The Company is eighty-five percent (85%)-owned by BDO Unibank, Inc. (“**BDO**” or the “**Parent Company**”), a company incorporated and domiciled in the Philippines. The Company is the principal business unit of BDO engaged in leasing and financing.

The Company became a subsidiary of BDO when BDO and Equitable PCI Bank, Inc. entered into a merger effective May 31, 2007, with BDO as the surviving entity. BDO is presently engaged in the banking business as a universal bank.

BDO Rental, Inc. (formerly Equitable Pentad Rental, Inc. or “**BDO Rental**”), a wholly-owned subsidiary of the Company, is licensed by the SEC to engage in renting and leasing of equipment. It started commercial operations on June 30, 2005.

The Company and BDO Rental continue their respective operations up to present. The Company and BDO Rental are not under any bankruptcy, receivership or similar proceedings, and have not undertaken any material reclassification, consolidation or purchase or a sale of a significant amount of assets not in the ordinary course of their respective businesses.

#### **Principal Products/Services**

The Company’s principal business is providing leasing & financing products to individual and corporate clients.

The Company’s leasing products include direct leases, sale-leaseback arrangements, and operating leases. The Company’s financing products include commercial and retail loans, installment paper purchases, factoring of receivables and floor stock financing. Loan availments of clients are used to finance the purchase of automobiles, trucks, office equipment, industrial, agricultural and office machinery, real property, and operating assets such as receivables and inventories.

Following is a general description of the Company’s leasing and financing products:

#### **Leasing Products:**

*Finance Lease*- A source of medium term financing for the acquisition of capital equipment and is ideal if you plan to keep the asset up to the end of the term. With just a low upfront cost, you can use the asset immediately.

*Operating Lease* – This refers to a short-term lease that does not permit the recovery of the investment by the lessor during the initial period of lease. It is an off-balance sheet transaction where rentals are recorded in the lessee's book as expense. The operating lease product is being offered by BDO Rental.

*Direct Lease* - The Company purchases an asset selected by a client from a supplier and leases it to the client. Through this lease arrangement, the client overcomes budgetary constraints, enhances efficiency in cash flow management through rental payments, and minimizes the required equity contribution for asset acquisition.

*Sale-Leaseback* - The Company purchases an asset from a client based on appraised value. The Company then “leases back” the asset to the client. This type of lease arrangement simultaneously provides liquidity to the client and continued use of the asset.

#### Financing Products:

*Commercial Loan* - The Company provides financing to a commercial client through a loan secured by a mortgage on the latter’s equipment or real property. The client is able to avail of longer amortization terms as compared to unsecured loans. A commercial loan addresses a client’s capital expenditure or permanent working capital need.

*Retail Loan* - The Company provides financing to an individual client through a loan secured by a mortgage on the latter’s personal or real property. A consumer loan addresses an individual client’s financing requirements.

*Installment Paper Purchase* - The Company purchases on a “with recourse basis” the installment sales contracts of a client usually engaged in motor vehicle, appliance, or equipment dealership at a stipulated discount, thereby providing liquidity to the same client.

*Factoring of Receivable* - As a variation of the receivables discounting product, the Company’s purchase of a client’s short-term receivables is on a “with or without recourse basis”, with the Company directly collecting payment from the client’s debtors. The client gains immediate liquidity, and transfers responsibility of the collection process to the Company.

*Floor Stock Financing* – The Company provides financing mainly to vehicles and transport dealers to assist them in their inventory requirements, secured by a trust receipt on the same inventory.

Variations of each leasing or financing products are offered, depending on the nature of a client’s business, preferences and financial position.

As at December 31, 2012, the Company’s leasing and financing products contributed 40.82% and 43.55% to its gross revenues, respectively, vis-a-vis 2012 projected ratios of forty perent (40%) and forty five percent (45%), respectively.

#### **New Product or Services**

There were no publicly announced new products or services.

#### **Sales Contracts**

The Company's business is not dependent upon a single customer or a few customers, the loss of any or more of which would have a material adverse effect on the Company and its subsidiaries taken as a whole.

None of the Company’s customers account for, or based upon existing orders will account for, thirty percent (30%) or more of the Company's sales, and the Company has no existing major sales contracts.

#### **Government Approval**

Under the Financing Company Act, only corporations for which a license to engage in the business of a financing company has be granted by the SEC may engage in both leasing and financing activities. Apart from the foregoing requirement, no other government approval is needed for the Company's and its subsidiary’s principal products and services.

## **Market Position**

The Company occupies a dominant position in the leasing and financing industry.

## **Marketing of Products/Services**

The Company markets its products through its Head Office located in Ortigas, Quezon City and its branch network nationwide. The Company has an extensive branch network in the leasing and financing industry, with nine (9) branches, located in Cagayan de Oro City (Misamis Oriental), Cebu City (Cebu), Dagupan City (Pangasinan), Davao City (Davao), Iloilo City (Iloilo), Dasmariñas (Cavite), Angeles City (Pampanga), San Pablo City (Laguna) and Makati City (Metro Manila). In October 2009, the Company obtained a Certificate of Authority to operate the Makati branch from the SEC.

The Company's wholly-owned subsidiary, BDO Rental, Inc., is licensed by the SEC to engage in renting and leasing of equipment.

As part of the BDO Group, the Company enables to gain name recognition and marketing referrals provided by its parent company, BDO, via the latter's nationwide branches. The BDO's well-established presence throughout the country helps the Company in understanding the local business environment and finding potential borrowers.

## **Competition**

The SEC's licensing requirements allow financing companies to engage in both leasing and financing activities. As a matter of practice, financing companies are classified based on their product specializations and target markets.

Some financing companies may focus on consumer leasing and financing, while others, like the Company, concentrate on commercial leasing and financing clients. Among financing companies targeting commercial clients, there are differences in the market segment being served, with certain financing companies focusing on established prime companies, and others focusing on smaller clients.

The Company competes with other financing companies affiliated with other banks, independent financing companies, and other financing companies affiliated with diversified financial services firms. However, its key competitors are those firms engaged in servicing the leasing or financing requirements of commercial clients in the broader "Top 5,000" Philippine companies which include small-and medium-enterprises (SMEs).

The principal competitors of the Company are Orix Metro Leasing & Finance Corporation, BPI Leasing Corporation, LBP Leasing Corporation, Japan PNB Leasing & Finance Corporation, UCPB Leasing and Finance Corporation, First Malayan Leasing and Finance, Allied Leasing and Toyota Financial. The market strengths of our competitors are their competitive pricing of interest rates and fast turn around time. However, the Company believes it can effectively compete with other companies by its wide branch network, wherein each branch offers the same leasing and financing product lines as the head office.

## **Sources and Availability of Raw Materials**

The Company is not dependent upon one or limited number of suppliers/dealers for essential raw materials, equipment, energy or other items.

## **Related Party Transactions**

In the ordinary course of business, the Company and BDO Rental (for purposes of this section, the "Group") enters into transactions with the Parent Company 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.



The Group's and the Company's related parties include BDO, affiliates, key management personnel and the retirement benefit fund as described below.

The summary of the Group's significant transactions with its related parties in 2012, 2011 and 2010 are as follows:

Related Party Category	Notes	Amount of Transaction		
		2012	2011	2010
Ultimate Parent Company (BDO)				
Interest income on savings and demand deposits	(a)	P 0.3	P 0.8	P 4.7
Interest expense on bills payable	(b)	98.3	86.7	0.5
Rent expense	(d)	11.0	11.5	13.6
Management fees	(e)	2.4	-	-
Subsidiary (BDO Rental)				
Interest income on loans	(b)	0.7	0.7	0.8
Service fees	(c)	8.4	9.9	18.0
Rent income	(d)	0.4	0.4	0.5
Management fees	(e)	0.4	0.8	-
Affiliate (BDO Capital)				
Professional fees	(f)	2.8	-	-
Key management personnel				
Short-term benefits	(g)	57.7	44.7	26.2
Post-employment benefits	(g)	17.0	13.2	8.3
Advances to officer	(g)	1.7	-	-
Outstanding Balance				
Related Party Category	Notes	2012	2011	
Parent Company (BDO)				
Savings and demand deposits	(a)	P 52.7	P 72.9	
Bills payable	(b)	6,731.7		2,488.1
Key management personnel				
Advances employees	(b)	1.6		
Retirement benefit fund				
Loans to officers and employees	(b)	3.4		-
Loans to members and beneficiaries	(b)	2.4		-
Shares of stock	(i)	0.9		-

- The Group maintains savings and demand deposit accounts with BDO. As of December 31, 2012 and 2011, savings and demand deposit accounts maintained with BDO are included under Cash and Cash Equivalents account in the statements of financial position. Interest income earned on deposits in 2012, 2011 and 2010 is included under Interest and Discounts as part of Revenues in the statements of comprehensive income.
- The Group obtains short-term, unsecured bills payable from BDO. The amount outstanding from borrowings as of December 31, 2012 and 2011 is presented under Bills Payable account in the statements of financial position. Interest expense incurred on these bills payable in 2012, 2011 and 2010 is included under Interest and financing charges account as part of Operating Costs and Expenses account in the statements of comprehensive income. Also, the Company grants short-term, unsecured loans to BDO Rental. There is no outstanding balance arising from this transaction as of December 31, 2012 and 2011. Total interest income earned by the Company on these loans in 2012, 2011 and 2010 is included under Interest and Discounts as part of Revenues in the statements of comprehensive income.
- On January 4, 2010, the Company and BDO Rental entered into a Service Agreement whereby BDO Rental will handle the collection of certain factored receivables of the Company, for a fee as agreed by the Company and the sellers of the factored receivables. Under the Service Agreement, BDO Rental shall perform the monitoring of the payment due dates of the factored receivables, remit to the Company all collections made and send monthly statement of accounts to customers. The related expense charged to the Company based on the Service Agreement is included under Other Operating Costs and Expenses in the Company's statements of comprehensive income. There are no outstanding inter company payable and receivable from this transaction as of December 31, 2012 and 2011.
- The Company leases its head office premises and certain branch offices from BDO for terms ranging from one to five years, renewable for such period and under such terms and conditions as may be agreed upon with the Company and BDO. Related rent expense incurred in 2012, 2011 and 2010 is presented as part of Occupancy and equipment-related expenses under Operating Costs and Expenses account in the statements of comprehensive income. On the other hand, the Company charges BDO Rental for the spaces that the latter occupies in the head office premises. Rent charged to BDO Rental in 2012 and 2011 is presented as part of Other Income in the statements of comprehensive income. There are no outstanding receivable and payable on these transactions as of the end of 2012 and 2011.
- In 2012, the Company entered into a service level agreement with BDO wherein BDO will charge the Company for certain management services that the former provides to the latter. Management fees paid by the Company to BDO is shown as part of Other Operating Costs and Expenses in the 2012 statement of comprehensive income. Also, the Company charges BDO Rental for the management services it renders to BDO Rental. This is presented as part of Other Income in the 2012 statement of comprehensive income of the Company. There are no outstanding receivable and payable on these transactions as of the end of 2012.
- The Company engaged the services of BDO Capital and Investment Corporation ("**BDO Capital**"), a wholly owned subsidiary of BDO for underwriting services related to the Company's issuance of bills payable in 2012. Professional fees paid by the Company to BDO Capital related to this transaction is included as part of Other Operating Costs and Expenses in the 2012 statement of comprehensive income. There is no outstanding payable related on this transaction as of the end of 2012.
- Compensation of key management personnel (covering officer positions starting from Assistant Vice President and up) is included as part of Employee Benefits under Operating Costs and Expenses in the statements of comprehensive income of the Group and the Company. Short-term employee benefits include salaries, paid annual leave and paid sick leave, profit sharing and bonuses, and non-monetary benefits. The Group also incurred post-employment benefit expense related to key management personnel included as part of Employee Benefits under Operating Costs and Expenses. The Group also granted cash advances to an officer in 2012

- The Group maintains a retirement benefit fund with BDO covering all regular full-time employees. In the normal course of business, the retirement benefit fund grants salary and housing loans to certain officers and employees of the Company, and members and beneficiaries of the fund who are also officers of the Company. The housing loans are secured by the mortgage on the property and bear interest at 9% per annum and have terms ranging from 13 to 20 years. The salary loans on the other hand, are unsecured and bear interest ranging from 9% to 10% per annum and have terms ranging from 18 months to 3 years.
- The retirement fund holds 442,750 shares of stocks of the Company as an investment, which has a market value of P2.00 per share as of December 31, 2012.

## **Intellectual Property**

As of December 31, 2012, the Company has no existing or expiring patents, trademarks, copyrights, licenses, franchises, concessions, and royalty agreements.

## **Governmental Regulation**

The Company does not foresee new changes or amendments to the Financing Company Act that would significantly affect the Company's business.

## **Research and Development**

The Company, being in the financing business, does not have research and development activities. In this regard, it does not incur research and development costs and is not affected by any environmental law.

## **Employees**

As of December 31, 2012, the Company had two hundred (200) employees – nineteen (19) senior officers, eighty three (83) junior officers and ninety eight (98) rank & file employees. Of the total personnel, Executive Office is composed of two (2) employees; one hundred sixteen (116) under the Marketing group; seventy-six (76) under the Operations group (Comptrollership and Operations, Risk Management, HR & Admin, Special Project and IT); four (4) under Treasury; and two (2) under the Company's subsidiary, BDO Rental. In 2013, the Company anticipates thirty two (32) additional employees.

The Company believes that it has maintained good relationship with its employees. Rank & file employees receive benefits similar to those granted to the rank & file employees of BDO, under the terms of a Collective Bargaining Agreement (CBA) between the BDO Unibank and NUBE-BDO, a legitimate labor organization duly registered with the Department of Labor and Employment. The CBA expires on October 31, 2015. Coverage of the CBA includes wage increases, allowances, bonuses, loans and other benefits.

## **Risk Factors**

### ***Portfolio Concentration Risks***

As of December 31, 2012, 81.37% of the Company's leasing and financing portfolio consisted of exposure in firms in the following sectors: transportation and communication, manufacturing, trade, real estate, mining and quarrying and construction. The Company maintains a general policy of avoiding excessive exposure in any particular sector of the Philippine economy. The Company actively seeks to increase its exposure in industry sectors which it believes possess attractive growth opportunities. Conversely, it actively seeks to reduce its exposure in industry sectors where growth potential is minimal. Although the Company's leasing and financing portfolio is composed of transactions with a wide variety of businesses, the results of operations and financial condition of the Company may



be adversely affected by any downturn in these sectors as well as in the Philippine economy in general.

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

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

### ***Risk Management***

Risk management of the Company's credit, market, liquidity, and operational risks is an essential part of Company's organizational structure and philosophy. The risk management process is essentially a top-down process that emanates from the Board of Directors (the "**Board**"). The Board approves the overall institutional tolerance risk, including risk policies and risk philosophy of the Company.

### ***Foreign Currency Sensitivity***

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

### ***Interest Rate Risk***

The Company follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. The current composition of the Company's assets and liabilities results in significant negative gap positions for repricing periods under one (1) year. Consequently, the Company may be vulnerable to increases in market interest rates. However, in consideration of the substantial net interest margins between the Company's marginal funding cost and its interest-earning assets; and favorable lease and financing terms which allow the Company to reprice annually, and to reprice at anytime in response to extraordinary fluctuations in interest rates, the Company believes that the adverse impact of any interest rate increase would be limited. In addition, during periods of declining interest rates, the existence of a negative gap position favorably impacts the Company.

### ***Credit Risk***

The Company manages credit risk by setting limits for individual borrowers, and groups of borrowers and industry segments. The Company maintains a general policy of avoiding excessive exposure in any particular sector of the Philippine economy.

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

### ***Liquidity Risk***

The primary business of financing companies entails the borrowing and re-lending of funds. Consequently, financing companies are subjected to substantial leverage, and may therefore be exposed to the potential financial risks that accompany borrowing.

The Company expects that its continued asset expansion will result in the higher funding requirements in the

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

The Company believes that it currently has adequate debt funding from banks, other financial institutions, and through the issuance of Short Term Commercial Papers (STCPs). The Company has a license from the SEC to issue P15 billion STCPs.

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

## **Taxation**

### ***Relevant Tax Regulations***

Among the significant provisions of the National Internal Revenue Code (the “**Tax Code**”) that apply to the Group are the following:

- a. The regular corporate income tax (RCIT) of 30% (effective January 1, 2009) is imposed on taxable income net of applicable deductions;
- b. Fringe benefits tax of 32% 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 Revenue Regulation (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 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 No. 9504 was approved giving corporate taxpayers an option to claim itemized deduction or optional standard deduction (ODS) 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;
- 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;
- g. October 2012, the BIR prescribed the rules on deductibility of depreciation expenses as it relates to purchase of vehicles and other related thereto, and input taxes allowed thereto through RR No. 12-2012. Revenue Memorandum Circular No. 2-2013 was issued on December 28, 2012 clarifying certain provisions on the deductibility of depreciation expense as it relates to purchase of vehicles and other related thereto, and the Input Taxes allowed;
- h. Effective November 2012, the BIR issued RR No. 14-2012 for proper tax treatment of interest income earnings on Financial Instrument and other related transaction. Subsequently, the BIR also issued RMO No. 27-2012 for

the creation of alphanumeric tax code and RMO No. 84-2012 for the clarification on tax treatment of interest income earnings on loans that are not securitized, assigned or participated out; and

- i. RR No. 18-2012 was issued for the Processing of Authority to Print Official Receipts, Sales Invoices, and Other Commercial Invoices using the On-line ATP System and providing for the Additional Requirements in the Printing thereof.

### ***Gross Receipts Tax (GRT) / Value-Added Tax (VAT)***

Beginning January 1, 2003, the imposition of VAT on banks and financial institutions became effective pursuant to the provisions of Republic Act No. 9010. The 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 No. 9238 reverted to the imposition of GRT on banks and financial institutions. This law is retroactive to January 1, 2004. The Company complied with the transitional guidelines provided by the BIR on the final disposition of the uncollected Output VAT as of December 31, 2004.

On May 24, 2005, the amendments to the Tax Code under Republic Act 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 of foreign currency, debt securities, derivatives and other similar financial instruments from 5% to 7% effective November 1, 2005.

### ***Supplementary Information Required Under Revenue Regulations (RR) 15-2010 and 19-2011***

The BIR issued RR Nos. 15-2010 and 19-2011 which required certain supplementary information to be disclosed as part of the notes to financial statements. The supplementary information is, however, not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards; it is neither a required disclosure under the SEC rules and regulations covering the form and content of financial statements under Securities Regulation Code Rule 68.

## **ITEM 2. PROPERTIES**

The Company leases its head office premises from the Parent Company for a period of five years until June 2015. Head office address is at BDO Leasing Centre, Corinthian Gardens, Ortigas Avenue, Quezon City. In 2012 and 2011, the consolidated rent expense amounted to P16.2 million and P17.4 million, respectively. Cagayan de Oro, Dagupan, San Pablo, Cavite, Davao, Iloilo and Cebu branches lease their premises from the Parent Company.

Below are the details of the leases covering the branches' office premises:

#### **Cagayan:**

- Operates at the 2<sup>nd</sup> Floor, BDO-Lapasan Branch, National Highway, Lapasan, Cagayan de Oro City for a period of five years and will expire on January 2014. Monthly rental amounts to P27,378.00 with no escalation clause.

#### **Dagupan:**

- Operates at the 2<sup>nd</sup> Floor BDO Bldg., AB Fernandez Ave., Dagupan City for a period of five years and will expire on December 2013. Monthly rental amounts to P35,244.00 with no escalation clause.



**San Pablo:**

- Operates at the 3<sup>rd</sup> Floor, BDO Bldg., Rizal Street corner P. Alcantara St., San Pablo City, Laguna for a period of five years and will expire on September 2017. Monthly rental amounts to P37,686.00 with no escalation clause.

**Iloilo:**

- Operates at the 2<sup>nd</sup> Floor, BDO Corporate Center, BDO Valeria Branch, Valeria St., Iloilo City for a period of five years and will expire on November 2013. Monthly rental amounts to P22,000.00 with no escalation clause.

**Davao:**

- Operates at the 2<sup>nd</sup> Flr., BDO Davao Regional Office, 383 C.M. Recto Avenue, Davao City for a period of five years and will expire on January 2014. Monthly rental amounts to P36,145.00 with no escalation clause.

**Cavite:**

- Operates at the 2<sup>nd</sup> Flr., BDO Building, Damarinas Technopark Paliparan I, Dasmarinas, Cavite City for a period of five years and will expire on July 2014. Monthly rental amounts to P 32,472.00 with no escalation clause.

**Cebu:**

- Operates at the Mezzanine Floor, BDO Bldg., Gorordo Ave. Lahug, Cebu City for a period of five years and will expire on May 2014. Monthly rental amounts to P30,748.00 with no escalation clause.

**Pampanga:**

- Operates at the 2<sup>nd</sup> Flr., Palm Bldg., McArthur Highway, Sindalan, San Fernando Pampanga for a period of ten years and will expire on December 2016. Monthly rental amounts to P23,191.34 with an annual increase of 10%.

**Makati:**

- Operates at the Ground Flr., Pacific Star Bldg., Sen. Gil Puyat corner Makati Avenue, Makati City for a period of three years and will expire on February 28, 2014. Monthly rental amounts to P290,892.71 with escalation of 10% per annum beginning on the second year of the lease term.

The Company's facilities, office furniture, fixtures and equipment are in good condition. Distribution of office furniture fixture and equipment are as follows: Head office – P20.4 million; Cebu – P1.5 million; Davao – P0.6 million; Dagupan – P1.3 million; San Pablo – P0.7 million; Cagayan – P1.0 million; Iloilo – P0.9 million; Cavite – P0.3 million; Pampanga – P1.0 million.

**ITEM 3. LEGAL PROCEEDINGS**

The Company is party to various legal proceedings which arise in the ordinary course of its operations. No such legal proceedings, either individually or in the aggregate, is expected to have a material adverse effect on the Company or its consolidated financial condition.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

There were no matters submitted to a vote of security holders during the fourth quarter of the calendar year covered by this Report.

## **PART II - OPERATIONAL AND FINANCIAL INFORMATION**

### **ITEM 5. MARKET FOR ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

On July 15, 2003, the Board approved a program to buy-back shares from the stock market. The Board authorized the Chairman or Vice-Chairman and the President to determine the amount and the timing of the program. The buy-back program was approved on the rationale that the market prices did not reflect the true value of the shares and therefore remaining shareholders would benefit from a buy-back into treasury. Purchase of shares are covered by guidelines which include buy-back of shares when the share prices is undervalued, the purchase prices shall be at prevailing market prices, and the cash expenditure for the buy-back will not adversely affect the liquidity requirements of the company for its business transactions.

Total treasury shares as of December 31, 2012 was 62,693,718 shares or a total value of P81,776,628.

#### **Dividends**

On May 28, 2012, the Board approved the declaration of cash dividends at P0.05 per share in favor of stockholders of record as of May 31, 2012 paid on June 27, 2012. Total dividends in 2012 amounted to P108.12 million.

Dividends declared by the Company on its shares of stocks are payable in cash or in additional shares of stock. The payment of dividends will depend upon the earnings, cash flow and financial condition of the Corporations and other factors.

There are no restrictions that will limit the ability to pay dividends on common equ

#### **Market Information**

The principal market for the Company's common equity is the PSE. As of March 8, 2013, 322,184,510 common shares are held by the public, representing 14.9% of the Company's outstanding shares.

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

As at March 8, 2013 and December 31, 2012, the closing price of the Company's shares were at P2.02 and P2.00 per share, respectively.

<b>2013</b>	<b>High</b>	<b>Low</b>	<b>2012</b>	<b>High</b>	<b>Low</b>
January	2.00	2.00	1 <sup>st</sup> quarter	1.65	1.64
February	2.03	2.03	2 <sup>nd</sup> quarter	1.78	1.78
			3 <sup>rd</sup> quarter	2.03	1.99
			4 <sup>th</sup> quarter	2.00	2.00

<b>2011</b>	<b>High</b>	<b>Low</b>	<b>2010</b>	<b>High</b>	<b>Low</b>
1 <sup>st</sup> quarter	1.90	1.90	1 <sup>st</sup> quarter	1.50	1.48
2 <sup>nd</sup> quarter	1.60	1.60	2 <sup>nd</sup> quarter	1.70	1.48
3 <sup>rd</sup> quarter	1.61	1.42	3 <sup>rd</sup> quarter	1.69	1.54
4 <sup>th</sup> quarter	1.65	1.60	4 <sup>th</sup> quarter	1.69	1.46

Total number of stockholders as of February 28, 2013 was one thousand one hundred ninety five (1,195), and as of December 31, 2012, one thousand one hundred ninety nine (1,199). Common shares outstanding as of February 28, 2013 and December 31, 2012 totaled 2,162,475,312.

## Holders

The Company's common stockholders, with their respective shareholdings, as of February 28, 2013 and December 31, 2012 are as follows:

<u>Name</u>	<u>No. of Shares Held</u>	<u>% to Total</u>
Banco de Oro Unibank, Inc. (Parent Company)	1,840,116,232	85.093052%
Various Stockholders	<u>322,359,080</u>	<u>14.906948%</u>
	<u>2,162,475,312</u>	<u>100.000000%</u>

The top twenty (20) stockholders of the Company as of December 31, 2012 are as follows:

<i>Name of Stockholders</i>	<i>Securities</i>	<i>Shares Held</i>	<i>Total Outstanding</i>
Banco De Oro Unibank, Inc.	Common	1,840,116,232	85.093052%
PCD Nominee Corp (Filipino)	Common	229,905,537	10.631591%
Samuel Uy Chua	Common	21,000,000	0.971109%
Equitable Computer Services, Inc. A/C Equitable	Common	12,320,000	0.569717%
Panfilo Castro Jr.	Common	6,140,000	0.283934%
Felly G. Castro	Common	5,100,480	0.235863%
Marylen Castro Mateo	Common	3,795,000	0.175493%
Jesselen Castro Versoza	Common	3,795,000	0.175493%
Samuel Uy Chua	Common	3,011,150	0.139246%
Constantino Chua	Common	2,497,200	0.115479%
Equitable Computer Services Inc.	Common	2,070,200	0.095733%
PCD Nominee Corporation (Foreign)	Common	1,800,058	0.083241%
Victor Barranda	Common	1,157,475	0.053525%
Mercury Group of Companies	Common	1,089,165	0.050367%
Constantino Chua &/or Willington Chua &/or George W. Chua	Common	1,020,000	0.047168%
Nardo R. Leviste	Common	759,000	0.035099%
Yok Bing S. Pua	Common	721,050	0.033344%
Oscar M. Lopez	Common	683,100	0.031589%
Willington/Constantino Chua/ George W. Chua Chua	Common	584,430	0.027026%



### **Recent Sales of Unregistered or Exempt Securities, Including Recent Issuance of Securities Constituting an Exempt Transaction**

There were no recent sales of unregistered or exempt securities including recent issuance of securities constituting an exempt transaction.

## **PART III – FINANCIAL INFORMATION**

### **ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION**

#### **2012 Compared to 2011**

Gross income for the year ended December 31, 2012 was P1.76 billion, an increase of P123.2 million, or 7.52% from P1.64 billion in 2011. Interest and discounts for the year ended December 31, 2012 were P1.27 billion, an increase of P103.0 million or 8.83% from P1.17 billion in 2011. This increase was due to the increase in Average Earning Asset from last year to this year. Rent Income for the year ended December 31, 2012 was P226.7 million, a decrease of P17.8 million or 7.28% from P244.5 million in 2011. The decrease was due to decline in 2012 operating lease income of the Company's subsidiary, BDO Rental. The Company's leasing and financing portfolio as of December 31, 2012 was at P18.49 billion, a P2.87 billion increase, or 18.40% from P15.62 billion as of December 31, 2011 with leasing portfolio improving by 40.47% or increase of P3.0 billion.

Interest and financing charges for 2012 amounted to P461.6 million, consisting of financing charges on borrowings for P457.1 million and interest expense on lease deposits for P4.5 million. Increase of P81.4 million in financing charges attributed to the increase in Bills Payable which went up to P12.67 billion in 2012 compared to P10.58 billion 2011. Interest expense on leased deposits in 2012 amounted to P4.5 million or a decrease of P7.5M from 2011's P12.06 million.

As of December 2012, total provision for impairment losses amounted to P112.5 million, a decrease of P26.6 million from last year's P139.1 million. A total of P87.3 million provision for credit loan receivable losses was set up during the year due to more conservative provisioning policies of the company. Total accounts written off in 2012 amounted to P31 million.

Taxes and licenses expenses were P134.7 million for the year ended December 31, 2012, an increase of P12.1 million, or 9.87% from P122.6 million for the year ended December 31, 2011. This was mainly from the increase in GRT expenses by P10.6 million in 2012.

Salaries and employee benefits expense amounted to P178.2 in 2012 as compared to P163.9 million in 2011. Occupancy and equipment related expenses for the year ended December 31, 2012 amounted to P220.8 million, a decrease of P108.4 million, or 32.93% from December 2011's P329.2 million. This is due to matured operating leases of BDO Rental.

Litigation/assets acquired expenses increased by 88.58% or from P25.4 million in 2011 to P47.9 million in 2012.

Other expenses increased to P91.0 million in 2012 as compared to P85.9 million as of 2011. The increase of P5.1 million, or 6.0% increase, is primarily due to increase in Entertainment and Representation expenses of P5.1 million.

The Company registered a net income of P402.3 million for the year ended December 31, 2012.

Total assets amounted to P20.74 billion in December 2012, resulting to an increase of P2.89 billion as compared to P17.85 billion in December 2011. Available-for-sale financial assets of P2.02 billion pertains to the

investments in San Miguel Corporation (SMC) and First Gen Corporation (“**First Gen**”) preferred shares purchased last September 2012 and July 2011 respectively. Leasing and Financing portfolio increased by 18.40%. Property and Equipment-net amounted to P643.7 million as of 2012 or an increase of P140.5 million over last year’s P503.2 million. This is due to the increase in booked leases of BDO Rental. Investment properties-net decreased to P379.5 million from 2011’s P428.9 million primarily due to sale of foreclosed properties during the year. Other assets stood at P376.3 million in 2012 primarily consisting of Non-current asset held-for-sale, with net amount of P94.4 million, creditable withholding tax totaling P89.6 million and prepaid expense-VAT of P65.3 million.

Accounts Payable, accrued expenses and other liabilities decrease by P218.0 million or 45.44% due to payment in 2012 of dividends declared in 2011 amounting P216.2 million.

Lease deposits, amounting P3.17 billion in 2012, increased by P745.3 million or 30.72% from last year’s P2.42 billion. This was also due to increase in lease transactions of the Company.

Stockholders’ equity increased by P272.9 million or 6.26%, primarily due to increase in Net Income from last year P303.6 million to this year P402.3 million.

The Company’s five (5) key performance indicators are the following:

	<u>December 2012</u>	<u>December 2011</u>
Current Ratio	0.42:1	0.78:1
Quick asset ratio	0.41:1	0.77:1
Debt to Equity Ratio	3.47:1	3.09:1
Net Profit Margin	22.84%	18.54%
Return on Equity	8.94%	6.96%

Decrease in current ratio (computed as current assets divided by current liabilities) and quick asset ratio (quick asset divided by current liabilities) can be attributed to the P2.87 billion increase in net loans & receivables financed that are expected to be collected for more than one year. Increase in current financial liabilities and increase in total stockholders equity account was the result of the increase of debt to equity ratio which is computed as total liabilities divided by total equity of 3.47:1 in 2012 as compared to 3.09:1 in 2011. Net profit margin which is computed as Net Income over Gross Revenue increased this year from last year due to the high increase of Net Income by 32.48% from last year as compared to the slight increase in gross revenue by 7.53% due to lower operating expense for the year. Return on equity which is Net Income over Average Equity increased from 6.96% in 2011 to 8.94% in 2012 is due to the Increase in Net Income by P98.6 million from last year’s P303.6.

## 2011 Compared to 2010

Gross income for the year ended December 31, 2011 was P1.64 billion, a decrease of P0.40 million, or 19.62% from P2.04 billion in 2010. Interest, discounts, and rent for the year ended December 31, 2011 were P1.41 billion, a decrease of P0.45 million or 24.13% from P1.86 billion in 2010. This decrease was due to the decline in 2011 operating lease income of our subsidiary, BDO Rental, amounting to P244.5 million compared to P830.9 million in 2010. The Company’s leasing and financing portfolio as of December 31, 2011 was at P15.62 billion, a P1.04 billion increase, or 7.13% from P14.58 billion as of December 31, 2010 with both financing and leasing portfolio improving by 6.22% to P7.41 billion and 7.99% to P8.21 billion respectively.

Interest and financing charges for 2011 amounted to P387.7 million, consisting of financing charges on borrowings for P375.7 million and interest expense on lease deposits for P12.1 million. Increase of P56.8 million in financing charges is attributed to increase in Bills Payable which went up to P10.58 billion as of December, 2011 from

P7.67 billion as of December 2010. Interest expense on leased deposits in 2011 amounted to P12.06 million or a decrease of P24.8 million from 2010's P36.86 million.

As of December, 2011, total allowance for impairment losses amounted to P139.1 million, an increase of P34.9 million from last year's P104.2 million. A total of P117.1 million provision for credit loan & other receivable losses was set up during the year due to more conservative provisioning policies of the company. Total accounts written off in 2011 amounted to P66.4 million.

Taxes and licenses expenses were P122.6 million for the year ended December 31, 2011, an increase of P9.8 million, or 8.69% from P112.8 million for the year ended December 31, 2010. This was mainly from the net impact of increase in documentary stamp tax by P14.4 million and decrease in GRT expenses by P5.5 million.

Salaries and employee benefits expense amounted to P163.9 in 2011 as compared to P134.1 million in 2010. Occupancy and equipment related expenses for the year ended December 31, 2011 amounted to P329.2 million, a decrease of P539.7 million, or 62.11% from December 2010's P868.9 million, due to the decline in operating lease transactions of BDO Rental.

Litigation/assets acquired expenses decreased by 10.56% or from P28.4 million in 2010 to P25.4 million in 2011.

Other expenses increased to P85.9 million in 2011 as compared to P50.1 million as of 2010. The increase of P35.8 million, or 71.46% increase, is primarily due to increases in Traveling expenses of P2.8 million, Entertainment and Representation expenses of P3.8 million and Loss on FFE disposal of P26.1 million.

The Company registered a net income of P303.6 million for the year ended December 31, 2011.

Total assets amounted to P17.85 billion, an increase of P2.56 billion from December, 2010's P15.29 billion. Available-for-sale financial assets of P2.04 billion pertains to the investments in SMC and First Gen preferred shares purchased last December 2009 and July 2011 respectively. Leasing and financing portfolio increased by 7.14%. Property and Equipment-net amounted to P503.2 million as of 2011 or a decrease of P353.7 million over last year's P856.9 million due to depreciation of leased assets and decline in operating lease transactions. Investment properties-net decreased to P428.9 million from 2010's P701.3 million primarily due to sale of foreclosed properties during the year. Other assets stood at P215.0 million in 2011 primarily consisting of Non-current asset held-for-sale, with net amount of PP65.9 million, creditable withholding tax totaling P86.3 million and deferred input tax of P46.7 million.

Accounts Payable, accrued expenses and other liabilities increased by P41.1 million or 9.37% due to Risk Management Unit collections, lodged under miscellaneous liabilities, still awaiting for payment application.

Lease deposits, amounting P2.42 billion in 2011, decreased by P191.8 million or 7.33% from last year's P2.62 billion. This was also due to decline in operating lease transactions of BDO Rental, contributing P319.3 million decrease on Lease deposits.

Stockholders' equity decreased by P204.8 million or 16.75%, primarily due to decline in the unrealized gain on available-for-sale investments from P246.1 million in 2010 to P62.1 million in 2011.

The Company's five (5) key performance indicators are the following:

	<b>December 2011</b>	<b>December 2010</b>
Current Ratio	0.78:1	0.86:1
Quick asset ratio	0.77:1	0.85:1
Debt to Equity Ratio	3.09:1	2.35:1
Return on Equity	6.96%	6.76%
Net Profit Margin	18.53%	15.15%

Increase in current and quick asset ratios can be attributed to the P1.4 billion increase in net loans & receivables financed that are expected to be collected within one year. Increase in current financial liabilities and decline in total stockholders equity account for the 3.09:1 debt to equity ratio which in 2011 as compared to 2.35:1 in 2010. Return on equity increased from 6.76% in 2010 to 6.96% in 2011 due to the decline in the unrealized fair value gain on the investment in SMC Preferred shares. Increase in the net profit margin is brought about by the decreases in operating expenses shouldering a minimal decline in net income, despite the 20% increase in gross income.

### **Policy on Revenue Recognition – Other Income**

Income related to the administration and servicing a loan are recognized as revenue as the services are rendered, these are included under Other Income such as Service Fees, Gain on disposal of property, etc. These are recognized as they are earned.

### **Key Variable and Other Qualitative and Quantitative Factors**

There are no known trends, events or uncertainties that will have any material impact on the Company's liquidity.

There are no events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

There are no material off-balance sheet transactions, arrangements, obligations and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.

There were no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. There were also no significant elements of income or loss that did not arise from the Company's continuing operations.

There are no seasonal aspects that had a material effect on the financial condition or results of operations.

### **Internal and External Sources of Liquidity**

The Company's internal liquidity comes from the daily collections from various clients. External sources range from credit facilities extended by various banks, corporate and individual placers. The Company is confident to meet its current and long-term obligations as they mature.

### **Material Commitments for Capital Expenditures**

There were no material commitments for capital expenditures.

### **Projections**

Total Assets is projected to grow to P25.2 billion or 22% in 2013 with Net Loans and Other Receivables increasing from P17.2 billion in 2012 to P21.3 billion in 2013 or up to 24%. Total Revenue is estimated at P1.8 billion by year-end 2013 while Interest and Financing Charges and Operating Lease-related Depreciation total P485.3 million and P199 million, respectively.

Projected Net income is P480 million, an increase of 19% versus the P402.3 million Audited 2012 Performance.

Funding will be mainly sourced from STCP, bank lines and collections. The Company secured an approval in 2012 for P15 Billion worth of STCP.

## ITEM 7. FINANCIAL STATEMENTS

The financial statements of the Company included in the 2012 Annual Report to Stockholders are incorporated herein by reference. The schedules listed in the accompanying Index to Supplementary Schedules are filed as part of this Form 17-A.

### INFORMATION ON INDEPENDENT ACCOUNTANT

#### Information on Independent Accountant and Other Related Matters

(1) External Audit Fees and Services

(a) Audit and Audit-Related Fees

	(P000's)	
The aggregate fees paid by the Company	<u>2012</u>	<u>2011</u>
Audit fee	P 610	P 484

There were no other assurance and related services by the external auditor that are reasonably related to the performance of the audit or review of the registrant's financial statements.

(b) Tax fees

There were no professional services rendered by the external auditor for tax accounting, compliance, advice, planning and any other form of tax services in each of the last two fiscal years.

(c) All other fees

There were no other professional services rendered by the external auditors for each of the last two fiscal years other than item (a) above

(d) The Board Audit Committee has the oversight responsibility over the audit function and activities of Internal and External auditors. It provides assurance that (a) financial disclosures made by the management as presented in the Internal Auditor's report reasonably reflect the financial condition; the results of operation; and the plans and long-term commitments; and (b) internal controls are operating as intended and whether modifications are necessary.

The Board Audit Committee has the responsibility to select and recommend to the Board the External Auditors. It reviews the audit coverage of the External Auditors and deliberates on their audit report prior to endorsement to the Board for approval. It reports to the Board audit-related matters requiring the Board's action.

## ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

In 2012, the auditing firm of Punongbayan & Araullo, CPAs (P&A) has been appointed as the Company's Independent Public Accountant. There was no event in the past where P&A and the Company had any disagreement with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope and procedures.

## **PART IV - CONTROL AND COMPENSATION INFORMATION**

### **ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE ISSUER**

General Management and overall direction of the Company is being provided by the Board. The following are the eleven (11) members of the Board as of December 31, 2012.

#### **TERESITA T. SY**

CHAIRPERSON

62 YEARS OLD, FILIPINO

Ms. Teresita T. Sy was first elected Director of the Company in September 2005. She was first elected to the board of BDO in 1997 where she now sits as Chairperson. Concurrently, she serves as the Chairperson, Vice Chairperson, and/or Director of various subsidiaries and affiliates of BDO such as BDO Private Bank, BDO Leasing and Finance, Inc., BDO Capital & Investment Corporation, BDO Foundation, Inc., Generali Pilipinas Holding Company, Inc., Generali Pilipinas Life Assurance Company, Inc., and Generali Pilipinas Insurance Co. Ms. Sy is the Vice Chairperson of SM Investment and adviser to the board of SM Prime Holdings, Inc. She also sits as Vice Chairperson and/or Director of such companies as Multi-Realty Development Corporation, Bellshare Holdings, Inc. (formerly SM Commercial Properties, Inc.), SM Mart, Inc. SM Retail, Inc., Prime Metroestate Inc. (formerly Pilipinas Makro, Inc.), and First Asia Realty Development Corp. A graduate of Assumption College, she brings to the Board her varied expertise in banking & finance, retail merchandising, mall and real estate development.

#### **ROBERTO E. LAPID**

VICE-CHAIRMAN

56 YEARS OLD, FILIPINO

Mr. Roberto E. Lapid was appointed as the Vice Chairman of the Company on December 1, 2010. He is concurrently a Director of BDO Rental. He was formerly the President of the Company, BDO Rental and Equitable Exchange, Inc. and Vice Chairman/Director of EBC Investments, Inc. (now BDO Strategic Holdings Inc.). He holds a Bachelor's degree in Business Administration from the University of the Philippines.

#### **GEORGIANA A. GAMBOA**

DIRECTOR

56 YEARS OLD, FILIPINO

Ms. Georgiana A. Gamboa was appointed President of the Company on December 1, 2010. She concurrently holds the position of Senior Vice President of BDO and President of BDO Rental. She was formerly connected with City Trust Banking Corporation for 16 years and the Bank of the Philippine Islands for 7 years. Her banking career spanned several functions including: Branch Manager – Consumer Banking Relationship Manager – Corporate Bank (where she grew from Assistant Manager to Vice President), and Remedial Management Head. Prior to joining the Company, she was the President of BPI Leasing Corporation, a subsidiary of Bank of the Philippine Islands for 7 years. She holds a Bachelor's Degree in Economics from De La Salle University where she finished Summa Cum Laude and received her Master of Arts in Economics from the University of the Philippines.



**JESSE H.T. ANDRES**

INDEPENDENT DIRECTOR  
48 YEARS OLD, FILIPINO

Atty. Jesse H.T. Andres was elected as Independent Director of the Company on September 20, 2005, and is presently a member of the Company's Board Audit Committee, Corporate Governance Committee, and Chairman of the Nomination Committee. In September 2004, he was appointed member of the Board of Trustees of the Government Service Insurance System where he also served as the Chairman of the Corporate Governance Committee. Since July 1, 2011, he is the Managing Partner of the Andres Marcelo Padernal Guerrero and Paras Law Offices. He was also a Partner in the PECABAR Law Offices from 1996 to 2003 where he became Co-Head of the Litigation Department in 2001. Previously, he was Senior Manager of the Philippine Exporters' Foundation. Atty. Andres holds a Bachelor of Arts Degree in Economics from the U.P. School of Economics and a Bachelor of Laws degree from the U.P. College of Law.

**ANTONIO N. COTOCO**

DIRECTOR  
64 YEARS OLD, FILIPINO

Mr. Antonio N. Cotoco was elected to the Board of the Company on January 25, 2001. He currently serves as Senior Executive Vice President and a member of the Board Credit Committee of BDO, and Director of BDO Insurance Brokers, Inc., BDO Remit Limited, Express Padala (Hong Kong) Limited, BDO Remit (Macau) Ltd., BDO Remit (USA), Inc., and Express Padala Frankfurt GmbH. He is the Chairman BDO Rental He has been involved in Investment Banking, Corporate Finance, Treasury, Consumer Banking, Credit, Business and Development & Account Management over the past 32 years. He currently also serves as a Director of OAC Realty & Development Corporation. Mr. Cotoco holds a Master's degree in Business Administration from the University of the Philippines.

**MA. LEONORA V. DE JESUS**

INDEPENDENT DIRECTOR  
62 YEARS OLD, FILIPINO

Ms. Ma. Leonora V. De Jesus was elected as Independent Director of the Company on May 12, 2008 and is presently the Chairperson of the Company's Board Audit Committee, and a member of the Nomination Committee. She is also an Independent Director of BDO Capital & Investment Corporation, BDO Elite Savings Bank, Inc. (formerly GE Money Bank, Inc.), and SM Development Corporation. She was formerly Independent Director of Equitable Savings Bank and PCI Capital Corporation. She is a professorial lecturer at the University of the Philippines, Diliman. In addition, she conducts training programs and consultancies on corporate governance best practices for banking institutions and other corporations. Ms. De Jesus was a trustee of the Government Service Insurance System from 1998 until 2004, and was a member of the Cabinet of President Corazon C. Aquino, President Fidel V. Ramos and President Joseph E. Estrada. She holds Bachelor's, Masteral and Doctoral degrees in Psychology from the University of the Philippines.

**LUIS S. REYES JR.**

DIRECTOR  
55 YEARS OLD, FILIPINO

Mr. Luis S. Reyes, Jr. was elected as Director of the Company on April 18, 2012 and is Senior Vice President for Investor Relations and Corporate Planning of BDO. He is currently a Director of BDO Strategic Holdings, Inc. He holds a Bachelor of Science degree in Business Economics from the University of the Philippines. He was First Vice President of Far East Bank & Trust Company, Trust Banking Group before joining BDO.

**NESTOR V. TAN**

DIRECTOR

55 YEARS OLD, FILIPINO

Mr. Nestor V. Tan was elected Director of the Company on January 23, 2007. He was elected President of BDO in July 1998. He also concurrently holds vice chairmanships and/or directorships in the following subsidiaries of BDO Unibank, Inc.: BDO Capital & Investment Corporation, BDO Insurance Brokers, Inc., BDO Private Bank, Inc., BDO Remit (USA), Inc. Generali Pilipinas Life Assurance Company, Inc., and SM Keppel Land, Inc. He also concurrently holds the Chairmanship of BDO Strategic Holdings Inc. and Megalink, Inc. He is the Director and Treasurer of Generali Pilipinas Insurance Co., and Trustee of BDO Foundation, Inc. He is also the director of the Bankers Association of the Philippines. Prior to joining the BDO Group, Mr. Tan had a 15-year banking career with the Mellon Bank (now Bank of New York – Mellon) in Pittsburgh PA, the Bankers Trust Company (now Deutsche Bank) in New York, and the Barclays Group in New York and London. He holds a Bachelor's degree in Commerce from De La Salle University and received his MBA from Wharton School, University of Pennsylvania.

**JESUS G. TIRONA**

INDEPENDENT DIRECTOR

64 YEARS OLD, FILIPINO

Mr. Jesus G. Tirona has been elected Independent Director to the Board of the Company since July 30, 2007 and is currently a member of its Board Audit Committee. He is an Independent Director of BDO Capital & Investment Corp. and Armstrong Securities, Inc., and also formerly of American Express Bank Philippines (A Savings Bank, Inc.) and EBC Investments, Inc. (now BDO Strategic Holdings Inc.). He is a Trustee of the BDO Foundation, Inc. He was formerly the President/CEO of LGU Guarantee Corp. - a private sector led credit guarantee institution jointly owned by the BAP, the DBP the ADB - whose mandate is to provide creditworthy LGUs and the utilities sector access to the capital markets through LGUGC-enhanced local debt instruments. He was also Managing Director/CEO of the Guarantee Fund for SMEs and the BAP Credit Guaranty Corp., - both entities promoting SME development. He has a long extensive experience in banking and finance, having built a career with Citibank as well as with other large domestic financial institutions. He is a scholar of the Asian Productivity Organization in Corporate Social Responsibility and is a Fellow of the Institute of Corporate Directors.

**EXEQUIEL P. VILLACORTA, JR.**

DIRECTOR

67 YEARS OLD, FILIPINO

Mr. Exequiel P. Villacorta, Jr. was elected Director of the Company on May 24, 2006. He was previously director of Equitable PCI Bank, Inc. from 2005 to 2006, and EBC Insurance Brokerage, Inc., and Maxicare Healthcare Corporation. He was formerly the Chairman of EBC Strategic Holdings Corporation, EBC Investments, Inc. (now BDO Strategic Holdings Inc.), Jardine Equitable Finance Corporation, Strategic Property Holdings, Inc., PCIB Properties, Inc., Equitable Data Center, Inc. and PCI Automation Center, Inc. He was previously President and CEO of Banco De Oro Universal Bank and TA Bank of the Philippines, and was Vice President of Private Development Corporation of the Philippines (PDCP). He was Senior Adviser and BSP Controller of Equitable PCI Bank, Inc. and PBCom; and Adviser to the Board of PCI Capital Corporation.

**WALTER C. WASSMER**

DIRECTOR

55 YEARS OLD, FILIPINO

Mr. Walter C. Wassmer was elected Director of the Company on November 17, 1999. He is the Senior Executive Vice President and Head of BDO's Institutional Banking Group. He is currently the Chairman of BDO Elite Savings Bank, Inc. [formerly GE Money Bank, Inc. (A Savings Bank), Inc.]. He also serves as Director of MDB Land, Inc., and Mabuhay Vinyl Corporation. He is also the President of L.P. Wassmer Trading, Inc. and Treasurer of WT & T, Inc.

**JOSEPH JASON M. NATIVIDAD**

CORPORATE SECRETARY

40 YEARS OLD, FILIPINO

Atty. Joseph Jason M. Natividad was appointed Corporate Secretary of the Company on May 31, 2010. He is also the Assistant Corporate Secretary of BDO Capital & Investment Corporation, BDO Securities Corporation and BDO Insurance Brokers, Inc. He likewise served as Assistant Corporate Secretary of Equitable PCI Bank prior to its merger with BDO from September 2006 to June 2007. He serves as the Corporate Secretary of the BDO Rental and Agility Group of Companies in the Philippines. He has been in law practice for fifteen (15) years, most of which have been devoted to the fields of corporation law and environmental law. He is currently a member of the Factoran & Associates Law Offices. He holds a Bachelor's Degree in Management, Major in Legal Management, from the Ateneo de Manila University, and obtained his Juris Doctor Degree from the Ateneo de Manila University School of Law.

**REBECCA S. TORRES**

ASSISTANT CORPORATE SECRETARY

60 YEARS OLD, FILIPINO

Ms. Rebecca S. Torres was appointed Assistant Corporate Secretary of the Company on January 1, 2011. She is concurrently the Senior Vice President, Senior Anti-Money Laundering (AML) Officer, and Head of the AML Unit and the Assistant Corporate Secretary of BDO. She is also the Assistant Corporate Secretary of BDO Private Bank, Inc., BDO Rental, Armstrong Securities, Inc., and Equimark-NFC Development Corp. She likewise served as Assistant Corporate Secretary and Trustee of BDO Foundation, Inc. She is the Corporate Secretary of PCIB Securities, Inc., BDO Strategic Holdings Inc., and the Sign of the Anvil, Inc. She was formerly the Chief of Staff of the President involved in project management for the bank's merger activities. She is a CPA and a graduate of St. Theresa's College, Quezon City with a degree of Bachelor of Science major in Accounting and she has completed the Advanced Bank Management Program of the AIM.

**Independent Directors**

The Company has three independent directors namely: Atty. Jesse H.T. Andres, Mr. Jesus G. Tirona and Ms. Ma. Leonora V. De Jesus.

**Executive Officers:**

The Board of Directors is assisted in its task by the following, which make up the senior management of the Company. The following are the executive officers of BDO Leasing and Finance, Inc. as of December 31, 2012.

**GEORGIANA A. GAMBOA**

PRESIDENT

56 YEARS OLD, FILIPINO

Ms. Georgiana A. Gamboa was appointed President of the Company on December 1, 2010. She concurrently holds the position of Senior Vice President of BDO and President of BDO Rental. She was formerly connected with City Trust Banking Corporation for 16 years and the Bank of the Philippine Islands for 7 years. Her banking career spanned several functions including: Branch Manager – Consumer Banking Relationship Manager – Corporate Bank (where she grew from Assistant Manager to Vice President), and Remedial Management Head. Prior to joining the Company, she was the President of BPI Leasing Corporation, a subsidiary of Bank of the Philippine Islands for 7 years. She holds a Bachelor's Degree in Economics from De La Salle University where she finished Summa Cum Laude and received her Master of Arts in Economics from the University of the Philippines.

**GERARD M. AGUIRRE**

FIRST VICE-PRESIDENT

57 YEARS OLD, FILIPINO

Mr. Gerard M. Aguirre is currently the First Vice President of the Company. He is responsible for the leasing and loan portfolio in the Luzon and Visayas/Mindanao provincial divisions. He handles eight (8) of the Company's branches and eight (8) desks of the Marketing Group with a complement of more than sixty (60) personnel. He was formerly a Director of BDO Rental. He was the Area Head of BDO (formerly EPCIB) Combank North/Central Luzon before joining the company. Mr. Aguirre earned his BS Degree in Business Management from the Ateneo De Manila University.

**RENATO G. OÑATE**

FIRST VICE-PRESIDENT/TREASURER

50 YEARS OLD, FILIPINO

Mr. Renato G. Oñate is currently a First Vice President of the Company. He is responsible for the financial liquidity of the company, including treasury and cost management. He also oversees HR-Admin, I.T. and Special Projects, Marketing Communications and Marketing Support. He is a Director of BDO Rental. He was the Head of Funds Management Group of PCI Capital Corp. before joining the Company. Mr. Oñate graduated from Philippine Airforce College of Aeronautics with a degree in Aircraft Maintenance Engineering and has taken up MBA units from the Ateneo Graduate School of Business.

**RODOLFO M. CARLOS JR.**

VICE-PRESIDENT/CHIEF RISK AND COMPLIANCE OFFICER

48 YEARS OLD, FILIPINO

Mr. Rodolfo M. Carlos Jr., was appointed as the Chief Risk Officer of the Company on October 5, 2011 and as Compliance Officer on October 3, 2012. He was formerly Credit Risk Control Officer of the Risk Management Group of BDO. He is a Certified Public Accountant and graduated Cum Laude from the Polytechnic University of the Philippines.

**Significant Employee**

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

## Family Relationships

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

## Involvement of Directors and Executive Officers in Certain Legal Proceedings

The Company is not aware of any legal proceedings of the nature required to be disclosed under Part I, paragraph C of “Annex C” of SRC Rule 12 with respect to directors and executive officers.

The company is not aware of any other legal proceedings of the nature required to be disclosed under Part I, paragraph C of “Annex C” of SRC Rule 12 with Respect to directors and executive officers.

The Company is not aware of any bankruptcy proceedings filed by or against any business of which a director or executive officer is a party or of which any of their property is subject.

The Company is not aware of any conviction by final judgment in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, or any of its director or executive officer occurring within the past five (5) years up to 28 February 2013.

The Company is not aware of any order, judgment, or decree not subsequently reversed, superseded, or vacated, by any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending, or otherwise limiting the involvement of a director or executive officer in any type of business, securities, commodities, or banking activities.

The Company is not aware of any findings by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self regulatory organization, that any of its director or executive officer, has violated a securities or commodities law.

## ITEM 10. EXECUTIVE COMPENSATION

### Summary Compensation Table

#### *Named Group*

<i><b>Name and Principal Position (CEO &amp; Executive Officers)</b></i>	<i><b>Year</b></i>	<i><b>Salary</b></i>	<i><b>Bonuses</b></i>
<b>The President and four most highly compensated executive officers</b>  <b>2011:</b> Georgiana A. Gamboa (President) Roberto E. Lapid (Senior Vice President) Gerard M. Aguirre (First Vice President) Renato G. Oñate (First Vice President) Rosalisa K. Alindahao (Vice President)  <b>2012:</b> Georgiana A. Gamboa (President) Gerard M. Aguirre (First Vice President) Renato G. Oñate (First Vice President) Rosalisa K. Alindahao (Vice President)			

Jennifer F. So (Vice President)			
<b>TOTAL SALARY</b>	<b>2011</b>	Php 15,982,900	Php 7,906,983
	<b>2012</b>	16,240,532	8,266,781
	<b>2013*</b>	17,864,585	9,093,459

***Unnamed Group***

	<b><i>Year</i></b>	<b><i>Salary</i></b>	<b><i>Bonus</i></b>
Directors and all other Officers as a group	<b>2011</b>	Php 57,854,025	Php 14,820,283
Unnamed	<b>2012</b>	72,665,954	18,846,511
	<b>2013*</b>	79,932,549	20,731,162

**A. Compensation of Directors**

Under the Company's By-laws, the Directors are entitled to an honorarium of Php 1,000.00 for their attendance at each regular or special meeting of the Board.

There were no other arrangements, including consulting contracts, pursuant to which any director of the Company was compensated, or is to be compensated; no employment contracts and termination of employment and change-in-control arrangements; no employment contract between the Company and a named executive officer; and no compensatory plan or arrangement, including payments to be received from the Company, with respect to a named executive officer.

**B. Outstanding warrants or options held by the registrants CEO, executive officers, and all officers and directors as a group.**

There are no outstanding warrants or options held by the Company's chief executive officer, executive officers, and all officers and directors as a group.

**C. Any repricing of warrants or options held by such officers or directors in the last completed fiscal year, as well as the basis for each such repricing.**

Not Applicable. There are no outstanding warrants or options held by the Company's chief executive officer, executive officers, and all officers and directors as a group.

**ITEM 11. SECURITY OWNERSHIP OF CERTAIN RECORD AND BENEFICIAL OWNERS AND MANAGEMENT**

(1) As of December 31, 2012, the Company is 85% owned by the Parent Company and the remaining 15% is owned by various stockholders with only one stockholder having a 5% holding of the outstanding capital stock as of said date.



Title of Class	Name, address of record owner and relationship with issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	Number of Shares Held	Percentage
Common	BDO Unibank Inc.* ( <i>Philippine Commercial International Bank; Banco De Oro Unibank, Inc.</i> ) BDO Corporate Center, 7899 Makati Avenue, Makati City  <b>BDO Unibank, Inc. is the parent company of the Company.</b>		Filipino	1,840,116,232	85.09%
Common	PCD Nominee Corp G/F Makati Stock Exchange Building, 6767 Ayala Ave., Makati City  PCD Nominee has no relationship with the issuer except as stockholder	No stockholder owns more than 5% of the company's voting securities	Filipino  Foreign	230,071,492  1,800,058	10.64%  0.83%

#### Security Ownership of Management as of December 31, 2012

(2) Following are the securities beneficially owned by directors and executive officers of the Company.

##### *Directors:*

Title of Class	Name of Beneficial Owner	Amount and nature of beneficial ownership	Citizenship	Percent of Class
Common	<b>Teresita T. Sy</b> Chairperson	100 (R)	Filipino	0.0000046%
Common	<b>Roberto E. Lapid</b> Vice Chairman	100 (R)	Filipino	0.0000046%
Common	<b>Georgiana A. Gamboa</b> President	100 (R)	Filipino	0.0000046%
Common	<b>Jesse H.T. Andres</b>	100 (R)	Filipino	0.0000046%
Common	<b>Antonio N. Cotoco</b>	115 (R)	Filipino	0.0000053%
Common	<b>Ma. Leonora V. De Jesus</b>	100 (R)	Filipino	0.0000046%
Common	<b>Luis S. Reyes Jr.</b>	100 (R)	Filipino	0.0000046%
Common	<b>Nestor V. Tan</b>	100 (R)	Filipino	0.0000046%
Common	<b>Jesus G. Tirona</b>	100 (R)	Filipino	0.0000046%
Common	<b>Exequiel P. Villacorta Jr.</b>	100 (R)	Filipino	0.0000046%
Common	<b>Walter C. Wassmer</b>	100 (R)	Filipino	0.0000046%
	<b>Total</b>	1, 115		0.0000513%

**Officers:**

Title of Class	Name of Beneficial Owner	Amount and nature of beneficial ownership	Citizenship	Percent of Class
Common	<b>Teresita T. Sy</b> Chairperson	100 (R)	Filipino	0.0000046%
Common	<b>Roberto E. Lapid</b> Vice Chairman	100 (R)	Filipino	0.0000046%
Common	<b>Georgiana A. Gamboa</b> President	100 (R)	Filipino	0.0000046%
Common	<b>Rosario C. Crisostomo</b> Vice President	106, 260 (R)	Filipino	0.0049138%
	<b>Total</b>	1, 115		0.0049276%

**ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

- 1) In the ordinary course of business, the Group enters into transactions with BDO 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.

The Group's related parties include BDO, affiliates, key management personnel and the retirement benefit fund as described below.

The summary of the Group's significant transactions with its related parties in 2012, 2011 and 2010 are as follows:

Related Party Category	Notes	Amount of Transaction	
		2012	2011
2010			
<b>Ultimate Parent Company (BDO)</b>			
Interest income on savings and demand deposits	(a) P	0.3 P	0.8 P
Interest expense on bills payable	(b)	98.3	86.7
Rent expense	(d)	11.0	11.5
Management fees	(e)	2.4	-
<b>Subsidiary (BDO Rental)</b>			
Interest income on loans	(b)	0.7	0.7
Service fees	(c)	8.4	9.9
Rent income	(d)	0.4	0.4
Management fees	(e)	0.4	0.8
<b>Affiliate (BDO Capital)</b>			
Professional fees	(f)	2.8	-
<b>Key management personnel</b>			
Short-term benefits	(g)	57.7	44.7
Post-employment benefits	(g)	17.0	13.2
Advances to officer	(g)	1.7	-

<u>Related Party Category</u>	<u>Notes</u>	<u>Outstanding Balance</u>	
		<u>2012</u>	<u>2011</u>
<b>Parent Company (BDO)</b>			
Savings and demand deposits	(a)	P 52.7	P 72.9
Bills payable	(b)	6,731.7	2,488.1
<b>Key management personnel</b>			
Advances employees	(b)	1.6	
<b>Retirement benefit fund</b>			
Loans to officers and employees	(b)	3.4	-
Loans to members and beneficiaries	(b)	2.4	-
Shares of stock	(i)	0.9	-

- The Group maintains savings and demand deposit accounts with BDO. As of December 31, 2012 and 2011, savings and demand deposit accounts maintained with BDO are included under Cash and Cash Equivalents account in the statements of financial position. Interest income earned on deposits in 2012, 2011 and 2010 is included under Interest and Discounts as part of Revenues in the statements of comprehensive income.
- The Group obtains short-term, unsecured bills payable from BDO. The amount outstanding from borrowings as of December 31, 2012 and 2011 is presented under Bills Payable account in the statements of financial position. Interest expense incurred on these bills payable in 2012, 2011 and 2010 is included under Interest and financing charges account as part of Operating Costs and Expenses account in the statements of comprehensive income. Also, the Company grants short-term, unsecured loans to BDO Rental. There is no outstanding balance arising from this transaction as of December 31, 2012 and 2011. Total interest income earned by the Company on these loans in 2012, 2011 and 2010 is included under Interest and Discounts as part of Revenues in the statements of comprehensive income.
- On January 4, 2010, the Company and BDO Rental entered into a Service Agreement whereby BDO Rental will handle the collection of certain factored receivables of the Company, for a fee as agreed by the Company and the sellers of the factored receivables. Under the Service Agreement, BDO Rental shall perform the monitoring of the payment due dates of the factored receivables, remit to the Company all collections made and send monthly statement of accounts to customers. The related expense charged to the Company based on the Service Agreement is included under Other Operating Costs and Expenses in the Company's statements of comprehensive income. There are no outstanding inter company payable and receivable from this transaction as of December 31, 2012 and 2011.
- The Company leases its head office premises and certain branch offices from BDO for terms ranging from one to five years, renewable for such period and under such terms and conditions as may be agreed upon with the Company and BDO. Related rent expense incurred in 2012, 2011 and 2010 is presented as part of Occupancy and equipment-related expenses under Operating Costs and Expenses account in the statements of comprehensive income. On the other hand, the Company charges BDO Rental for the spaces that the latter occupies in the head office premises. Rent charged to BDO Rental in 2012 and 2011 is presented as part of Other Income in the statements of comprehensive income. There are no outstanding receivable and payable on these transactions as of the end of 2012 and 2011.

- In 2012, the Company entered into a service level agreement with BDO wherein BDO will charge the Company for certain management services that the former provides to the latter. Management fees paid by the Company to BDO is shown as part of Other Operating Costs and Expenses in the 2012 statement of comprehensive income. Also, the Company charges BDO Rental for the management services it renders to BDO Rental. This is presented as part of Other Income in the 2012 statement of comprehensive income of the Company. There are no outstanding receivable and payable on these transactions as of the end of 2012.
  - The Company engaged the services of BDO Capital, a wholly owned subsidiary of BDO, for underwriting services related to the Company's issuance of bills payable in 2012. Professional fees paid by the Company to BDO Capital related to this transaction is included as part of Other Operating Costs and Expenses in the 2012 statement of comprehensive income. There is no outstanding payable related on this transaction as of the end of 2012.
  - Compensation of key management personnel (covering officer positions starting from Assistant Vice President and up) is included as part of Employee Benefits under Operating Costs and Expenses in the statements of comprehensive income of the Group and the Company. Short-term employee benefits include salaries, paid annual leave and paid sick leave, profit sharing and bonuses, and non-monetary benefits. The Group also incurred post-employment benefit expense related to key management personnel included as part of Employee Benefits under Operating Costs and Expenses. The Group also granted cash advances to an officer in 2012
  - The Group maintains a retirement benefit fund with BDO covering all regular full-time employees. In the normal course of business, the retirement benefit fund grants salary and housing loans to certain officers and employees of the Company, and members and beneficiaries of the fund who are also officers of the Company. The housing loans are secured by the mortgage on the property and bear interest at 9% per annum and have terms ranging from 13 to 20 years. The salary loans on the other hand, are unsecured and bear interest ranging from 9% to 10% per annum and have terms ranging from 18 months to 3 years.
  - The retirement fund holds 442,750 shares of stocks of the Company as an investment, which has a market value of P2.00 per share as of December 31, 2012.
- 2.) The Company, to finance its lending requirements, borrows funds from BDO at prevailing market rates. As of end of December 31, 2012, there were no dollar borrowings. The Company's credit line with BDO stood at P7.00 billion for the year December 31, 2012 and P3.40 billion for the year ended December 31, 2011 and P2.00 billion for December 31, 2010.
  - 3.) The Company and its two (2) branches maintain current and savings accounts with the Parent Company. Current accounts are non-interest earning while savings accounts earned interest of 0.50% per annum.
  - 4.) The Company entered into a Service Level Agreement with BDO, pursuant to which BDO shall provide the Company with the following information technology (IT) services: Business Continuity Center and telecommunications infrastructure maintenance (including email and network connectivity of BDO Leasing - Head Office and its branches/marketing desks with BDO), internet connectivity, transmission line security and authentication (firewall encryption/decryption facilities, etc.), training of the Company's IT personnel; IT voice and data network design, planning, project management and project implementation assistance; server administration and maintenance; system/application development and maintenance; IT product evaluation and vendor selection. In consideration of said services, the Company pays BDO P200,000 monthly.
  - 5.) Loans to officers NIL as of December 31, 2012.

## **PART IV - EXHIBITS AND SCHEDULES**

### **ITEM 13. EXHIBITS AND REPORTS ON SEC FORM 17-C**

#### **Exhibits**

See accompanying Index to Exhibits

#### **Reports on SEC Form 17-C**

Below is a summary of the various disclosures reported by the Company under SEC Form 17-C for 2012.

<b>Date Reported</b>	<b>Items Reported</b>
<b>February</b>	<p><b><u>Item 9. Setting of 2012 Annual Stockholders' Meeting</u></b>At its meeting held on February 8, 2012 the Board resolved to set:</p> <p>the Annual Stockholders' Meeting of the Company for 2012 on April 18, 2012, with record date of March 2, 2012. The Board likewise approved the agenda for the 2012 Annual Annual Stockholders' Meeting of the Company.</p>
<b>March</b>	<p><b><u>Item 9.</u></b></p> <p><b><u>Amendment to the Articles of Incorporation</u></b></p> <p>The Board, at its special meeting held on March 5, 2012, resolved to: (a)</p> <p>amend the Sixth Article of the Company's Articles of Incorporation to decrease the number of directors from fifteen (15) to eleven (11); and (b) amend the Agenda of the Annual Meeting of Stockholders of the Company to be held on April 18, 2012 to include the Amendment to the Sixth Article of the Articles of Incorporation under Item VIII, "Other Business".</p>
<b>April</b>	<p><b><u>Item 9.</u></b></p> <p><b>Declaration of Cash Dividends</b></p> <p>The Board, at its regular meeting held on April 18, 2012, approved the declaration of cash dividends in the amount of Php0.05 per share to be paid to all stockholders of record as of May 31, 2012, and payable on June 27, 2012.</p>

Date Reported	Items Reported																														
	<p><b><u>Item 4. Election of Directors</u></b></p> <p>At its annual stockholders' meeting held on April 18, 2012, the following as directors were elected for the year 2012-2013:</p> <p><b>Regular Directors:</b></p> <table> <tr> <td>Gerard Lee B. Co</td><td>Teresita T. Sy</td></tr> <tr> <td>Antonio N. Cotoco</td><td>Edmundo L. Tan</td></tr> <tr> <td>Georgiana A. Gamboa</td><td>Nestor V. Tan</td></tr> <tr> <td>Antonio A. Henson</td><td>Exequiel P. Villacorta, Jr.</td></tr> <tr> <td>Roberto E. Lapid</td><td>Evelyn L. Villanueva</td></tr> <tr> <td>Luis S. Reyes Jr.</td><td>Walter C. Wassmer</td></tr> </table> <p><b>Independent Directors:</b></p> <p>Jesse H.T. Andres  Ma. Leonora V. De Jesus  Jesus G. Tirona</p> <p><b><u>Appointment of Corporate Officers</u></b></p> <p>At the organizational meeting held on the same date, the following were appointed as Corporate Officers of the Company for the year 2012-2013:</p> <table> <tr> <td>Teresita T. Sy</td><td>Chairperson</td></tr> <tr> <td>Roberto E. Lapid</td><td>Vice Chairman</td></tr> <tr> <td>Georgiana A. Gamboa</td><td>President</td></tr> <tr> <td>Joseph Jason M. Natividad</td><td>Corporate Secretary/Officer-In-Charge (for regulatory disclosures)</td></tr> <tr> <td>Rebecca S. Torres</td><td>Assistant Corporate Secretary/Officer-In-Charge (for regulatory disclosures)</td></tr> <tr> <td>Elmer B. Serrano</td><td>Corporate Information Officer</td></tr> <tr> <td>Renato G. Oñate</td><td>First Vice President &amp; Treasurer</td></tr> <tr> <td>Rodolfo M. Carlos Jr.</td><td>Vice President/Chief Risk Officer</td></tr> <tr> <td>Sergio M. Ceniza</td><td>Assistant Vice President/Compliance Officer</td></tr> </table>	Gerard Lee B. Co	Teresita T. Sy	Antonio N. Cotoco	Edmundo L. Tan	Georgiana A. Gamboa	Nestor V. Tan	Antonio A. Henson	Exequiel P. Villacorta, Jr.	Roberto E. Lapid	Evelyn L. Villanueva	Luis S. Reyes Jr.	Walter C. Wassmer	Teresita T. Sy	Chairperson	Roberto E. Lapid	Vice Chairman	Georgiana A. Gamboa	President	Joseph Jason M. Natividad	Corporate Secretary/Officer-In-Charge (for regulatory disclosures)	Rebecca S. Torres	Assistant Corporate Secretary/Officer-In-Charge (for regulatory disclosures)	Elmer B. Serrano	Corporate Information Officer	Renato G. Oñate	First Vice President & Treasurer	Rodolfo M. Carlos Jr.	Vice President/Chief Risk Officer	Sergio M. Ceniza	Assistant Vice President/Compliance Officer
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Sergio M. Ceniza	Assistant Vice President/Compliance Officer																														



Date Reported	Items Reported																						
	<p><b><u>Item 3.</u></b></p> <p><b><u>Appointment of External Auditor</u></b></p> <p>The Accountancy and Auditing Firm of Punongbayan &amp; Araullo, CPAs, was appointed external auditor of the Company for 2012.</p> <p><b><u>Item 9.</u></b></p> <p><b><u>Amendment to the Articles of Incorporation</u></b></p> <p>At the annual stockholders' meeting, the stockholders approved the Amendment to the Sixth Article of the Company 's Articles of Incorporation to decrease the number of directors from fifteen (15) to eleven (11).</p> <p><b><u>Composition of Board Committees</u></b></p> <p>At the organizational meeting of the Board held on April 18, 2012, the following were appointed:</p> <p style="padding-left: 40px;"><b>Adviser to the Board</b></p> <p style="padding-left: 80px;">Hon. Jeci A. Lapus</p> <p style="padding-left: 40px;"><b>Executive Committee</b></p> <table style="margin-left: 80px; border: none;"> <tr> <td>1.Teresita T. Sy</td><td>Chairperson</td></tr> <tr> <td>2.Antonio N. Cotoco</td><td>Vice Chairman</td></tr> <tr> <td>3.Georgiana A. Gamboa</td><td>Member</td></tr> <tr> <td>4.Roberto E. Lapid</td><td>Member</td></tr> <tr> <td>5.Nestor V. Tan</td><td>Member</td></tr> <tr> <td>6.Walter C. Wassmer</td><td>Member</td></tr> <tr> <td>Evelyn L. Villanueva</td><td>Adviser</td></tr> </table> <p style="padding-left: 40px;"><b><u>Board Audit Committee</u></b></p> <table style="margin-left: 80px; border: none;"> <tr> <td>1.Ma. Leonora V. De Jesus</td><td>Chairperson/Independent Director</td></tr> <tr> <td>2.Jesse H.T. Andres</td><td>Member/Independent Director</td></tr> <tr> <td>3.Jesus G. Tirona</td><td>Member/Independent Director</td></tr> <tr> <td>Shirley M. Sangalang</td><td>Adviser</td></tr> </table>	1.Teresita T. Sy	Chairperson	2.Antonio N. Cotoco	Vice Chairman	3.Georgiana A. Gamboa	Member	4.Roberto E. Lapid	Member	5.Nestor V. Tan	Member	6.Walter C. Wassmer	Member	Evelyn L. Villanueva	Adviser	1.Ma. Leonora V. De Jesus	Chairperson/Independent Director	2.Jesse H.T. Andres	Member/Independent Director	3.Jesus G. Tirona	Member/Independent Director	Shirley M. Sangalang	Adviser
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	<p><b><u>Corporate Governance</u></b></p> <table border="0"> <tr> <td>1.Jesus G. Tirona</td><td>Chairperson/Director</td></tr> <tr> <td>2.Jesse H. T. Andres</td><td>Member/Independent Director</td></tr> <tr> <td>3.Antonio N. Cotoco</td><td>Member</td></tr> <tr> <td>4.Ma. Leonora V. De Jesus</td><td>Member/Independent Director</td></tr> </table> <p><b><u>Nomination Committee</u></b></p> <table border="0"> <tr> <td>1.Jesse H.T. Andres</td><td>Chairperson/Independent Director</td></tr> <tr> <td>2.Antonio N. Cotoco</td><td>Member</td></tr> <tr> <td>3.Ma. Leonora V. De Jesus</td><td>Member/Independent Director</td></tr> </table> <p><b><u>Risk Management Committee</u></b></p> <table border="0"> <tr> <td>1.Nestor V. Tan</td><td>Chairman</td></tr> <tr> <td>2.Antonio N. Cotoco</td><td>Member</td></tr> <tr> <td>3.Georgiana A. Gamboa</td><td>Member</td></tr> <tr> <td>4.Roberto E. Lapid</td><td>Member</td></tr> </table>	1.Jesus G. Tirona	Chairperson/Director	2.Jesse H. T. Andres	Member/Independent Director	3.Antonio N. Cotoco	Member	4.Ma. Leonora V. De Jesus	Member/Independent Director	1.Jesse H.T. Andres	Chairperson/Independent Director	2.Antonio N. Cotoco	Member	3.Ma. Leonora V. De Jesus	Member/Independent Director	1.Nestor V. Tan	Chairman	2.Antonio N. Cotoco	Member	3.Georgiana A. Gamboa	Member	4.Roberto E. Lapid	Member
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September	<p><b><u>Item 9</u></b></p> <p>In Compliance with SEC Memo Circular No. 4 Series of 2012, the Company disclosed the following:</p> <p>(a) That the Board Audit Committee (BAC) of the Company has a charter, its Terms of Reference; and</p> <p>(b) That in adopting best practices and prior to the issuance of the memo circular, the BAC of the Company conducted during the first quarter of 2012 a self-assessment for its 2011 performance. The performances of units covered by the oversight function of the BAC were likewise evaluated. These assessments were administered using the Company's standard evaluation form.</p>																						
October	<p><b><u>Items 4 and 9</u></b></p> <p><b><u>Resignation and Appointment of Registrant's Directors or Officers</u></b></p> <p>The Board, at its regular meeting held on October 3, 2012, accepted the resignation of Atty. Sergio M. Ceniza as Assistant Vice President &amp; Compliance Officer of the Company.</p> <p>At the same meeting, the Board of Directors approved the appointment of Mr. Rodolfo M. Carlos Jr., Vice President &amp; Chief Risk Officer, as Compliance Officer of the Company, subject to clearance and/or approval of the SEC and other regulatory agency/ies concerned.</p>																						


Date Reported	Items Reported				
	<p data-bbox="399 254 1230 281"><b><u>Resignation and Appointment of Registrant's Directors or Officers</u></b></p> <p data-bbox="399 348 1484 411">The Board accepted the resignation of the following members of the Board of Directors, effective October 31, 2012, to wit:</p> <table data-bbox="493 478 1154 558"> <tr> <td data-bbox="493 478 743 506">Mr. Gerard Lee B. Co</td><td data-bbox="867 478 1127 506">Atty. Edmundo L. Tan</td></tr> <tr> <td data-bbox="493 527 769 554">Mr. Antonio A. Henson</td><td data-bbox="867 527 1154 554">Ms. Evelyn L. Villanueva</td></tr> </table> <p data-bbox="399 625 1484 688">In the same meeting, the Board appointed Mr. Antonio A. Henson and Atty. Edmundo L. Tan as Advisers to the Board.</p>	Mr. Gerard Lee B. Co	Atty. Edmundo L. Tan	Mr. Antonio A. Henson	Ms. Evelyn L. Villanueva
Mr. Gerard Lee B. Co	Atty. Edmundo L. Tan				
Mr. Antonio A. Henson	Ms. Evelyn L. Villanueva				
December	<p data-bbox="399 758 1484 852">The Board, at its regular meeting held on December 12, 2012, approved the setting of the 2013 Annual Stockholders' Meeting on April 17, 2013, Wednesday; the record date for stockholders entitled to vote and participate at such meeting to be fixed and disclosed at a later date.</p>				

*[This space intentionally left blank]*

## SIGNATURES

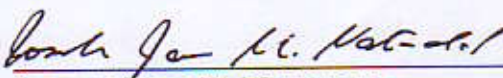
Pursuant to the requirements of Section 17 of the RSA and Section 141 of the Corporation Code, this is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of \_\_\_\_\_ on \_\_\_\_\_ 2013.

By:

  
 \_\_\_\_\_  
**GEORGIANA A. GAMBOA**  
 PRESIDENT

  
 \_\_\_\_\_  
**RENATO G. OÑATE**  
 FIRST VICE PRESIDENT/TREASURER

  
 \_\_\_\_\_  
**ROSALISA K. ALINDAHAO**  
 VICE PRESIDENT/COMPTROLLER


  
 \_\_\_\_\_  
**JOSEPH JASON M. NATIVIDAD**  
 CORPORATE SECRETARY

APR 15 2013

**SUBSCRIBED AND SWORN** to before me this \_\_\_\_\_ day of \_\_\_\_\_, 2013 affiant(s) exhibiting to me their Competent Evidence of Identity, as follows:

NAMES	TIN	SSS No.
Georgiana A. Gamboa	106-969-319	03-6940728-9
Renato G. Oñate	107-019-198	03-7484543-8
Joseph Jason M. Natividad	908-730-009	33-6273422-8
Rosalisa K. Alindahao	177-688-317	03-5894505-3

Doc. No. 379  
 Page No. 36  
 Book No. 231  
 Series of 2013.

  
**ATTY. DELEÑA B. AGCAOILI, JR.**  
 NOTARY PUBLIC  
 UNTIL DECEMBER 31, 2013  
 PTR NO. 0285334 / 2012-2013 MLA.  
 IBP NO. 873692 / 2013 MLA.  
 ROLL NO. 24655 / TIN -144-519-066  
 MCLE III-0013521  
 Com. No. 2013 - 023



# Punongbayan & Araullo

An instinct for growth™

## Report of Independent Auditors

19th and 20th Floors, Tower 1  
The Enterprise Center  
6766 Ayala Avenue  
1200 Makati City  
Philippines

T +63 2 886 5511  
F +63 2 886 5506  
[www.punongbayan-araullo.com](http://www.punongbayan-araullo.com)

**To the Board of Directors and to the Stockholders**

**BDO Leasing and Finance, Inc.**

*(A Subsidiary of BDO 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, 2012 and 2011, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2012, and a summary of significant accounting policies and other explanatory information.

### *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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.





### *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 about 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 at December 31, 2012 and 2011, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards.

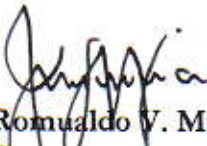




*Emphasis of Matter*

As discussed in Note 20 to the financial statements, the Parent Company presented the supplementary information required by the Bureau of Internal Revenue for the year ended December 31, 2012 in a supplementary schedule filed separately from the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards; it is neither a required disclosure under the Philippine Securities and Exchange Commission rules and regulations covering the form and content of financial statements under Securities Regulation Code Rule 68, as amended.

**PUNONGBAYAN & ARAULLO**

  
By: **Romualdo V. Murcia III**  
Partner

CPA Reg. No. 0095626

TIN 906-174-059

PTR No. 3671457, January 2, 2013, Makati City

SEC Group A Accreditation

Partner - No. 0628-AR-1 (until Aug. 25, 2013)

Firm - No. 0002-FR-3 (until Jan. 18, 2015)

BIR AN 08-002511-22-2011 (until Feb. 3, 2014)

Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

January 30, 2013

BDO LEASING AND FINANCE, INC. AND SUBSIDIARY  
*(A Subsidiary of BDO Unibank, Inc.)*  
 STATEMENTS OF FINANCIAL POSITION  
 DECEMBER 31, 2012 AND 2011  
*(Amounts in Millions of Philippine Pesos)*

		Group		Parent Company	
	Notes	2012	2011	2012	2011
ASSETS					
CASH AND CASH EQUIVALENTS	6	P 69.4	P 87.7	P 63.5	P 86.3
AVAILABLE-FOR-SALE FINANCIAL ASSETS	7	2,022.0	2,043.1	2,022.0	2,043.1
LOANS AND OTHER RECEIVABLES - Net	8	17,245.0	14,571.3	17,242.3	14,563.1
PROPERTY AND EQUIPMENT - Net	9	643.7	503.2	10.9	12.5
INVESTMENT PROPERTIES - Net	10	379.5	428.9	379.5	428.9
OTHER ASSETS - Net	11	375.9	215.1	623.3	484.6
TOTAL ASSETS		P 20,735.5	P 17,849.3	P 20,341.6	P 17,618.5
LIABILITIES AND EQUITY					
BILLS PAYABLE	12	P 12,697.0	P 10,582.6	P 12,531.4	P 10,529.5
ACCOUNTS PAYABLE AND OTHER LIABILITIES	13	112.6	152.3	99.6	144.2
DIVIDENDS PAYABLE	15	-	216.2	-	216.2
INCOME TAX PAYABLE		91.7	28.8	91.7	28.7
DEFERRED TAX LIABILITY - Net	20	28.7	82.5	28.6	89.7
LEASE DEPOSITS	14	3,171.2	2,425.9	3,127.6	2,381.9
Total Liabilities		16,101.2	13,488.3	15,878.9	13,390.2
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		1,878.7	1,584.5	1,707.1	1,451.8
UNREALIZED FAIR VALUE GAIN ON AVAILABLE-FOR-SALE SECURITIES	7	41.1	62.0	41.1	62.0
Total Equity		4,634.3	4,361.0	4,462.7	4,228.3
TOTAL LIABILITIES AND EQUITY		P 20,735.5	P 17,849.3	P 20,341.6	P 17,618.5

*See Notes to Financial Statements.*

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010**  
*(Amounts in Millions of Philippine Pesos, Except Per Share Data)*

		<b>Group</b>			<b>Parent Company</b>		
	Notes	2012	2011	2010	2012	2011	2010
<b>REVENUES</b>							
Interest and discounts	8	P 1,271.2	P 1,166.4	P 1,028.8	P 1,271.8	P 1,166.7	P 1,027.2
Rent	17	229.8	244.5	830.9	-	-	-
Other income	16	260.5	227.4	178.3	251.2	199.0	157.5
		<u>1,761.5</u>	<u>1,638.3</u>	<u>2,038.0</u>	<u>1,523.0</u>	<u>1,365.7</u>	<u>1,184.7</u>
<b>OPERATING COSTS AND EXPENSES</b>							
Interest and financing charges	12, 14	461.6	387.7	330.9	456.8	381.3	299.6
Occupancy and equipment-related expenses	9, 10, 11	220.8	329.2	868.9	45.6	92.2	69.3
Employee benefits	18	178.2	163.9	134.1	178.2	163.9	134.1
Taxes and licenses	20	134.7	122.6	112.8	132.2	114.7	104.1
Impairment and credit losses	8, 10	112.5	139.1	104.2	112.5	139.1	104.2
Litigation/assets acquired expenses		47.9	25.4	28.4	47.9	25.4	28.4
Others	19	90.9	85.9	50.1	90.6	60.4	50.0
		<u>1,246.6</u>	<u>1,253.8</u>	<u>1,629.4</u>	<u>1,063.8</u>	<u>977.0</u>	<u>789.7</u>
<b>PROFIT BEFORE TAX</b>		<b>514.9</b>	<b>384.5</b>	<b>408.6</b>	<b>459.2</b>	<b>388.7</b>	<b>395.0</b>
<b>TAX EXPENSE</b>	20	<u>112.6</u>	<u>80.8</u>	<u>99.9</u>	<u>95.8</u>	<u>80.1</u>	<u>88.6</u>
<b>NET PROFIT</b>		<b>402.3</b>	<b>303.7</b>	<b>308.7</b>	<b>363.4</b>	<b>308.6</b>	<b>306.4</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>							
Unrealized fair value gain (loss) on revaluation of available-for-sale financial assets, net of tax	7	( 20.9 )	( 184.1 )	246.4	( 20.9 )	( 184.1 )	246.4
<b>TOTAL COMPREHENSIVE INCOME</b>		<u>P 381.4</u>	<u>P 119.6</u>	<u>P 555.1</u>	<u>P 342.5</u>	<u>P 124.5</u>	<u>P 552.8</u>
<b>Basic / Diluted Earnings Per Share</b>	21	<u>P 0.19</u>	<u>P 0.14</u>	<u>P 0.14</u>	<u>P 0.17</u>	<u>P 0.14</u>	<u>P 0.14</u>

*See Notes to Financial Statements.*

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010**  
*(Amounts in Millions of Philippine Pesos)*

		Group					
	Note	Capital Stock	Additional Paid-in Capital	Treasury Shares, At Cost - 62,693,718 Shares	Retained Earnings	Unrealized Fair Value Gain (Loss) on Available-for- Sale Financial Assets	Net Equity
Balance at January 1, 2012	15	P 2,225.2	P 571.1	( P 81.8 )	P 1,584.5	P 62.0	P 4,361.0
Total comprehensive income (loss)		-	-	-	402.3	( 20.9 )	381.4
Cash dividends	15	-	-	-	( 108.1 )	-	( 108.1 )
Balance at December 31, 2012		<u>P 2,225.2</u>	<u>P 571.1</u>	( <u>P 81.8</u> )	<u>P 1,878.7</u>	<u>P 41.1</u>	<u>P 4,634.3</u>
Balance at January 1, 2011	15	P 2,225.2	P 571.1	( P 81.8 )	P 1,605.2	P 246.1	P 4,565.8
Total comprehensive income		-	-	-	303.7	( 184.1 )	119.6
Cash dividends	15	-	-	-	( 324.4 )	-	( 324.4 )
Balance at December 31, 2011		<u>P 2,225.2</u>	<u>P 571.1</u>	( <u>P 81.8</u> )	<u>P 1,584.5</u>	<u>P 62.0</u>	<u>P 4,361.0</u>
Balance at January 1, 2010	15	P 2,225.2	P 571.1	( P 81.8 )	P 1,620.9	( P 0.3 )	P 4,335.1
Total comprehensive income		-	-	-	308.7	246.4	555.1
Cash dividends	15	-	-	-	( 324.4 )	-	( 324.4 )
Balance at December 31, 2010		<u>P 2,225.2</u>	<u>P 571.1</u>	( <u>P 81.8</u> )	<u>P 1,605.2</u>	<u>P 246.1</u>	<u>P 4,565.8</u>

*See Notes to Financial Statements.*

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010**  
*(Amounts in Millions of Philippine Pesos)*

		Parent Company					
	Note	Capital Stock	Additional Paid-in Capital	Treasury Shares, At Cost - 62,693,718 Shares	Retained Earnings	Unrealized Fair Value Gain (Loss) on Available-for- Sale Financial Assets	Net Equity
Balance at January 1, 2012	15	P 2,225.2	P 571.1	( P 81.8 )	P 1,451.8	P 62.0	P 4,228.3
Total comprehensive income (loss)		-	-	-	363.4	( 20.9 )	342.5
Cash dividends	15	-	-	-	( 108.1 )	-	( 108.1 )
Balance at December 31, 2012		<u>P 2,225.2</u>	<u>P 571.1</u>	( <u>P 81.8</u> )	<u>P 1,707.1</u>	<u>P 41.1</u>	<u>P 4,462.7</u>
Balance at January 1, 2011	15	P 2,225.2	P 571.1	( P 81.8 )	P 1,467.6	P 246.1	P 4,428.2
Total comprehensive income (loss)		-	-	-	308.6	( 184.1 )	124.5
Cash dividends	15	-	-	-	( 324.4 )	-	( 324.4 )
Balance at December 31, 2011		<u>P 2,225.2</u>	<u>P 571.1</u>	( <u>P 81.8</u> )	<u>P 1,451.8</u>	<u>P 62.0</u>	<u>P 4,228.3</u>
Balance at January 1, 2010	15	P 2,225.2	P 571.1	( P 81.8 )	P 1,485.6	( P 0.3 )	P 4,199.8
Total comprehensive income		-	-	-	306.4	246.4	552.8
Cash dividends	15	-	-	-	( 324.4 )	-	( 324.4 )
Balance at December 31, 2010		<u>P 2,225.2</u>	<u>P 571.1</u>	( <u>P 81.8</u> )	<u>P 1,467.6</u>	<u>P 246.1</u>	<u>P 4,428.2</u>

*See Notes to Financial Statements.*

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010**  
*(Amounts in Millions of Philippine Pesos)*

Notes	Group			Parent Company		
	2012	2011	2010	2012	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Profit before tax	P 514.9	P 384.5	P 408.6	P 459.2	P 388.7	P 395.0
Adjustments for:						
Interest income	8 ( 1,271.2 )	( 1,166.4 )	( 1,028.8 )	( 1,271.8 )	( 1,166.7 )	( 1,027.2 )
Interest received	1,252.4	1,193.9	1,001.6	1,252.8	1,193.8	1,000.2
Interest and financing charges	12, 14 461.6	387.7	330.9	456.8	381.3	299.6
Interest and financing charges paid	( 436.1 )	( 376.5 )	( 331.8 )	( 436.1 )	( 375.2 )	( 300.7 )
Depreciation and amortization	9, 10, 11 195.1	301.4	835.8	19.9	64.4	36.2
Impairment and credit losses	8, 10 112.5	139.1	104.2	112.5	139.1	104.2
Gain on sale of property and equipment and investment properties	9, 10 ( 55.1 )	( 45.5 )	( 13.6 )	( 51.5 )	( 40.4 )	( 12.4 )
Day one loss (gain)	5.5	( 0.9 )	( 1.9 )	6.5	( 0.9 )	0.6
Operating profit before changes in operating assets and liabilities	779.6	848.5	1,305.5	548.3	584.1	495.5
Increase in loans and other receivables	( 2,750.0 )	( 2,762.2 )	( 2,888.2 )	( 2,755.7 )	( 2,744.9 )	( 2,907.9 )
Increase in other assets	( 180.7 )	( 68.5 )	( 34.1 )	( 150.7 )	( 36.0 )	( 16.2 )
Increase (decrease) in accounts payable and other liabilities	( 39.6 )	422.8	338.7	( 44.3 )	420.2	310.7
Increase in lease deposits	746.8	137.0	281.4	747.2	127.6	269.0
Cash used in operations	( 1,443.9 )	( 1,422.4 )	( 996.7 )	( 1,655.2 )	( 1,649.0 )	( 1,848.9 )
Cash paid for income taxes	( 81.8 )	( 90.0 )	( 128.0 )	( 81.8 )	( 89.9 )	( 114.2 )
Net Cash Used in Operating Activities <i>(Carried Forward)</i>	( P 1,525.7 )	( P 1,512.4 )	( P 1,124.7 )	( P 1,737.0 )	( P 1,738.9 )	( P 1,963.1 )

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012, 2011 AND 2010**  
*(Amounts in Millions of Philippine Pesos, Except Per Share Data,  
Exchange Rates and As Indicated)*

**1. CORPORATE INFORMATION**

***1.01 Incorporation and Operations***

BDO Leasing and Finance, Inc. (BDO Leasing or the Parent Company) is a domestic corporation incorporated in 1981. Its shares were listed in the Philippine Stock Exchange, 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, floor stock financing, receivables discounting and factoring.

The Parent Company is a subsidiary of BDO Unibank (“Ultimate Parent Company”), an expanded commercial bank incorporated and doing business in the Philippines. BDO Unibank offers a wide range of banking services such as traditional loan and deposit products, as well as treasury, remittance, trade services, credit card services, trust and others.

BDO Rental, Inc. (BDO Rental), a wholly owned subsidiary of BDO Leasing, is licensed by the Philippine Securities and Exchange Commission (SEC) and is presently engaged 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 and Iloilo and in the provinces of Pampanga and Cavite. The registered address of BDO Unibank is located at BDO Corporate Center, 7899 Makati Avenue, Makati City.

***1.02 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, 2012 (including the comparatives for the years ended December 31, 2011 and 2010) were authorized for issue by the BOD on January 30, 2013.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### ***2.01 Basis of Preparation of Financial Statements***

#### *(a) Statement of Compliance with Philippine Financial Reporting Standards*

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

The financial statements have been prepared using the measurement bases specified by PFRS for each type of assets, liabilities, income and expenses. The measurement bases are more fully described in the accounting policies that follow.

#### *(b) Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Group 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.

#### *(c) Functional and Presentation Currency*

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

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



## **2.02 Adoption of New and Amended PFRS**

### *(a) Effective in 2012 that are Relevant to the Group*

In 2012, the Group adopted the following amendments to PFRS that are relevant to the Group and effective for financial statements for the annual period beginning on or after July 1, 2011 or January 1, 2012:

PFRS 7 (Amendment)	: Financial Instruments: Disclosures – Transfers of Financial Assets
PAS 12 (Amendment)	: Income Taxes – Deferred Taxes: Recovery of Underlying Assets

Discussed below are the relevant information about these amended standards.

- (i) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Transfers of Financial Assets*. The amendment requires additional disclosures that will allow users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and, to evaluate the nature of, and risk associated with any continuing involvement of the reporting entity in financial assets that are derecognized in their entirety. The Group did not transfer any financial asset involving this type of arrangement; hence, the amendment did not result in any significant change in the Group's disclosures in its financial statements.
- (ii) PAS 12 (Amendment), *Income Taxes – Deferred Tax: Recovery of Underlying Assets*. The amendment provides an exception to the existing principle in PAS 12 that recovery of the carrying amount of investment property measured at fair value under PAS 40, *Investment Property*, will be or normally be through sale. The amendment introduces a rebuttable presumption that the measurement of a deferred tax liability or asset on an investment property measured at fair value should reflect the tax consequence of recovering the carrying amount entirely through sale. The presumption is rebutted for depreciable investment property (e.g., building) measured at fair value that is held with an objective to consume substantially the economic benefits embodied in the asset over time, rather than through sale. As a result of the amendment, Standing Interpretations Committee (SIC) 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, is accordingly withdrawn and is incorporated under PAS 12. The amendment has no significant impact on the Group's financial statements as its investment properties are measured at cost and are normally recovered through sale transaction.

(c) *Effective in 2012 but is not Relevant to the Group*

PFRS 1, *First-time Adoption of PFRS*, was amended to provide relief for first-time adopters of PFRS from having to reconstruct transactions that occurred before the date of transition to PFRS and to provide guidance for entities emerging from severe hyperinflation either to resume presenting PFRS financial statements or to present PFRS financial statements for the first time. The amendment became effective for annual periods beginning on or after July 1, 2011 but is not relevant to the Group's financial statements.

(d) *Effective Subsequent to 2012 but not Adopted Early*

There are new PFRS, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2012. Management has initially determined the following pronouncements, which the Group will apply in accordance with their transitional provisions, to be relevant to its financial statements:

- (i) PAS 1 (Amendment), *Financial Statements Presentation – Presentation of Items of Other Comprehensive Income* (effective from July 1, 2012). The amendment requires an entity to group items presented in other comprehensive income into those that, in accordance with other PFRSs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. The Group's management expects that this will not significantly change its presentation of other comprehensive income since the only items of other comprehensive income pertain to unrealized fair value gains and losses on available-for-sale (AFS) financial assets and actuarial gains and losses. The actuarial gains and losses will be recognized in other comprehensive in 2013.
- (ii) PAS 19 (Amendment), *Employee Benefits* (effective from January 1, 2013). The amendment made a number of changes as part of the improvements throughout the standard. The main changes relate to defined benefit plans as follows:
  - eliminates the corridor approach under the existing guidance of PAS 19 and requires an entity to recognize all actuarial gains and losses arising in the reporting period;
  - streamlines the presentation of changes in plan assets and liabilities resulting in the disaggregation of changes into three main components of service costs, net interest on net defined benefit obligation or asset, and remeasurement; and,
  - enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

Currently, the Group is using the corridor approach and its unrecognized actuarial losses as of December 31, 2012 amounted to P61.1 (see Note 18) which will be retrospectively recognized as loss in other comprehensive income in 2013.

(iii) Consolidation Standards

The Group is currently reviewing the impact on its financial statements of the following consolidation standards which will be effective from January 1, 2013:

- PFRS 10, *Consolidated Financial Statements*. This standard builds on existing principles of consolidation by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard also provides additional guidance to assist in determining control where this is difficult to assess.
- PFRS 12, *Disclosure of Interest in Other Entities*. This standard integrates and makes consistent the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and unconsolidated structured entities. This also introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.
- PAS 27 (Amendment), *Separate Financial Statements*. This revised standard now covers the requirements pertaining solely to separate financial statements after the relevant discussions on control and consolidated financial statements have been transferred and included in PFRS 10. No new major changes relating to separate financial statements have been introduced as a result of the revision.
- PAS 28 (Amendment), *Investments in Associate and Joint Venture*. This revised standard includes the requirements for joint ventures, as well as associates, to be accounted for using equity method following the issuance of PFRS 11, *Joint Arrangement*.

Subsequent to the issuance of the foregoing consolidation standards, the IASB made some changes to the transitional provisions in IFRS 10, IFRS 11 and IFRS 12, which were also adopted by the FRSC. The guidance confirms that an entity is not required to apply PFRS 10 retrospectively in certain circumstances and clarifies the requirements to present adjusted comparatives. The guidance also made changes to PFRS 10 and PFRS 12 which provide similar relief from the presentation or adjustment of comparative information for periods prior to the immediately preceding period. Further, it provides relief by removing the requirement to present comparatives for disclosures relating to unconsolidated structured entities for any period before the first annual period for which PFRS 12 is applied.

- (iv) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2013). The amendment requires qualitative and quantitative disclosures relating to gross and net amounts of recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation*. The amendment also requires disclosure of information about recognized financial instruments subject to enforceable master netting arrangements or similar agreements, even if they are not set-off in the statement of financial position, including those which do not meet some or all of the offsetting criteria under PAS 32, and amounts related to a financial collateral. These disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with recognized financial assets and financial liabilities on the entity's financial position. The Group has initially assessed that the adoption of the amendment will not have a significant impact on its financial statements.
- (v) PFRS 13, *Fair Value Measurement* (effective from January 1, 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. Management is in the process of reviewing its valuation methodologies for conformity with the new requirements and has yet to assess the impact of the new standard on the Group's financial statements.
- (vi) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2014). The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that a right of set-off is required to be legally enforceable, in the normal course of business, in the event of default and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies the principle behind net settlement and includes an example of a gross settlement system with characteristics that would satisfy the criterion for net settlement. The Group does not expect this amendment to have a significant impact on its financial statements.

- (vii) PFRS 9, *Financial Instruments: Classification and Measurement* (effective from January 1, 2015). This is the first part of a new standard on financial instruments that will replace PAS 39 in its entirety. This chapter covers the classification and measurement of financial assets and financial liabilities and it deals with two measurement categories for financial assets: amortized cost and fair value. All equity instruments will be measured at fair value while debt instruments will be measured at amortized cost only if the entity is holding it to collect contractual cash flows which represent payment of principal and interest. The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related and as such, the entity shall apply measurement to the entire hybrid contract, depending on whether the contract is at fair value or amortized cost.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in case where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

To date, other chapters of PFRS 9 dealing with impairment methodology and hedge accounting are still being completed.

Further, in November 2011, the IASB tentatively decided to consider making limited modifications to IFRS 9's financial asset classification model to address certain application issues.

The Group does not expect to implement and adopt PFRS 9 until its effective date or until all chapters of this new standard have been published. In addition, management is currently assessing the impact of PFRS 9 on the financial statements of the Group and it plans to conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

(viii) 2009-2011 Annual Improvements to PFRS. Annual improvements to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS, which are effective for annual period beginning on or after January 1, 2013. Among those improvements, the following amendments are relevant to the Group but management does not expect a material impact on the Group's financial statements:

(a) PAS 1 (Amendment), *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information*. The amendment clarifies the requirements for presenting comparative information for the following:

- Requirements for opening statement of financial position

If an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period (i.e., opening statement of financial position), it shall present such third statement of financial position.

Other than disclosure of certain specified information in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

- Requirements for additional comparative information beyond minimum requirements

If an entity presented comparative information in the financial statements beyond the minimum comparative information requirements, the additional financial statements information should be presented in accordance with PFRS including disclosure of comparative information in the related notes for that additional information. Presenting additional comparative information voluntarily would not trigger a requirement to provide a complete set of financial statements.

(b) PAS 32 (Amendment), *Financial Instruments – Presentation – Tax Effect of Distributions to Holders of Equity Instruments*. The amendment clarifies that the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with PAS 12, *Income Taxes*. Accordingly, income tax relating to distributions to holders of an equity instrument is recognized in profit or loss while income tax related to the transaction costs of an equity transaction is recognized in equity.

### ***2.03 Separate Consolidated Financial Statements, Basis of Consolidation and Investment in a Subsidiary***

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. Unrealized profits and losses from intercompany transactions, if any, that are recognized in assets are also eliminated in full. Intercompany losses that indicate an impairment are recognized in the consolidated financial statements.

The financial statements of the subsidiary are prepared for the same reporting period as the Parent Company, 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 generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable and convertible are considered when assessing whether the Group controls another entity. A subsidiary is consolidated from the date the Group obtains control until such time that such control ceases.

The acquisition method is applied to account for any acquired subsidiaries. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recognized as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in profit or loss as gain.

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

The Parent Company's investment in a subsidiary is accounted for in these separate financial statements at cost, less any impairment loss (see Note 11).

#### ***2.04 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.

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision-maker. The strategic steering committee is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Group's products and services as disclosed in Note 4, which represent the main products and services provided by the Group.

Each of these operating segments is managed separately as each of these service lines requires different technologies and other resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies the Group uses for segment reporting under PFRS 8 is the same as those used in its financial statements, except that the following are not included in arriving at the operating profit of the operating segments:

- post-employment benefit expenses;
- expenses relating to share-based payments; and,
- revenue, costs and fair value gains from investment property.

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

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



## ***2.05 Financial Assets***

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instrument. Financial assets, other than those designated and effective as hedging instruments are classified into the following categories: financial assets at fair value through profit or loss (FVTPL), loans and receivables, held-to-maturity (HTM) investments and AFS financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

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

The 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, if any. 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) AFS Financial Assets*

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

All financial assets within this category are measured at fair value, unless otherwise disclosed, with changes in value recognized in other comprehensive income, net of taxes. Gains and losses arising from securities classified as AFS are recognized in 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 other comprehensive income. Losses recognized in other comprehensive income on equity instruments are not reversed through other 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.

AFS 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 closing prices 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.

A financial asset is considered as being traded in an active market if quoted prices or market values are readily and periodically available from stock or debt markets, exchanges, dealers, brokers, industry groups, pricing service entities or regulatory agencies. In such cases, those prices or values represent actual and regularly occurring market transactions on an arm's length basis. Otherwise, the market is regarded as being inactive. Indications that a market is inactive when there are few recent transactions or market participants have not engaged in transactions for at least one year.

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

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred.

## ***2.06 Other Assets***

Other assets pertain to other resources controlled by the Group as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.

## ***2.07 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 profit or loss for the period.

Except for certain machineries and equipment in 2011 which are depreciated based on the rate of utilization, depreciation is computed using 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

In 2012, all items of property and equipment are depreciated using the straight-line method due to the expiration of lease contracts of BDO Rental with certain lessees in which the related assets are depreciated based on the rate of utilization.

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 2.18).

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

## ***2.08 Non-current Assets Held-for-Sale***

Assets held-for-sale (presented under Other Assets) include chattel or personal properties acquired through repossession or foreclosure that the Group intends to sell and will be disposed of within one year from the date of classification as held-for-sale.

Assets classified as held-for-sale are measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell. Assets classified as held-for-sale are not subject to depreciation or amortization. The profit or loss arising from the sale of held-for-sale assets is recognized in profit or loss in the year the asset is disposed.

### ***2.09 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 ten 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.

The fair value of investment properties, as disclosed in Note 10, are based on valuations provided by independent and/or in-house appraisers, which are market value for land and building and related improvements and reproduction cost for certain building and improvements.

Investment 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 profit or loss in the year of retirement or disposal.

### ***2.10 Financial Liabilities***

Financial liabilities, which include bills payable, accounts payable, dividends payable and other liabilities and lease deposits, are recognized when the Group becomes a party to the contractual terms of the instrument. All interest-related charges are included as part of Interest and Financing Charges under Operating Costs and Expenses in the statement of 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 Day One Gain under Other Income account 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

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

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

### ***2.11 Provisions and Contingencies***

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

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

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

### ***2.12 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.

### ***2.13 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.

### ***2.14 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.

Unrealized fair value gain (loss) on AFS financial assets pertains to cumulative mark-to-market valuation of AFS financial assets.

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

### ***2.15 Revenue and Expense Recognition***

Revenue comprises interest income on loans and receivables financed and rent income from operating lease contracts, measured by reference to the fair value of consideration received or receivable by the Group for products sold and services rendered, excluding value-added tax (VAT) and discounts.

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.

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. This account is included under Other Income.

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

## **2.16 Leases**

The Group accounts for its leases as follows:

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

Finance leases, where the Group transfers substantially all the risk and benefits incidental to ownership of the leased item to the lessee, are included in the statement of financial position under Loans and Other Receivables account. A lease receivable is recognized at an amount equal to the net investment in the lease. The difference between the gross lease receivable and the net investment in the lease is recognized as unearned finance income. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Group's net investment outstanding in respect of the finance lease.

All income resulting from the receivable is included as part of Interest and Discounts in the statement of 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.

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized as income in profit or loss on a straight-line basis over the lease term, or on a systematic basis which is more representative of the time pattern in which the use or benefit derived from the leased asset is diminished.

*(b) Group as a Lessee*

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

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

***2.17 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.

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 from operations.

***2.18 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.

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

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

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

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

In addition, under Section 9(f) of the Rules and Regulations to implement the Provisions of Republic Act No. 8556, *The Financing Company Act of 1998*, a 100% allowance should be set up for the following:

- (a) Clean loans and advances past due for a period of more than six months;
- (b) Past due loans secured by collateral such as inventories, receivables, equipment and other chattels that have declined in value by more than 50%, without the borrower offering additional collateral for the loans;
- (c) Past due loans secured by real estate mortgage the title to which is subject to an adverse claim rendering settlement through foreclosure doubtful;
- (d) When the borrower, and his co-maker or guarantor, is insolvent or where their whereabouts is unknown, or their earning power is permanently impaired;
- (e) Accrued interest receivable that remains uncollected after six months from the maturity date of the loan to which it accrues; and
- (f) Accounts receivable past due for 361 days or more.

These requirements and conditions were accordingly considered by the Group in the determination of impairment loss provision on assets carried at amortized cost particularly loans and other receivables.

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

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

## ***2.19 Impairment of Non-financial Assets***

The Group's property and equipment, investment properties and other assets and the Parent Company's investment in a subsidiary 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.

## **2.20 Employee Benefits**

### *(a) Post-employment 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 profit or loss, 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.

### *(b) Defined Benefit Contribution Plan*

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.

*(c) Termination Benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits 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.

*(d) 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 in the statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

**2.21 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 profit or loss 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 period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

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.

#### ***2.22 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, adjusted retroactively for any stock dividend, stock split or reverse stock split declared during the current period. The Group does not have dilutive common shares.

#### ***2.23 Related Party Relationships and Transactions***

Related party transactions are transfer of resources, services or obligations between the Group and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group; (b) associates; and, (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of any such individual.

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

#### ***2.24 Events After the End of the Reporting Period***

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

### **3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

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

### ***3.01 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 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. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

The Group has determined that it has transferred all the significant risks and rewards of ownership of the properties which are leased out on finance lease arrangements. The subsidiary's operations involve operating leases. The Group has determined that it retains all the significant risks and rewards of ownership over the properties which are leased out on operating lease arrangements.

#### *(b) Impairment of AFS Financial Assets*

The Group follows the guidance of PAS 39 in determining when an investment is permanently impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

#### *(c) 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 portions can be sold separately (or leased out separately under finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. 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.

*(d) Classification of Acquired Properties and Fair Value Determination of Non-current Assets Held-for-Sale and Investment Properties*

The Group classifies its acquired properties as Non-current Assets Held-for-Sale if expected that the properties will be recovered through sale rather than use, as Investment Properties if intended to be held for capital appreciation or for rental to others. At initial recognition, the Group determines the fair value of the acquired properties through internally or externally generated appraisal. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the properties.

*(e) Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosures of provisions and contingencies are discussed in Note 2.11 and relevant disclosures are presented in Note 22.

**3.02 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) Estimating Useful Lives of Property and Equipment and Investment Properties*

The Group estimates the useful lives of property and equipment and investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment and investment properties are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of property and equipment, and investment properties are presented in Notes 9 and 10, respectively. Based on management's assessment as of December 31, 2012, there is no change in estimated useful lives of property and equipment and investment properties during the year. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

*(b) Determining 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. The Group also considers the loan loss provisioning requirements of the BSP and The Financing Company Act.



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

(c) *Evaluating 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. Management assessed that some of the deferred tax assets recognized as at December 31, 2012 and 2011 may not be fully utilized within the next two to three years. Accordingly, in 2012, the Group partially derecognized its deferred tax asset arising from the setting up of general loan loss provision on loans and receivables. The carrying value of the remaining deferred tax assets as of the end of 2012 and 2011 is disclosed in Note 20.

(d) *Estimating Impairment of Non-financial Assets*

The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.18. 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.

Impairment losses recognized on investment properties are presented in Note 10.

(e) *Determining Post-employment Defined 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 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 amounts of retirement benefit obligation and expense and an analysis of the movements in the estimated present value of retirement benefit obligation are presented in Note 18.02.

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

The Group adopted the amendments to PFRS 7, *Improving Disclosures about Financial Instruments*. These amendments require the Group to present certain information about financial instruments measured at fair value in the statement of financial position.

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

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. As of December 31, 2012 and 2011, AFS financial asset 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 1.

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.

2012								
Group				Parent				
Cost		Fair Value		Cost		Fair Value		
Cash and cash equivalents	P	69.4	P	69.4	P	63.5	P	63.5
AFS financial assets		1,970.8		2,022.0		1,970.8		2,022.0
Loans and other receivables		17,245.0		18,303.9		17,242.3		18,301.2
Bills payable		12,697.0		12,620.9		12,531.4		12,474.6
Accounts payable and other liabilities		112.6		112.6		99.6		99.6
Lease deposits		3,312.9		3,171.2		3,280.3		3,127.6
2011								
Group				Parent				
Cost		Fair Value		Cost		Fair Value		
Cash and cash equivalents	P	87.7	P	87.7	P	86.3	P	86.3
AFS financial assets		1,969.8		2,043.1		1,969.8		2,043.1
Loans and other receivables		14,571.3		15,301.3		14,563.1		15,293.1
Bills payable		10,582.6		10,574.7		10,529.5		10,521.5
Accounts payable and other liabilities		152.3		152.3		144.2		144.2
Dividends payable		216.2		216.2		216.2		216.2
Lease deposits		2,588.6		2,425.9		2,542.8		2,381.9

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

(i) *Cash and cash equivalents*

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

(ii) *AFS financial assets*

The fair value of available-for-sale securities is determined by direct reference to published price quoted in an active market for traded securities.

(iii) *Loans and other receivables*

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

(iv) *Bills payable*

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

(v) *Accounts payable and other liabilities*

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

(vi) *Lease deposits*

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

#### **4. SEGMENT REPORTING**

##### ***4.01 Business Segments***

The Group is organized into different business units based on its products and services for purposes of management assessment of each unit. For management purposes, the Group is organized into three major business segments, namely: leasing, financing and others. These are also the basis of the Group in reporting to its chief operating decision-maker for its strategic decision-making activities.

The products under the leasing segment are the following:

- Operating leases; and
- Finance leases.

The products under the financing segment are the following:

- Amortized commercial loans;
- Amortized retail loans;
- Installment paper purchases;
- Floor stock financing; and
- Factoring of receivables.

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

#### ***4.02 Segment Assets and Liabilities***

Segment assets are allocated based on their use or direct association with a specific segment and they include all operating assets used by a segment and consist principally of operating cash, and loans and receivables, net of allowances and provisions. Similar to segment assets, segment liabilities are also allocated based on their use or direct association with a specific segment. Segment liabilities include all operating liabilities and consist principally of accounts, wages, taxes currently payable and accrued liabilities. Segment assets and liabilities do not include deferred taxes.

#### ***4.03 Intersegment Transactions***

Intersegment transactions in 2012, 2011 and 2010 pertain to service fees charged by BDORI to the Parent Company.

#### ***4.04 Analysis of Segment Information***

Segment information can be analyzed as follows:

	<u>Leasing</u>	<u>Financing</u>	<u>Others</u>	<u>Eliminations</u>	<u>Group</u>
<b><u>For the year ended December 31, 2012</u></b>					
<b>Statement of Income</b>					
Segment revenues					
External	P 718.9	P 767.1	P 275.5	P -	P 1,761.5
Inter-segment	-	-	8.4	( 8.4)	-
	<u>718.9</u>	<u>767.1</u>	<u>283.9</u>	<u>( 8.4)</u>	<u>1,761.5</u>
Segment expenses					
External	508.8	543.0	194.8	-	1,246.6
Inter-segment	-	-	8.4	( 8.4)	-
	<u>508.8</u>	<u>543.0</u>	<u>203.2</u>	<u>( 8.4)</u>	<u>1,246.6</u>
Segment results	<u>P 210.1</u>	<u>P 224.1</u>	<u>P 80.7</u>	<u>P -</u>	514.9
Tax expense					( 112.6)
Net profit					<b><u>P 402.3</u></b>

	<u>Leasing</u>	<u>Financing</u>	<u>Others</u>	<u>Eliminations</u>	<u>Group</u>
<b><u>December 31, 2012</u></b>					
<b>Statement of Financial Position</b>					
Segment assets	P 9,702.5	P 7,720.5	P -	P -	P 17,422.9
Unallocated assets					<u>3,312.6</u>
Total assets					<b><u>P 20,735.5</u></b>
Segment liabilities	P 8,793.0	P 7,046.5	P -	P -	P 15,839.6
Unallocated liabilities					<u>261.6</u>
Total liabilities					<b><u>P 16,101.2</u></b>
Other segment information:					
Capital expenditures	<b>P 327.5</b>	<b>P -</b>	<b>P 6.5</b>	<b>P -</b>	<b>P 334.0</b>
Depreciation and amortization	<b>175.2</b>	<b>-</b>	<b>19.9</b>	<b>-</b>	<b>195.1</b>
Impairment losses	<b>-</b>	<b>-</b>	<b>112.5</b>	<b>-</b>	<b>112.5</b>

For the year ended December 31, 2011

**Statement of Income**

Segment revenues					
External	P 685.2	P 714.3	P 238.8	P -	P 1,638.3
Inter-segment	<u>-</u>	<u>-</u>	<u>9.9</u>	<u>( 9.9)</u>	<u>-</u>
	<u>685.2</u>	<u>714.3</u>	<u>248.7</u>	<u>( 9.9)</u>	<u>1,638.3</u>
Segment expenses					
External	524.4	546.7	182.7	-	1,253.8
Inter-segment	<u>-</u>	<u>-</u>	<u>9.9</u>	<u>( 9.9)</u>	<u>-</u>
	<u>524.4</u>	<u>546.7</u>	<u>192.6</u>	<u>( 9.9)</u>	<u>1,253.8</u>
Segment results	P 160.8	P 167.6	P 56.1	P -	384.5
Tax expense					<u>( 80.8)</u>
Net profit					<b><u>P 303.7</u></b>

December 31, 2011

**Statement of Financial Position**

Segment assets	P 7,159.6	P 7,841.0	P -	P -	P 15,000.6
Unallocated assets					<u>2,848.7</u>
Total assets					<b><u>P 17,849.3</u></b>
Segment liabilities	P 8,082.0	P 4,926.5	P -	P -	P 13,008.5
Unallocated liabilities					<u>479.8</u>
Total liabilities					<b><u>P 13,488.3</u></b>
Other segment information:					
Capital expenditures	P 266.5	P -	P 4.2	P -	P 270.7
Depreciation and amortization	237.0	-	64.5	-	301.4
Impairment losses	-	-	139.1	-	139.1

Segment expenses are allocated on the basis of gross income.

Net segment assets are comprised of the following:

		<b>2012</b>	
		<b>Leasing</b>	<b>Financing</b>
Receivables	P	7,279.0	P 8,086.4
Residual value of leased assets		3,128.8	-
Unearned income	(	919.5)	( 168.3)
Client's equity		<u>-</u>	<u>( 35.3)</u>
		9,488.3	7,882.8
Equipment under lease		<u>360.2</u>	<u>-</u>
		9,848.6	7,882.8
Allowance for impairment	(	<u>146.1)</u>	<u>( 162.3)</u>
		<b><u>P 9,702.5</u></b>	<b><u>P 7,720.5</u></b>
		<b>2011</b>	
		<b>Leasing</b>	<b>Financing</b>
Receivables	P	5,042.5	P 8,210.1
Residual value of leased assets		2,367.0	-
Unearned income	(	681.6)	( 237.2)
Client's equity		<u>-</u>	<u>( 52.9)</u>
		6,727.90	7,920.0
Equipment under lease		<u>490.7</u>	<u>-</u>
		7,218.6	7,920.0
Allowance for impairment	(	<u>59.0)</u>	<u>( 79.0)</u>
		<b><u>P 7,159.6</u></b>	<b><u>P 7,841.0</u></b>

Bills payable to BDO Unibank amounting to P6,731.7 and P2,435.9 as of December 31, 2012 and 2011, respectively, is allocated between the leasing and financing segments based on the carrying amounts of receivables of these segments. Deposits on lease amounting to P3,171.2 and P2,425.9 as of December 31, 2012 and 2011, respectively, are included in the leasing segment.

## 5. RISK MANAGEMENT

Management of the Group's credit risks, market risks, liquidity risks and operational risks is an essential part of the Group's organizational structure and philosophy. The risk management process is essentially a top-down process that emanates from the BOD. The BOD approves the overall institutional tolerance risk, including risk policies and risk philosophy of the Group.

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

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

### 5.01 Foreign Exchange Risk

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates on financial assets arise from 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, 2012 and 2011 and Philippine peso-denominated financial assets and liabilities as of December 31, 2012, and 2011 are as follows:

	2012		
	US Dollar	Philippine Peso	Total
Cash and cash equivalents	P 14.3	P 55.1	P 69.4
Loans and other receivables	-	17,245.0	17,245.0
Lease deposits	( 11.5)	( 3,159.7)	( 3,171.2)
	<b>P 2.8</b>	<b>P 14,140.4</b>	<b>P 14,143.2</b>
	2011		
	US Dollar	Philippine Peso	Total
Cash and cash equivalents	P 11.3	P 76.4	P 87.7
Loans and other receivables	-	14,571.3	14,571.3
Lease deposits	( 10.9)	( 2,415.0)	( 2,425.9)
	<b>P 0.4</b>	<b>P 12,232.7</b>	<b>P 12,233.1</b>

At December 31, 2012 and 2011, the currency exchange rates used to translate U.S. dollar denominated financial assets and liabilities to the Philippine pesos is approximately P41.05 and P43.84, respectively.

The following table illustrates the sensitivity of the net result for the year and equity with regard to the Group's financial assets and financial liabilities and the U.S. dollar – Philippine peso exchange rate. It assumes a +/-7.31% change, +/-16.18% change and +/-7.05% change of the Philippine peso/U.S. dollar exchange rate at December 31, 2012, 2011 and 2010, 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, 2012 and 2011 had strengthened against the U.S. dollar at the foregoing volatilities, then this would have the following impact (decrease) on the Group's and the Parent Company's financial statements:

	<u>2012</u>	<u>2011</u>
Profit before tax	(P 0.2)	(P 1.8)
Equity	( 0.1)	( 1.3)

If the Philippine peso at December 31, 2011, and 2010 had weakened against the U.S. dollar at the foregoing volatilities, then this would have the following impact (increase) on the Group's and Parent Company's financial statements:

	<u>2012</u>	<u>2011</u>
Profit before tax	P 0.2	P 1.8
Equity	0.1	1.3

### **5.02 Interest Rate Risk**

At December 31, 2012, and 2011, 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 +/-3.45% at December 31, 2012 and +/-4.03% at December 31, 2011 to a reasonably possible change in interest rates for loans and other receivables of +/-6.15% at December 31, 2012 and +/-10.17% at December 31, 2011. 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.

	<u>2012</u>			
Loans and other receivables		+6.15%		-6.15%
Bills payable		+3.45%		-3.45%
<b><u>Group</u></b>				
Increase (decrease) in:				
Profit before tax	P	13.7	(P	13.7)
Equity		9.6	(	9.6)
<b><u>Parent Company</u></b>				
Increase (decrease) in:				
Profit before tax	P	12.8	(P	12.8)
Equity		9.0	(	9.0)
	<u>2011</u>			
Loans and other receivables		+10.17%		-10.17%
Bills payable		+4.03%		-4.03%
<b><u>Group</u></b>				
Increase (decrease) in:				
Profit before tax	P	12.4	(P	12.4)
Equity		8.7	(	8.7)
<b><u>Parent Company</u></b>				
Increase (decrease) in:				
Profit before tax	P	12.3	(P	12.3)
Equity		8.6	(	8.6)

### ***5.03 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.

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

**Group**

	<u>2012</u>	
	<u>Cash and Cash Equivalents</u>	<u>Loans and Other Receivables</u>
Concentration by sector:		
Financial intermediaries	P 69.4	P 1,537.9
Manufacturing	-	2,685.1
Transportation, communication and energy	-	2,717.0
Wholesale and retail trade and personal activities	-	2,142.4
Real estate, renting and business activities	-	4,328.1
Agriculture, fishing and forestry	-	263.1
Other community, social and personal activities	-	3,571.6
	<u>P 69.4</u>	<u>P 17,245.0</u>

		2011	
		Cash and Cash Equivalents	Loans and Other Receivables
Concentration by sector:			
Financial intermediaries	P	87.7	P 1,546.8
Manufacturing		-	2,670.1
Transportation, communication and energy		-	3,114.7
Wholesale and retail trade and personal activities		-	1,858.9
Real estate, renting and business activities		-	1,970.7
Agriculture, fishing and forestry		-	443.8
Other community, social and personal activities		-	2,966.3
	P	87.7	P 14,571.3

**Parent Company**

		2012	
		Cash and Cash Equivalents	Loans and Other Receivables
Concentration by sector:			
Financial intermediaries	P	63.5	P 1,537.9
Manufacturing		-	2,685.1
Transportation, communication and energy		-	2,717.0
Wholesale and retail trade and personal activities		-	2,142.4
Real estate, renting and business activities		-	4,328.1
Agriculture, fishing and forestry		-	263.1
Other community, social and personal activities		-	3,568.9
	P	63.5	P 17,242.3

	2011	
	Cash and Cash Equivalents	Loans and Other Receivables
Concentration by sector:		
Financial intermediaries	P 86.3	P 1,546.8
Manufacturing	-	2,670.1
Transportation, communication and energy	-	3,114.7
Wholesale and retail trade and personal activities	-	1,858.9
Real estate, renting and business activities	-	1,970.7
Agriculture, fishing and forestry	-	443.8
Other community, social and personal activities	-	2,958.1
	<u>P 86.3</u>	<u>P 14,563.1</u>

The carrying amount of loans and receivables 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.

	2012
<b>Carrying amount</b>	<b><u>P 17,245.0</u></b>
<b>Individually impaired</b>	
Grade C: Impaired	11.3
Grade D: Impaired	145.8
Grade E: Impaired	97.6
Grade F: Impaired	<u>56.3</u>
Gross amount	311.1
Allowance for impairment	( <u>126.9</u> )
Carrying amount	<u>184.1</u>
<b>Past due but not impaired</b>	<u>-</u>
<i>Aging of past due</i>	
30-60 days	-
61-90 days	-
91-180 days	-
More than 180 days	<u>-</u>
Carrying amount	<u>-</u>
<b>Neither past due nor impaired</b>	
Grades A to C	<u>17,060.9</u>
Total carrying amount	<b><u>P 17,245.0</u></b>

	<u>2011</u>
Carrying amount	P <u>14,571.3</u>
Individually impaired	
Grade D: Impaired	256.3
Grade E: Impaired	98.9
Grade F: Impaired	<u>56.3</u>
Gross amount	411.5
Allowance for impairment	( <u>285.1</u> )
Carrying amount	<u>126.4</u>
Past due but not impaired	<u>10.6</u>
<i>Aging of past due</i>	
30-60 days	9.5
61-90 days	0.3
91-180 days	0.5
More than 180 days	<u>0.3</u>
Carrying amount	<u>10.6</u>
Neither past due nor impaired	
Grades A to C	<u>14,434.3</u>
Total carrying amount	<u>P 14,571.3</u>

Based on certain factors, loans and other financial assets with credit risk are assigned a specific grade. Grade A loans are considered to have very strong credits where the Group considers the default rate or credit risk to be very low. Grades B and C loans fall under the standard to substandard categories and have general acceptability as to credit risk. Grades D to F pertain to loans and other financial assets which were determined to be impaired.

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

The carrying value of loans and receivables whose terms have been renegotiated amounted to P31.1 and P46.7 as of December 31, 2012 and 2011, respectively.

The Group holds collateral against loans and other receivables in the form of mortgage interests over real and personal properties. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are periodically updated especially when a loan is individually assessed as impaired. Collateral is not held against available-for-sale securities, and no such collateral was held at December 31, 2012 and 2011.

An estimate of the fair value of collateral and other security enhancements held against loans and other receivables that are not impaired as of December 31, 2012 and 2011 is shown below.

	<u>2012</u>		<u>2011</u>
Against past due but not impaired			
Real property	<b>P 8.3</b>	P	1.1
Personal property	<b>274.8</b>		7.5
Against neither past due but not impaired			
Real property	<b>619.0</b>		342.9
Personal property	<b><u>12,230.2</u></b>		<u>9,895.3</u>
	<b><u>P 13,132.3</u></b>	P	<u>10,246.8</u>

An estimate of the fair value of collateral and other security enhancements held against loans and other receivables that are impaired as of December 31, 2012 and 2011 is shown below.

	<u>2012</u>		<u>2011</u>
Real property	<b>P 675.9</b>	P	417.5
Personal property	<b><u>12,973.6</u></b>		<u>10,661.0</u>
	<b><u>P 13,649.5</u></b>	P	<u>11,078.5</u>

The fair value of these collaterals somehow mitigates the credit risk to which the Group is exposed to.

The Group's manner of disposing the collateral for impaired loans and receivables is normally through sale of these assets after foreclosure proceedings have taken place.

Aside from the foregoing, there are no other credit enhancements on the Group's financial assets held as of December 31, 2012 and 2011.

#### ***5.04 Liquidity Risk***

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

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

The Group believes that it currently has adequate debt funding from banks, other financial institutions, and through the issuance of Short-Term Commercial Papers (STCPs). The Group currently has a license from the SEC to issue P15.0 billion STCPs. The SEC granted the license related to the P15.0 billion STCP on December 10, 2012.

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

Presented below are the financial assets and liabilities as of December 31, 2012 and 2011 analyzed according to when these are expected to be recovered or settled.

	One to Three Months	Three Months to One Year	One to Three Years	More than Three Years	Total
<u>2012</u>					
<u>Group</u>					
Financial assets					
Cash and cash equivalents	P 69.4	P -	P -	P -	P 69.4
Available-for-sale financial assets	2,022.0	-	-	-	2,022.0
Loans and other receivables	<u>2,158.6</u>	<u>3,558.1</u>	<u>7,190.8</u>	<u>4,337.5</u>	<u>17,245.0</u>
	<b><u>P 4,250.0</u></b>	<b><u>P 3,558.1</u></b>	<b><u>P 7,190.8</u></b>	<b><u>P 4,337.5</u></b>	<b><u>P 19,336.4</u></b>
Financial liabilities					
Bills payable	P 10,819.7	P 1,547.5	P 329.3	P 0.5	P 12,697.0
Accounts payable and other liabilities	101.4	7.6	3.6	-	112.6
Lease deposits	<u>370.8</u>	<u>558.0</u>	<u>1,613.0</u>	<u>629.4</u>	<u>3,171.2</u>
	<b><u>P 11,291.9</u></b>	<b><u>P 2,113.1</u></b>	<b><u>P 1,945.9</u></b>	<b><u>P 629.9</u></b>	<b><u>P 15,980.8</u></b>
<u>Parent Company</u>					
Financial assets					
Cash and cash equivalents	P 63.5	P -	P -	P -	P 63.5
Available-for-sale financial assets	2,022.0	-	-	-	2,022.0
Loans and other receivables	<u>2,155.9</u>	<u>3,558.1</u>	<u>7,190.8</u>	<u>4,337.5</u>	<u>17,242.3</u>
	<b><u>P 4,241.4</u></b>	<b><u>P 3,558.1</u></b>	<b><u>P 7,190.8</u></b>	<b><u>P 4,337.5</u></b>	<b><u>P 19,327.8</u></b>
Financial liabilities					
Bills payable	P 10,654.1	P 1,547.5	P 329.3	P 0.5	P 12,531.4
Accounts payable and other liabilities	88.4	7.6	3.6	-	99.6
Lease deposits	<u>355.5</u>	<u>543.7</u>	<u>1,599.0</u>	<u>629.4</u>	<u>3,127.6</u>
	<b><u>P 11,098.0</u></b>	<b><u>P 2,098.8</u></b>	<b><u>P 1,931.9</u></b>	<b><u>P 629.9</u></b>	<b><u>P 15,758.6</u></b>

	One to Three Months	Three Months to One Year	One to Three Years	More than Three Years	Total
<u>2011</u>					
<u>Group</u>					
Financial assets					
Cash and cash equivalents	P 87.7	P -	P -	P -	P 87.7
Available-for-sale financial assets	2,043.1	-	-	-	2,043.1
Loans and other receivables	<u>1,682.10</u>	<u>3,178.6</u>	<u>6,520.5</u>	<u>3,190.1</u>	<u>14,571.3</u>
	<u>P 3,812.9</u>	<u>P 3,178.6</u>	<u>P 6,520.5</u>	<u>P 3,190.1</u>	<u>P 16,702.1</u>
Financial liabilities					
Bills payable	P 9,453.0	P 1,128.7	P 0.9	P -	P 10,582.6
Accounts payable and other liabilities	90.3	52.0	6.0	4.0	152.3
Lease deposits	<u>405.1</u>	<u>421.6</u>	<u>1,206.2</u>	<u>393.0</u>	<u>2,425.9</u>
	<u>P 9,948.4</u>	<u>P 1,602.3</u>	<u>P 1,213.1</u>	<u>P 397.0</u>	<u>P 13,160.8</u>
<u>Parent Company</u>					
Financial assets					
Cash and cash equivalents	P 86.3	P -	P -	P -	P 86.3
Available-for-sale financial assets	2,043.1	-	-	-	2,043.1
Loans and other receivables	<u>1,673.9</u>	<u>3,178.6</u>	<u>6,520.5</u>	<u>3,190.1</u>	<u>14,563.1</u>
	<u>P 3,803.3</u>	<u>P 3,178.6</u>	<u>P 6,520.5</u>	<u>P 3,190.1</u>	<u>P 16,692.5</u>
Financial liabilities					
Bills payable	P 9,399.9	P 1,128.7	P 0.9	P -	P 10,529.5
Accounts payable and other liabilities	82.0	52.0	6.0	4.2	144.2
Lease deposits	<u>405.2</u>	<u>421.6</u>	<u>1,206.2</u>	<u>348.9</u>	<u>2,381.9</u>
	<u>P 9,887.1</u>	<u>P 1,602.3</u>	<u>P 1,213.1</u>	<u>P 353.1</u>	<u>P 13,055.6</u>

The Group and the Parent Company's maturing financial liabilities within the one to three month period pertain to bills payable due to various private entities and individuals. Maturing bills payable are usually settled through repayments. When maturing financial assets are not sufficient to cover the related maturing financial liabilities, bills payable and other currently maturing financial liabilities are rolled over/refinanced or are settled by entering into new borrowing arrangements with other counterparties.

### **5.05 Price Risk**

The Group is exposed to the changes in the market values of AFS financial assets held as of December 31, 2012 and 2011. The Group manages its risk by identifying, analyzing and measuring relevant or likely market price risks. To manage its price risk arising from its AFS financial assets, the Group does not concentrate its investment in any single counterparty.



If the prices of AFS financial assets changed by +/-2.12% in 2012, then other comprehensive income would have increased/decreased by P42.9. If the prices of AFS financial assets changed by +/-2.13% in 2011, then other comprehensive income would have increased/decreased by P26.9. The analysis is based on the assumption on the change of the correlated equity indices, with all other variables held constant.

## 6. CASH AND CASH EQUIVALENTS

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

	<b>Group</b>		<b>Parent</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Cash on hand and in banks	<b>P 53.2</b>	P 73.2	<b>P 47.3</b>	P 71.8
Cash equivalents	<b>16.2</b>	14.5	<b>16.2</b>	14.5
	<b><u>P 69.4</u></b>	<u>P 87.7</u>	<b><u>P 63.5</u></b>	<u>P 86.3</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 rates ranging from 1.0% to 4.0% in 2012 and 1.0% to 4.5% in 2011.

## 7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	<b>2012</b>	<b>2011</b>
San Miguel Corporation preferred shares	<b>P 1,270.0</b>	P 1,270.0
First Gen Corp. Series "F" preferred shares	<b>700.0</b>	700.0
Club shares and other equity investments	<b><u>0.8</u></b>	<u>0.8</u>
	<b>1,970.8</b>	1,970.8
Accumulated unrealized fair value gains	<b><u>51.2</u></b>	<u>72.3</u>
	<b><u>P 2,022.0</u></b>	<u>P 2,043.1</u>

In August 2011, the Group acquired 7,000,000 perpetual Series “F” preferred shares issued by First Gen Corp. (First Gen shares) at P100 per share. The First Gen shares carry an interest rate of 8% per annum and are cumulative, non-voting, non-participating and non-convertible. On the seventh anniversary of the issue date or any dividend payment thereafter, First Gen shall have the option, but not the obligation to redeem all of the First Gen preferred shares outstanding. The First Gen shares were listed on November 15, 2011. As of December 31, 2012 and 2011, the closing price of the First Gen shares is at P108 and P100 per share, respectively. Accordingly, the Group recognized unrealized fair value gains on its investment in First Gen preferred shares of P52.2 in 2012, net of P3.8 deferred stock transaction tax, based on 1/2 of 1% of the total market value of P756.0 as of December 31, 2012. There was no unrealized fair value gain or loss recognized in 2011.

The SMC preferred shares (the SMC shares) represent 16.9 million preferred shares listed at the PSE issued by San Miguel Corporation and bear annual interest at 8%. The shares closed at the price of P74.5 and P79.30 per share as of December 31, 2012 and 2011, respectively. Thus, the Company recognized unrealized fair value loss of P20.9 in 2012 and P184.1 in 2011 on the statement of comprehensive income, net of deferred stock transaction tax at 1/2 of 1% of the total market value of P2,022.0 and P2,043.1 or P10.1 and P10.2, as of December 31, 2012 and 2011, respectively. The unrealized fair value gain amounting to P4.1 and P62.0 is included under Unrealized Fair Value Gain on Available-for-Sale Financial Assets account in the statements of financial position while the deferred stock transaction tax amounting to P10.1 and P10.2 was recognized in Other Comprehensive Income and as part of Deferred Tax Liabilities account as of December 31, 2012 and 2011, respectively (see Note 20).

Club shares and other equity investments, consisting of Philippine Long Distance Telephone Co. (PLDT) preferred and golf and country club shares of stock, have fair values of P0.3 as of December 31, 2012 and 2011.

## 8. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	<b>Group</b>		<b>Parent</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Receivable from customers:				
Finance lease receivables	<b>P 7,279.0</b>	P 5,042.5	<b>P 7,279.0</b>	P 5,042.5
Residual value of leased assets	<b>3,128.8</b>	2,367.0	<b>3,128.8</b>	2,367.0
Unearned leased income	<b>( 919.5)</b>	( 681.6)	<b>( 919.5)</b>	( 681.6)
	<b><u>9,488.3</u></b>	<u>6,727.9</u>	<b><u>9,488.3</u></b>	<u>6,727.9</u>
Loans and receivables financed	<b>8,086.4</b>	8,210.1	<b>8,086.4</b>	8,210.1
Unearned finance income	<b>( 168.2)</b>	( 237.3)	<b>( 168.1)</b>	( 237.1)
Client's equity	<b>( 35.3)</b>	( 52.9)	<b>( 35.3)</b>	( 52.9)
	<b><u>7,882.9</u></b>	<u>7,919.9</u>	<b><u>7,883.0</u></b>	<u>7,920.1</u>
Other receivables:				
Accrued interest receivable	<b>102.9</b>	83.6	<b>102.9</b>	83.6
Dividends receivable	<b>51.4</b>	73.5	<b>51.4</b>	73.5
Sales contract receivable	<b>16.5</b>	23.0	<b>16.5</b>	23.0
Accounts receivable	<b>12.3</b>	26.2	<b>11.7</b>	20.1
Accrued rental receivable	<b><u>2.2</u></b>	<u>2.3</u>	<b><u>-</u></b>	<u>-</u>
	<b><u>185.3</u></b>	<u>208.6</u>	<b><u>182.5</u></b>	<u>200.2</u>
Total	<b>17,556.5</b>	14,856.4	<b>17,553.8</b>	14,848.2
Allowance for impairment	<b>( 311.5)</b>	( 285.1)	<b>( 311.5)</b>	( 285.1)
	<b><u>P 17,245.0</u></b>	<u>P 14,571.3</u>	<b><u>P 17,242.3</u></b>	<u>P 14,563.1</u>

As of December 31, 2012 and 2011, 88% and 97%, 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 6.5% to 30% in 2012 and 6% to 30% in 2011.

Interest income on receivables pertaining to the residual value of assets under finance lease accrued using the effective interest method amounted to P1.9, P3.4, and P6.0 in 2012, 2011 and 2010, respectively, and is presented as part of Interest and Discounts in the Group and Parent Company statements of comprehensive income.

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

	<b>Group</b>		<b>Parent</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Secured				
Chattel mortgage	<b>P 10,478.9</b>	P 8,189.8	<b>P 10,478.9</b>	P 8,189.8
Real estate mortgage	<b>871.5</b>	527.4	<b>871.5</b>	527.4
Others	<b><u>3,409.8</u></b>	<u>-</u>	<b><u>3,409.8</u></b>	<u>-</u>
	<b>14,760.2</b>	8,717.2	<b>14,760.2</b>	8,717.2
Unsecured	<b><u>2,484.8</u></b>	<u>5,854.1</u>	<b><u>2,482.1</u></b>	<u>5,845.9</u>
	<b><u>P 17,245.0</u></b>	<u>P 14,571.3</u>	<b><u>P 17,242.3</u></b>	<u>P 14,563.1</u>

An analysis of the Group's and Parent Company's finance lease receivables as of December 31, 2012 and 2011 is shown below:

	<u>2012</u>	<u>2011</u>
Maturity of gross investment in:		
Finance lease receivables		
Within one year	<b>P 697.7</b>	P 2,379.2
Beyond one year but not beyond five years	<b>6,553.1</b>	2,660.1
Beyond five years	<u>28.2</u>	<u>3.2</u>
	<u><b>7,279.0</b></u>	<u>5,042.5</u>
Residual value of leased assets		
Within one year	<b>897.8</b>	786.0
Beyond one year but not beyond five years	<b>2,222.4</b>	1,535.0
Beyond five years	<u>8.6</u>	<u>46.0</u>
	<u><b>3,128.8</b></u>	<u>2,367.0</u>
Gross finance lease receivable	<b>10,407.8</b>	7,409.5
Unearned lease income	<u>( 919.5)</u>	<u>( 681.6)</u>
Net investment in finance lease receivables	<u><b>P 9,488.3</b></u>	<u>P 6,727.9</u>

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

	<u>2012</u>	<u>2011</u>
Due within one year	<b>P 1,536.6</b>	P 2,840.6
Due beyond one year but not beyond five years	<b>7,921.7</b>	3,838.5
Beyond five years	<u>30.0</u>	<u>48.8</u>
	<u><b>P 9,488.3</b></u>	<u>P 6,727.9</u>

Past due finance lease receivables amounted to P209.5 and P234.8 as of December 31, 2012 and 2011, respectively.

Past due loans and receivables financed amounted to P128.1 and P199.1 as of December 31, 2012 and 2011, respectively.

In 2012 and 2011, the BOD approved the write-off of certain loans and receivables financed and finance lease receivables with total amount of P31.5 and P66.3, respectively.

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

		<b>Group</b>		
		<u>2012</u>	<u>2011</u>	<u>2010</u>
Loans and receivable financed	<b>P</b>	<b>776.4</b>	P 721.1	P 583.8
Finance lease receivables		<b>494.2</b>	444.3	440.1
Cash and cash equivalents		<b>0.6</b>	1.0	0.5
Others		<u>-</u>	<u>-</u>	<u>4.4</u>
	<b>P</b>	<b><u>1,271.2</u></b>	<b><u>1,166.4</u></b>	<b><u>1,028.8</u></b>
		<b>Parent Company</b>		
		<u>2012</u>	<u>2011</u>	<u>2010</u>
Loans and receivables financed	<b>P</b>	<b>777.0</b>	P 721.8	P 583.8
Finance lease receivables		<b>494.2</b>	444.3	440.1
Cash and cash equivalents		<b>0.6</b>	0.6	0.5
Others		<u>-</u>	<u>-</u>	<u>2.8</u>
	<b>P</b>	<b><u>1,271.8</u></b>	<b><u>1,166.7</u></b>	<b><u>1,027.2</u></b>

Interest income recognized on impaired loans and receivables amounted to P14.9 in 2012, P12.2 in 2011 and P5.1 in 2010.

The changes in the allowance for impairment for the Group and the Parent Company are summarized below.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Balance at beginning of year	<b>P 285.1</b>	P 234.3	P 184.3
Impairment losses during the year	<b>87.3</b>	117.1	99.0
Accounts written off	<b>( 60.9)</b>	( 66.3)	( 49.0)
Balance at end of year	<b><u>P 311.5</u></b>	<b><u>P 285.1</u></b>	<b><u>P 234.3</u></b>

## 9. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of 2012 and 2011 are shown below.

	<u>Transportation and Other Equipment</u>	<u>Furniture, Fixtures and Others</u>	<u>Leasehold Improve- ments</u>	<u>Total</u>
<b><u>Group</u></b>				
December 31, 2012				
Cost	P 1,128.8	P 28.0	P 25.5	P 1,182.3
Accumulated depreciation and amortization	( 496.1)	( 22.2)	( 20.3)	( 538.6)
Net carrying amount	<u>P 632.7</u>	<u>P 5.8</u>	<u>P 5.2</u>	<u>P 643.7</u>
December 31, 2011				
Cost	P 854.5	P 25.8	P 23.8	P 904.1
Accumulated depreciation and amortization	( 363.8)	( 21.1)	( 16.0)	( 400.9)
Net carrying amount	<u>P 490.7</u>	<u>P 4.7</u>	<u>P 7.8</u>	<u>P 503.2</u>
January 1, 2011				
Cost	P 2,855.4	P 22.5	P 24.9	P 2,902.8
Accumulated depreciation and amortization	( 2,016.4)	( 15.6)	( 13.9)	( 2,045.9)
Net carrying amount	<u>P 839.0</u>	<u>P 6.9</u>	<u>P 11.0</u>	<u>P 856.9</u>
		<u>Furniture, Fixtures and Others</u>	<u>Leasehold Improve- ments</u>	<u>Total</u>
<b><u>Parent Company</u></b>				
December 31, 2012				
Cost		P 27.9	P 25.5	P 53.4
Accumulated depreciation and amortization		( 22.2)	( 20.3)	( 42.5)
Net carrying amount		<u>P 5.7</u>	<u>P 5.2</u>	<u>P 10.9</u>
December 31, 2011				
Cost		P 25.8	P 23.8	P 49.6
Accumulated depreciation and amortization		( 21.1)	( 16.0)	( 37.1)
Net carrying amount		<u>P 4.7</u>	<u>P 7.8</u>	<u>P 12.5</u>
January 1, 2011				
Cost		P 22.5	P 24.9	P 47.4
Accumulated depreciation and amortization		( 15.6)	( 13.9)	( 29.5)
Net carrying amount		<u>P 6.9</u>	<u>P 11.0</u>	<u>P 17.9</u>

A reconciliation of the carrying amounts of property and equipment at the beginning and end of 2012 and 2011 is shown below.

	<u>Transportation and Other Equipment</u>	<u>Furniture, Fixtures and Others</u>	<u>Leasehold Improve- ments</u>	<u>Total</u>
<b><u>Group</u></b>				
Balance at January 1, 2012, net of accumulated depreciation and amortization	P 490.7	P 4.7	P 7.8	P 503.2
Additions	327.4	4.9	1.7	334.0
Disposals	( 10.2)	-	-	( 10.2)
Depreciation and amortization charges for the year	( 175.2)	( 3.8)	( 4.3)	( 183.3)
Balance at December 31, 2012, net of accumulated depreciation and amortization	<u>P 632.7</u>	<u>P 5.8</u>	<u>P 5.2</u>	<u>P 643.7</u>
Balance at January 1, 2011, net of accumulated depreciation and amortization	P 839.0	P 6.9	P 11.0	P 856.9
Additions	266.5	3.3	0.9	270.7
Disposals	( 377.8)	-	-	( 377.8)
Depreciation and amortization charges for the year	( 237.0)	( 5.5)	( 4.1)	( 246.6)
Balance at December 31, 2011, net of accumulated depreciation and amortization	<u>P 490.7</u>	<u>P 4.7</u>	<u>P 7.8</u>	<u>P 503.2</u>
		<u>Furniture, Fixtures and Others</u>	<u>Leasehold Improve- ments</u>	<u>Total</u>
<b><u>Parent Company</u></b>				
Balance at January 1, 2012, net of accumulated depreciation and amortization		P 4.7	P 7.8	P 12.5
Additions		4.8	1.7	6.5
Depreciation and amortization charges for the year		( 3.8)	( 4.3)	( 8.1)
Balance at December 31, 2012, net of accumulated depreciation and amortization		<u>P 5.7</u>	<u>P 5.2</u>	<u>P 10.9</u>

	<u>Furniture, Fixtures and Others</u>	<u>Leasehold Improve- ments</u>	<u>Total</u>
Balance at January 1, 2011, net of accumulated depreciation and amortization	P 6.9	P 11.0	P 17.9
Additions	3.3	0.9	4.2
Depreciation and amortization charges for the year	( 5.5)	( 4.1)	( 9.6)
Balance at December 31, 2011, net of accumulated depreciation and amortization	<u>P 4.7</u>	<u>P 7.8</u>	<u>P 12.5</u>

The cost of fully depreciated assets that are still being used in operations amounted to P65.7 and P85.8 for the Group as of December 31, 2012 and 2011, respectively, and P1.7 and 9.2 for the Parent Company as of December 31, 2012 and 2011, respectively.

Depreciation and amortization charges for 2012 and 2011 are included as part of Occupancy and Equipment-related Expenses account in the statements of comprehensive income.

As of December 31, 2012 and 2011, the net book value of transportation and other equipment leased out by the Group (nil for the Parent Company) under operating lease arrangements amounted to P632.7 and P490.7, respectively.

In 2012, the Group disposed of certain transportation equipment with carrying value of P10.2, resulting to gain on sale of P3.6. In 2011, the Group disposed of various transportation equipment with carrying value of P377.8 resulting to gain on sale of P5.1. This gain is offset against the loss on disposal in connection with BDORI's preterminated lease contract as discussed in the succeeding paragraph.

Also, in 2011, BDO Rental's lease contract with a lessee was terminated earlier than the original term stated in the agreement. BDO Rental recognized pretermination income amounting to P18.7 arising from the said transaction and loss on disposal of the related asset amounting to P31.2. The amount of pretermination income is included under Miscellaneous Income account (see Note 16) while the loss on disposal is included under Other Costs and Operating Expenses account in the 2011 statement of comprehensive income.



## 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 2012 and 2011 in the Group and Parent Company financial statements are shown below.

	<u>Land</u>	<u>Building and Improve- ments</u>	<u>Total</u>
December 31, 2012			
Cost	P 389.6	P 105.3	P 494.9
Accumulated depreciation	-	( 59.2)	( 59.2)
Accumulated impairment	( 54.9)	( 1.3)	( 56.2)
Net carrying amount	<u>P 334.7</u>	<u>P 44.8</u>	<u>P 379.5</u>
December 31, 2011			
Cost	P 461.1	P 109.4	P 570.5
Accumulated depreciation	-	( 50.0)	( 50.0)
Accumulated impairment	( 40.2)	( 51.4)	( 91.6)
Net carrying amount	<u>P 420.9</u>	<u>P 8.0</u>	<u>P 428.9</u>
January 1, 2011			
Cost	P 690.1	P 128.6	P 818.7
Accumulated depreciation	-	( 45.5)	( 45.5)
Accumulated impairment	( 41.5)	( 30.4)	( 71.9)
Net carrying amount	<u>P 648.6</u>	<u>P 52.7</u>	<u>P 701.3</u>

A reconciliation of the carrying amounts at the beginning and end of 2012 and 2011 of investment properties in the Group and Parent Company financial statements is shown below.

	<u>Land</u>	<u>Building and Improve- ments</u>	<u>Total</u>
Balance at January 1, 2012, net of accumulated depreciation and impairment	P 420.9	P 8.0	P 428.9
Additions	1.4	76.4	77.8
Disposals	( 72.9)	( 17.3)	( 90.2)
Depreciation and amortization charges for the year	-	( 11.8)	( 11.8)
Impairment losses during the year	( 14.7)	( 10.5)	( 25.2)
Balance at December 31, 2012, net of accumulated depreciation and impairment	<u>P 334.7</u>	<u>P 44.8</u>	<u>P 379.5</u>

	<u>Land</u>	<u>Building and Improve- ments</u>	<u>Total</u>
Balance at January 1, 2011, net of accumulated depreciation and impairment	P 648.6	P 52.7	P 701.3
Additions	93.1	13.9	107.0
Disposals	( 346.4)	( 8.8)	( 355.2)
Reclassifications	25.6	( 7.3)	18.3
Depreciation and amortization charges for the year	-	( 20.5)	( 20.5)
Impairment losses during the year	<u>-</u>	<u>( 22.0)</u>	<u>( 22.0)</u>
Balance at December 31, 2011, net of accumulated depreciation and impairment	<u>P 420.9</u>	<u>P 8.0</u>	<u>P 428.9</u>

The appraised values of the investment properties as of December 31, 2012 and 2011 follow:

	<u>2012</u>	<u>2011</u>
Land	<b>P 748.9</b>	P 633.4
Building and improvements	<u><b>127.4</b></u>	<u>155.3</u>
	<u><b>P 876.3</b></u>	<u>P 788.7</u>

Fair values have been determined based on valuations made by independent and/or in-house appraisers, which are market value for land and building and related improvements and reproduction cost for certain building and improvements. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made. In addition, there are certain significant assumptions that are considered in the valuation of these properties, based on the following: (a) extent, character and utility of the properties; (b) sales or listing of prices for similar properties; (c) highest and best use of the property; and (d) accumulated depreciation for depreciable properties. Internal appraisals were made for all properties with book value of P5 or less, while external appraisals were made for all properties with book value exceeding P5.

Direct operating expenses incurred on investment properties recognized in profit or loss are insignificant.

Gain on sale of investment properties included under Gain on sale of property and equipment and investment properties as part of Other Income amounted to P51.5, P40.4 and P12.4 in 2012, 2011 and 2010, respectively (see Note 16).

## 11. OTHER ASSETS

Other assets consist of the following:

Note	Group		Parent Company	
	2012	2011	2012	2011
Prepaid expenses	<b>P 107.3</b>	P 99.4	<b>P 21.6</b>	P 15.7
Non-current assets				
held-for-sale – net	<b>94.4</b>	-	<b>94.4</b>	-
Deferred input				
value-added tax (VAT)	<b>65.3</b>	46.7	-	-
Retirement benefit asset	<b>61.9</b>	-	<b>61.9</b>	-
Repossessed chattels				
and other				
equipment - net	<b>29.2</b>	65.9	<b>29.2</b>	65.9
Investment in a subsidiary	-	-	<b>400.0</b>	400.0
Miscellaneous - net	<b>17.8</b>	3.1	<b>16.2</b>	3.0
	<b><u>P 375.9</u></b>	<b><u>P 215.1</u></b>	<b><u>P 623.3</u></b>	<b><u>P 484.6</u></b>

In 2102, the Group reclassified certain repossessed chattel and other equipment to non-current assets held-for-sale. All chattel and personal properties repossessed in 2012 were also recognized by the Group as assets held-for-sale. Management intends to dispose of these properties within one year from the date of reclassification. These properties are carried at the lower of cost and fair value less cost to sell. The cost of these properties amounted to P150.9, less allowance for impairment recognized amounting to P56.5 as of December 31, 2012.

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

	2012	2011
Cost	<b>P 56.1</b>	P 122.0
Accumulated depreciation	<b>( 26.9)</b>	( 56.1)
	<b><u>P 29.2</u></b>	<b><u>P 65.9</u></b>

A reconciliation of the carrying amounts of repossessed chattels and other equipment at the beginning and end of 2012 and 2011 is shown below.

	2012	2011
Balance at January 1, net of accumulated depreciation	<b>P 65.9</b>	P 46.4
Reclassifications to held-for-sale	<b>( 9.8)</b>	-
Additions	-	60.2
Disposals	-	( 6.4)
Depreciation charges for the year	<b>( 26.9)</b>	( 34.3)
Balance at December 31, net of accumulated depreciation	<b><u>P 29.2</u></b>	<b><u>P 65.9</u></b>

No impairment loss was recognized on repossessed chattels and other equipment in 2012, 2011 and 2010.

Deferred input VAT pertains to the VAT due or paid by the Group on purchases of capital assets for lease in the ordinary course of business wherein the application against the output VAT is amortized over a period of 60 months.

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

## 12. BILLS PAYABLE

This account consists of borrowings from:

	<b>Group</b>		<b>Parent</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Banks	<b>P 10,376.5</b>	P 2,489.0	<b>P 10,211.3</b>	P 2,435.9
Others	<b>2,291.9</b>	8,086.0	<b>2,291.9</b>	8,086.0
Accrued interest	<b>28.6</b>	7.6	<b>28.2</b>	7.6
	<b><u>P 12,697.0</u></b>	<u>P 10,582.6</u>	<b><u>P 12,531.4</u></b>	<u>P 10,529.5</u>

Bills payable to banks represent peso borrowings from local banks (including BDO Unibank as of December 31, 2012 and 2011 – see Note 19), with annual interest rates ranging from 3.5% to 6.9% in 2012 and 4.0% to 4.25% in 2011. As of December 31, 2012 and 2011, bills payable - others represent short-term notes issued to individual and corporate investors, with annual interest rates ranging from 3.5% to 4.0% and 3.6% to 4.1%, respectively. These rates approximate prevailing market rates. As of December 31, 2012, bills payable amounting to P1,696.0 are secured by the Group's AFS financial assets amounting to P1,970.0 and certain loans receivables with carrying amount of P362.4.

Interest and financing charges consist of interest on:

	<b>Note</b>	<b>Group</b>		
		<b>2012</b>	<b>2011</b>	<b>2010</b>
Bills payable - banks		<b>P 134.9</b>	P 95.7	P 28.0
Bills payable - others		<b>322.2</b>	280.0	266.0
Amortization on lease deposits	14	<b>4.5</b>	12.0	36.9
		<b><u>P 461.6</u></b>	<u>P 387.7</u>	<u>P 330.9</u>
	<b>Note</b>	<b>Parent Company</b>		
		<b>2012</b>	<b>2011</b>	<b>2010</b>
Bills payable - banks		<b>P 131.7</b>	P 95.2	P 28.0
Bills payable - others		<b>322.2</b>	280.0	260.4
Amortization on lease deposits	14	<b>2.9</b>	6.1	11.2
		<b><u>P 456.8</u></b>	<u>P 381.3</u>	<u>P 299.6</u>

### 13. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities consist of the following:

	Note	Group		Parent	
		2012	2011	2012	2011
Accounts payable		P 25.8	P 98.7	P 19.6	P 97.5
Accrued taxes and other expenses		29.2	19.0	29.2	19.0
Withholding taxes payable		10.6	9.2	10.4	9.0
Retirement benefit obligation	18	-	6.5	-	6.5
Other liabilities		<u>47.0</u>	<u>18.9</u>	<u>40.3</u>	<u>12.2</u>
		<u>P 112.6</u>	<u>P 152.3</u>	<u>P 99.6</u>	<u>P 144.2</u>

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

This account represents deposits on:

	Group		Parent Company	
	2012	2011	2012	2011
Finance leases	P 3,127.6	P 2,381.9	P 3,127.6	P 2,381.9
Operating leases	<u>43.6</u>	<u>44.0</u>	<u>-</u>	<u>-</u>
	<u>P 3,171.2</u>	<u>P 2,425.9</u>	<u>P 3,127.6</u>	<u>P 2,381.9</u>

Interest expense on lease deposits accrued using the effective interest method in the Group's financial statements amounted to P4.5, P12.0 and P36.9 in 2012, 2011 and 2010, respectively, and P2.9, P6.1 and P11.2 in 2012, 2011 and 2010, respectively, in the Parent Company financial statements (see Note 12). These are included as part of Interest and Financing Charges under Operating Costs and Expenses in the Group and Parent Company statements of comprehensive income.

### 15. EQUITY

#### *15.01 Capital Management Objectives, Policies and Procedures*

The Group's capital management objectives are:

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

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

The Group's capital and overall financing as of December 31, 2012 and 2011 are shown below:

	<u>2012</u>	<u>2011</u>
Total equity	<b>P 4,634.3</b>	P 4,361.0
Cash and cash equivalents	<b>( 69.4)</b>	( 87.7)
Net capital	<b><u>P 4,564.9</u></b>	<b><u>P 4,273.3</u></b>
Bills payable	<b>P 12,697.0</b>	P 10,582.6
Lease deposits	<b>3,171.2</b>	2,425.9
Total equity	<b><u>4,634.3</u></b>	<b><u>4,361.0</u></b>
Overall financing	<b><u>P 20,502.5</u></b>	<b><u>P 17,369.5</u></b>
Capital-to-overall financing ratio	<b><u>1 : 4.49</u></b>	<b><u>1 : 4.06</u></b>

Under RA No. 8556 the Group is required to maintain the following capital requirements:

- Minimum paid-up capital of P10 million; and
- Additional capital requirements for each branch of P1 million for branches established in Metro Manila, P0.5 million for branches established in other classes of cities and P0.25 million for branches established in municipalities.

As of December 31, 2012 and 2011, the Group is in compliance with this minimum paid-up capital requirement.

### ***15.02 Preferred Shares***

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

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

None of these authorized preferred shares are issued as of December 31, 2012 and 2011.

### 15.03 Common Shares

As of December 31, 2012 and 2011, out of the total authorized capital stock of 3,400,000,000 common shares with par value of one peso per share, 2,225,169,030 common shares amounting to P2,225.2 are issued and outstanding.

On April 8, 2012, the BOD approved the declaration of cash dividends at P0.05 per share amounting to P108.1. The dividends were declared in favor of stockholders of record as of May 31, 2012 and were paid subsequently on June 27, 2012.

On December 7, 2011 and May 30, 2011, the BOD approved the declaration of cash dividends at P0.10 per share and P0.05 per share, respectively, amounting to P216.2 and P108.2 or for a total of P324.4 for the year. The December 2011 and May 2011 dividends were declared in favor of stockholders of record as of December 26, 2011 and June 14, 2011, respectively. As of December 31, 2011, the December 2011 dividends are still outstanding and is shown as Dividends Payable in the 2011 statement of financial position. The said dividends were paid subsequently on January 18, 2012.

### 15.04 Track Record of Registration of Securities

On January 6, 1997, the Parent Company was listed with the PSE with 106,100,000 new additional common shares and 15,120,000 existing common shares with par value of P1 per share. The listing was approved by the SEC in May 1996. As of December 31, 2012 and 2011, the Parent Company's number of shares registered totaled 2,225,169,030 with par value of P1 per share and closed at a price of P2.00 and P1.61 per share, respectively. The total number of stockholders is 1,199 and 1,227 as of December 31, 2012 and 2011, respectively.

## 16. OTHER INCOME

This account is composed of the following:

	Notes	Group		
		2012	2011	2010
Dividend income	7	P 160.9	P 125.7	P 104.9
Gain on sale of property and equipment and investment properties	9, 10	55.1	45.5	13.6
Fair value gains - net		2.6	0.5	1.9
Miscellaneous	9, 19	41.9	55.7	57.2
		<u>P 260.5</u>	<u>P 227.4</u>	<u>P 178.3</u>

	Notes	Parent Company		
		2012	2011	2010
Dividend income	7	P 160.9	P 125.7	P 104.9
Gain on sale of property and equipment and investment properties	9, 10	51.5	40.4	12.4
Fair value gains (losses) - net		1.5 (	0.8) (	0.6)
Miscellaneous	9, 19	37.3	33.7	21.8
		P 251.2	P 199.0	P 157.5

Dividend income pertains to income earned for investments in SMC shares and First Gen shares (see Note 7).

Fair value gains (losses) – net represent the fair value gains on initial recognition of lease deposits (representing excess of principal amount over fair value of leased deposits), net of the fair value losses on initial recognition of the residual value receivables under finance lease.

In 2011, BDO Rental's lease contract with a lessee was terminated earlier than the original term stated in the agreement. BDO Rental recognized pretermination income amounting to P18.7 arising from the said transaction and loss on disposal of the related asset amounting to P33.2. The amount of pretermination income is included under Miscellaneous Income in the 2011 Group profit or loss in the statement of comprehensive income. There was no similar transaction in 2012.

## 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, 2012, 2011 and 2010 amounted to P229.7, P244.5 and P830.9, respectively.

Future minimum rental receivables under operating leases follow:

	2012	2011	2010
Within one year	P 71.1	P 123.9	P 138.8
After one year but not more than five years	289.1	39.3	159.5
	P 360.2	P 163.2	P 298.3



## 18. EMPLOYEE BENEFITS

### *18.01 Salaries and Employee Benefits Expense*

Expenses recognized for salaries and employee benefits are presented below.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Salaries and wages	<b>P 97.8</b>	P 85.3	P 70.0
Bonuses	<b>30.9</b>	31.0	22.6
Retirement – defined benefit plan	<b>27.8</b>	21.9	18.1
Social security costs	<b>3.4</b>	6.4	2.8
Other benefits	<b><u>18.3</u></b>	<u>19.3</u>	<u>20.6</u>
	<b><u>P 178.2</u></b>	<u>P 163.9</u>	<u>P 134.1</u>

### *18.02 Post-employment Benefits*

The Parent Company maintains a wholly-funded, tax-qualified, noncontributory retirement plan that is being administered by a trustee bank 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 asset presented under Other Assets (see Note 11) and the retirement benefit obligation presented as part Accounts Payable and Other Liabilities are determined as follows (see Note 13):

	<u>2012</u>	<u>2011</u>
Present value of the obligation	<b>P 162.3</b>	P 135.5
Fair value of plan assets	<b>( 163.1)</b>	( 65.9)
Excess of asset (obligation)	<b>0.8</b>	( 69.6)
Unrecognized actuarial losses	<b><u>61.1</u></b>	<u>63.1</u>
Retirement asset (liability)	<b><u>P 61.9</u></b>	(P <u>6.5</u> )

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

	<u>2012</u>	<u>2011</u>
Balance at beginning of year	<b>P 135.5</b>	P 101.5
Current service cost and interest cost	<b>22.7</b>	17.3
Actuarial losses	<b>10.4</b>	37.6
Settlement loss	<b>-</b>	3.1
Benefits paid by the plan	<b>( 6.3)</b>	( 24.0)
Balance at end of year	<b><u>P 162.3</u></b>	<u>P 135.5</u>

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

	<u>2012</u>		<u>2011</u>
Balance at beginning of year	<b>P 65.9</b>	P	61.1
Contributions paid into the plan	<b>96.2</b>		25.3
Benefits paid by the plan	<b>( 6.3)</b>	(	24.0)
Actuarial gains	<b>1.8</b>		0.4
Expected return on plan assets	<b><u>5.5</u></b>		<u>3.1</u>
Balance at end of year	<b><u>P 163.1</u></b>	P	<u>65.9</u>

The composition of the plan assets follows (in percentages):

	<u>2012</u>	<u>2011</u>
Deposits in other banks	<b>46%</b>	42%
Placements in debt instruments	<b>35%</b>	33%
Unit investment trust funds	<b>12%</b>	15%
Others	<b><u>7%</u></b>	<u>10%</u>
	<b><u>100%</u></b>	<u>100%</u>

Actual return on plan assets amounted P7.3 in 2012, P3.4 in 2011 and P6.1 in 2010.

The amounts of retirement benefits expense recognized in profit or loss follow:

	<u>2012</u>		<u>2011</u>		<u>2010</u>
Current service cost	<b>P 14.1</b>	P	8.9	P	8.7
Interest cost	<b>8.6</b>		8.4		10.7
Expected return on plan assets	<b>( 5.5)</b>	(	3.1)	(	2.8)
Net actuarial losses	<b><u>10.6</u></b>		<u>7.7</u>		<u>1.5</u>
	<b><u>P 27.8</u></b>	P	<u>21.9</u>	P	<u>18.1</u>

Presented below are the historical information related to the present value of the obligation, fair value of plan assets and excess or deficit in the plan, as well as experience adjustments arising on plan assets and liabilities.

	<u>2012</u>		<u>2011</u>		<u>2010</u>		<u>2009</u>		<u>2008</u>
Present value of the obligation	<b>P 162.3</b>	P	135.5	P	101.5	P	115.3	P	86.3
Fair value of plan assets	<b>( <u>163.1</u>)</b>	(	<u>65.9</u> )	(	<u>61.1</u> )	(	<u>51.3</u> )	(	<u>44.6</u> )
Excess (deficit) in the plan	<b><u>P 0.8</u></b>	(P	<u>69.6</u> )	(P	<u>40.4</u> )	(P	<u>64.0</u> )	(P	<u>41.7</u> )
			<u>2012</u>				<u>2011</u>		
Experience adjustments arising on plan liabilities		<b>P</b>	<b>9.0</b>		P		45.5		
Experience adjustments arising on plan assets			<b>1.8</b>				0.3		

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Discount rates	5.62%	6.33%	8.25%
Expected rate of return on plan assets	9.00%	5.00%	5.00%
Expected rate of salary increases	9.45%	10.00%	10.00%

For 2013, the Group expects to contribute P27.0 to the plan.

## 19. RELATED PARTY TRANSACTIONS

The Group's and Parent Company's related parties include BDO Unibank, affiliates, key management personnel and the retirement benefit fund as described below.

The summary of the Group's significant transactions with its related parties in 2012, 2011 and 2010 are as follows:

Related Party Category	Notes	Amount of Transaction		
		2012	2011	2010
Ultimate Parent Company				
Interest income on savings and demand deposits	(a)	P 0.3	P 0.8	P 4.7
Interest expense on bills payable	(b)	98.3	86.7	0.5
Rent expense	(d)	11.0	11.5	13.6
Management fees	(e)	2.4	-	-
Subsidiary				
Interest income on loans	(b)	0.7	0.7	0.8
Service fees	(c)	8.4	9.9	18.0
Rent income	(d)	0.4	0.4	0.5
Management fees	(e)	0.4	0.8	-
Affiliate				
Professional fees	(f)	2.8	-	-
Key management personnel				
Short-term benefits	(g)	57.7	44.7	26.2
Post-employment benefits	(g)	17.0	13.2	8.3
Advances to officer	(g)	1.7	-	-

Related Party Category	Notes	Outstanding Balance	
		2012	2011
Parent Company			
Savings and demand deposits	(a)	P 52.7	P 72.9
Bills payable	(b)	6,731.7	2,488.1
Key management personnel			
Advances to officer	(g)	1.6	-
Retirement benefit fund			
Loans to officers and employees	(b)	3.4	-
Loans to members and beneficiaries	(b)	2.4	-
Shares of stock	(i)	0.9	-

(a) The Group maintains savings and demand deposit accounts with BDO Unibank. As of December 31, 2012 and 2011, savings and demand deposit accounts maintained with BDO Unibank are included under Cash and Cash Equivalents account in the statements of financial position (see Note 6). Interest income earned on deposits in 2012, 2011 and 2010 is included under Interest and Discounts as part of Revenues in the statements of comprehensive income (see Note 8).

(b) The Group obtain short-term, unsecured bills payable from BDO Unibank. The amount outstanding from borrowings as of December 31, 2012 and 2011 is presented under Bills Payable account in the statements of financial position (see Note 12). Interest expense incurred on these bills payable in 2012, 2011 and 2010 is included under Interest and financing charges account as part of Operating Costs and Expenses account in the statements of comprehensive income. Also, the Parent Company grants short-term, unsecured loans to BDO Rental. There is no outstanding balance arising from this transaction as of December 31, 2012 and 2011. Total interest income earned by the Parent Company on these loans in 2012, 2011 and 2010 is included under Interest and Discounts as part of Revenues in the statements of comprehensive income (see Note 8).

(c) On January 4, 2010, the Parent Company and BDO Rental entered into a Service Agreement whereby BDO Rental will handle the collection of certain factored receivables of the Parent Company, for a fee as agreed by the Parent Company and the sellers of the factored receivables. Under the Service Agreement, BDO Rental shall perform the monitoring of the payment due dates of the factored receivables, remit to the Parent Company all collections made and send monthly statement of accounts to customers. The related expense charged to the Parent Company based on the Service Agreement is included under Other Operating Costs and Expenses in the Parent Company's statements of comprehensive income. There are no outstanding intercompany payable and receivable from this transaction as of December 31, 2012 and 2011.

- (d) The Parent Company leases its head office premises and certain branch offices from BDO Unibank for terms ranging from one to five years, renewable for such period and under such terms and conditions as may be agreed upon with the Parent Company and BDO Unibank. Related rent expense incurred in 2012, 2011 and 2010 is presented as part of Occupancy and equipment-related expenses under Operating Costs and Expenses account in the statements of comprehensive income. On the other hand, the Parent Company charges BDO Rental for the spaces that the latter occupies in the head office premises. Rent changed to BDO Rental in 2012 and 2011 is presented as part of Other Income in the statements of comprehensive income. There are no outstanding receivable and payable on these transactions as of the end of 2012 and 2011.
- (e) In 2012, the Parent Company entered into a service level agreement with BDO Unibank wherein BDO Unibank will charge the Parent Company for certain management services that the former provides to the latter. Management fees paid by the Parent Company to BDO Unibank is shown as part of Other Operating Costs and Expenses in the 2012 statement of comprehensive income. Also, the Parent Company charges BDO Rental for the management services it renders to BDO Rental. This is presented as part of Other Income in the 2012 statement of comprehensive income of the Parent Company. There are no outstanding receivable and payable on these transactions as of the end of 2012.
- (f) The Parent Company engaged the services of BDO Capital and Investment Corporation (BDO Capital), a wholly owned subsidiary of BDO Unibank for underwriting services related to the Parent Company's issuance of bills payable in 2012. Professional fees paid by the Parent Company to BDO Capital related to this transaction is included as part of Other Operating Costs and Expenses in the 2012 statement of comprehensive income. There is no outstanding payable related on this transaction as of the end of 2012.
- (g) Compensation of key management personnel (covering officer positions starting from Assistant Vice President and up) is included as part of Employee Benefits under Operating Costs and Expenses in the statements of comprehensive income of the Group and Parent Company. Short-term employee benefits include salaries, paid annual leave and paid sick leave, profit sharing and bonuses, and non-monetary benefits. The Group also incurred post-employment benefit expense related to key management personnel included as part of Employee Benefits under Operating Costs and Expenses. The Group also granted cash advances to an officer in 2012.
- (h) The Group maintains a retirement benefit fund with BDO Unibank covering all regular full-time employees. In the normal course of business, the retirement benefit fund grants salary and housing loans to certain officers and employees of the Parent Company, and members and beneficiaries of the fund who are also officers of the Parent Company. The housing loans are secured by the mortgage on the property and bear interest at 9% per annum and have terms ranging from 13 to 20 years. The salary loans on the other hand, are unsecured and bear interest ranging from 9% to 10% per annum and have terms ranging from 18 months to 3 years.
- (i) The retirement fund holds 442,750 shares of stock of BDOLFI as an investment, which has a market value of P2.00 per share as of December 31, 2012.

## 20. TAXES

### 20.01 Taxes and Licenses

This account is composed of the following:

	Group		
	2012	2011	2010
Gross receipts tax	P 62.8	P 52.2	P 57.7
Documentary stamp tax	60.9	51.3	36.9
Local taxes	10.5	13.4	13.4
Others	0.4	5.7	4.8
	<u>P 134.6</u>	<u>P 122.6</u>	<u>P 112.8</u>
	Parent Company		
	2012	2011	2010
Gross receipts tax	P 62.8	P 52.2	P 57.7
Documentary stamp tax	60.4	51.2	36.5
Local taxes	8.5	7.7	6.6
Others	0.4	3.6	3.3
	<u>P 132.1</u>	<u>P 114.7</u>	<u>P 104.1</u>

### 20.02 Current and Deferred Taxes

The components of tax expense reported in other comprehensive income for the years ended December 31 follow:

	Group		
	2012	2011	2010
<i>Reported in profit or loss</i>			
Current tax expense:			
Regular corporate income tax (RCIT)			
at 30%	P 166.1	P 88.8	P 83.4
Final tax at 20%	0.1	0.2	0.8
	<u>166.2</u>	<u>89.0</u>	<u>84.2</u>
Deferred tax expense (income)			
Deferred tax relating to			
origination and reversal of			
temporary difference	( 53.6)	( 8.2)	15.7
	<u>P 112.6</u>	<u>P 80.8</u>	<u>P 99.9</u>
<i>Reported in other comprehensive income</i>			
Deferred tax relating to			
origination of temporary difference	P 0.1	P 2.6	P 7.6

		<b>Parent Company</b>		
		<b>2012</b>	<b>2011</b>	<b>2010</b>
<i>Reported in profit or loss</i>				
Current tax expense:				
RCIT at 30%	<b>P</b>	<b>156.6</b>	P 88.8	P 70.1
Final tax at 20%		<b>0.1</b>	<b>0.1</b>	<b>0.4</b>
		<b>156.7</b>	<b>88.9</b>	<b>70.5</b>
Deferred tax expense (income)				
Deferred tax relating to origination and reversal of temporary difference	(	<b>60.9)</b>	( 8.8)	18.1
	<b>P</b>	<b>95.8</b>	P 80.1	P 88.6
<i>Reported in other comprehensive income</i>				
Deferred tax relating to origination of temporary difference	<b>P</b>	<b>0.1</b>	P 2.6	P 7.6

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>2012</b>	<b>2011</b>	<b>2010</b>
Tax on pretax profit	<b>P</b>	<b>154.5</b>	P 115.4	P 122.6
Adjustment for income subjected to lower tax rates	(	<b>0.1)</b>	( 0.1)	( 0.6)
Tax effects of:				
Non-deductible expense		<b>3.9</b>	4.5	8.4
Non-taxable income	(	<b>45.7)</b>	( 39.0)	( 34.1)
Non-deductible interest expense		<b>-</b>	<b>-</b>	<b>3.6</b>
Tax expense reported in profit or loss	<b>P</b>	<b>112.6</b>	P 80.8	P 99.9
		<b>Parent Company</b>		
		<b>2011</b>	<b>2011</b>	<b>2010</b>
Tax on pretax profit	<b>P</b>	<b>137.8</b>	P 116.6	P 118.5
Adjustment for income subjected to lower tax rates	-	-	( 0.4)	
Tax effects of:				
Non-deductible expense		<b>3.4</b>	2.1	0.2
Non-taxable income	(	<b>45.4)</b>	( 38.6)	( 33.3)
Non-deductible interest expense		<b>-</b>	<b>-</b>	<b>3.6</b>
Tax expense reported in profit or loss	<b>P</b>	<b>95.8</b>	P 80.1	P 88.6

The components of net deferred tax liabilities as of December 31, 2012 and 2011 follow:

Statement of Financial Position							
Group				Parent Company			
	2012		2011		2012		2011
Deferred tax assets:							
Allowance for impairment on:							
Loans	P 87.7	P	82.8	P 87.7	P	82.8	
Investment properties	41.9		27.8	41.9		27.8	
Accounts receivable	1.0		2.0	1.0		2.0	
Net operating loss carryover (NOLCO)	-		7.2	-		-	
Retirement benefit obligation	1.1		0.8	1.1		0.8	
Others	0.6		0.6	0.6		0.6	
	<u>132.3</u>		<u>121.2</u>	<u>132.3</u>		<u>114.0</u>	
Deferred tax liabilities:							
Lease income differential	148.6		191.8	148.6		191.8	
Unrealized fair value gain on available-for-sale financial assets	10.1		10.2	10.1		10.2	
Unrealized gain on exchange of assets	1.6		1.6	1.6		1.6	
Others	0.7		0.1	0.6		0.1	
	<u>161.0</u>		<u>203.7</u>	<u>160.9</u>		<u>203.7</u>	
Net deferred tax liabilities	<u>P 28.7</u>	<u>P</u>	<u>82.5</u>	<u>P 28.6</u>	<u>P</u>	<u>89.7</u>	

The components of deferred tax expense (income) in profit and loss and in other comprehensive income for the years ended December 31, 2012, 2011 and 2010 follow:

Group					
	2012		2011		2010
<i>In profit or loss:</i>					
Deferred tax assets:					
Allowance for impairment on:					
Loans and discounts	P 4.9	P	14.6	P	15.5
Investment properties	14.1		6.6		4.8
Accounts receivable	( 1.0)	(	0.1)	(	0.5)
NOLCO	( 7.2)		-		-
Retirement benefit obligation	0.3	(	1.0)	(	0.3)
	<u>11.1</u>		<u>20.1</u>		<u>19.5</u>
Deferred tax liabilities:					
Lease income differential	( 43.1)		11.8		35.3
Others	0.6		0.1	(	0.1)
	<u>( 42.5)</u>		<u>11.9</u>		<u>35.2</u>
Net deferred tax expense (income)	<u>(P 53.6)</u>	<u>(P</u>	<u>8.2)</u>	<u>P</u>	<u>15.7</u>



<b>Parent Company</b>					
	<b>2012</b>		<b>2011</b>		<b>2010</b>
<i>In profit or loss:</i>					
Deferred tax assets:					
Allowance for impairment on:					
Loans and discounts	<b>P 4.9</b>	P	14.6	P	15.5
Investment properties	<b>14.1</b>		6.6		4.8
Accounts receivable	<b>( 1.0)</b>	(	0.1)	(	0.5)
Retirement benefit obligation	<b>0.3</b>	(	1.0)	(	0.3)
	<b>18.3</b>		<b>20.1</b>		<b>19.5</b>
Deferred tax liabilities:					
Lease income differential	<b>( 43.1)</b>		11.3		37.7
Others	<b>0.5</b>		-		( 0.1)
	<b>( 42.6)</b>		<b>11.3</b>		<b>37.6</b>
Net deferred tax expense (income)	<b>(P 60.9)</b>	(P	<b>8.8)</b>	P	<b>18.1</b>

<b>Group and Parent Company</b>	
<b>2012</b>	<b>2011</b>

*In other comprehensive income:*

Deferred tax liability on unrealized fair value gains on available-for-sale financial assets	<b>P 0.1</b>	P	<b>2.6</b>
--	--------------	---	------------

BDORI was able to apply in full the NOLCO it incurred against its taxable income in 2012 amounting to P24.3. The related deferred tax asset amounted to P7.2.

### ***20.03 Supplementary Information Required Under Revenue Regulations (RR) 15-2010 and 19-2011***

The Bureau of Internal Revenue issued Revenue Regulations 15-2010 and 19-2011 which required certain supplementary information to be disclosed as part of the notes to financial statements. The supplementary information is, however, not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards; it is neither a required disclosure under the Philippine Securities and Exchange Commission rules and regulations covering the form and content of financial statements under Securities Regulation Code Rule 68, as amended.

The Parent Company presented this tax information required by the BIR as a supplementary schedule filed separately from the basic financial statements.

## 21. EARNINGS PER SHARE

Basic earnings per share were computed as follows:

	<b>Group</b>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net profit	<b>P 402.3</b>	P 303.7	P 308.7
Divided by the weighted average number of outstanding common shares – net*	<u>2,162</u>	<u>2,162</u>	<u>2,162</u>
Basic earnings per share	<u><b>P 0.19</b></u>	<u>P 0.14</u>	<u>P 0.14</u>

	<b>Parent Company</b>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net profit	<b>P 363.5</b>	P 308.6	P 306.4
Divided by the weighted average number of outstanding common shares – net*	<u>2,162</u>	<u>2,162</u>	<u>2,162</u>
Basic earnings per share	<u><b>P 0.17</b></u>	<u>P 0.14</u>	<u>P 0.14</u>

\* net of treasury shares

There were no outstanding dilutive potential common shares as of December 31, 2012 and 2011.

## 22. CONTINGENT LIABILITIES AND COMMITMENTS

### *22.01 Operating Lease Commitments – Group as Lessee*

The Group leases the head office and certain branch offices from BDO Unibank. Total lease payments presented as part of Occupancy and equipment-related expenses under Operating Costs and Expenses in the statements of comprehensive income amounted to P11.0 in 2012, P11.5 in 2011 and P13.6 in 2010.

Future minimum lease payments under these operating leases follow:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Within one year	<b>P 11.2</b>	P 11.0	P 11.5
After one year but not more than five years	<u>55.2</u>	<u>55.0</u>	<u>56.0</u>
	<u><b>P 66.4</b></u>	<u>P 66.0</u>	<u>P 67.5</u>

### *22.02 Others*

In addition to those already mentioned in the preceding notes, in the ordinary course of business, the Group incurs contingent liabilities and commitments arising from normal business transactions which are not reflected in the accompanying financial statements. As of December 31, 2012, management does not anticipate significant losses from these contingencies and commitments that would adversely affect the Group's financial position and results of operations.

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES**  
**DECEMBER 31, 2012**

Statement of Management's Responsibility for Financial Statements

Report of Independent Auditors on Supplementary Schedules Filed Separately  
from the Basic Financial Statements

- (1) Supplementary Schedules to Financial Statements  
*(Annex 68-E, SRC Rule 68)*

<u>Schedule</u>	
A	Financial Assets
B	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)
C	Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
D	Intangible Assets - Other Assets
E	Long-Term Debt
F	Indebtedness to Related Parties
G	Guarantees of Securities of Other Issuers
H	Capital Stock

- (2) Reconciliation of Retained Earnings Available for Dividend Declaration

- (3) Map Showing the Relationship Between and Among Related Entities

- (4) List of Standards and Interpretations under Philippine Financial Reporting Standards  
as of December 31, 2012

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

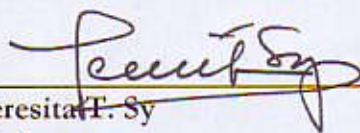
The management of **BDO Leasing and Finance, Inc.** (the Company), is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2012, 2011 and 2010 in accordance with Philippine Financial Reporting Standards (PFRS), including the additional components attached therein:

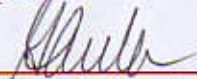
- a. Supplementary schedules required under Annex 68-E of the Securities Regulation Code
- b. Reconciliation of retained earnings available for dividend declaration
- c. Map showing the relationship between and among related entities
- d. List of standards and interpretations under Philippine Financial Reporting Standards as of December 31, 2012

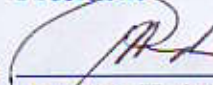
This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

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, in its report to the Board of Directors and stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

Signature :   
Teresita F. Sy  
Chairperson

Signature :   
Georgiana A. Gamboa  
President

Signature :   
Rosalisa K. Alindahao  
Comptroller

Signed this 25<sup>th</sup> day of February 2013

SUBSCRIBED and SWORN to me before this ~~day of~~ MAR 11 2013, 2013 affiant exhibiting to me his/her Social Security Number, as follows:

**NAMES**

**SSS NUMBER**

Teresita T. Sy  
Georgiana A. Gamboa  
Rosalisa K. Alindahao

03-2832705-4  
03-6940728-9  
03-5894505-3

DOC. NO. 770  
PAGE NO. 752  
BOOK NO. 772  
SERIES OF 20 7

ATTY. DEZEN R. AGCAJAL, JR.  
NOTARY PUBLIC  
UNTIL DECEMBER 31, 2013  
PTR NO. 02853341/2012-2013 MLA.  
IBP NO. 87265273/12 MLA.  
ROLL NO. 24855/TIN 144-519-000-  
MCLE III 0033521  
Com. No. 2013 - 023





# Punongbayan & Araullo

An instinct for growth™

## Report of Independent Auditors on Supplementary Schedules Filed Separately from the Basic Financial Statements

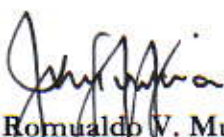
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T +63 2 886 5511  
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[www.punongbayan-araullo.com](http://www.punongbayan-araullo.com)

The Board of Directors and Stockholders  
BDO Leasing and Finance, Inc.  
*(A Subsidiary of BDO Unibank, Inc.)*  
BDO Leasing Centre, Corinthian Gardens  
Ortigas Avenue, Quezon City

We have audited in accordance with Philippine Standards on Auditing, the financial statements of BDO Leasing and Finance, Inc. and subsidiary (the Group) and BDO Leasing and Finance, Inc. (the Parent Company) for the year ended December 31, 2012, on which we have rendered our report dated January 30, 2013. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The applicable supplementary schedules listed in the Index to Financial Statements and Supplementary Schedules of the Group are the responsibility of the management and presented for purposes of additional analysis in compliance with the requirements of the Securities Regulation Code Rule 68, and are not a required part of the basic financial statements. The information on such supplementary schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### PUNONGBAYAN & ARAULLO

  
By: **Romualdo V. Murcia III**  
Partner

CPA Reg. No. 0095626  
TIN 906-174-059  
PTR No. 3671457, January 2, 2013, Makati City  
SEC Group A Accreditation  
Partner - No. 0628-AR-1 (until Aug. 25, 2013)  
Firm - No. 0002-FR-3 (until Jan. 18, 2015)  
BIR AN 08-002511-22-2011 (until Feb. 3, 2014)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

January 30, 2013

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**SCHEDULE A - FINANCIAL ASSETS**  
**DECEMBER 31, 2012**  
*(Amounts in Philippine Pesos)*

<i>Name of issuing entity and association of each issue (i)</i>	<i>Number of shares or principal amount of bonds or notes</i>		<i>Amount shown on the balance sheet</i>		<i>Valued based on the market quotation at end of reporting period</i>		<i>Income received and accrued</i>
<b><i>Available-for-sale (AFS) Financial Assets</i></b>							
San Miguel Corporation Preferred Shares	16,933,200	P	1,265,756,700	P	1,265,756,700	P	104,894,525
First Gen Corporation Preferred Shares	7,000,000		756,000,000		756,000,000		56,000,000
Valley Golf Country Club	1		180,000		180,000		-
Splendido Tagaytay	1		90,000		90,000		-
<b>Total AFS Financial Assets</b>			<b><u>P 2,022,026,700</u></b>		<b><u>P 2,022,026,700</u></b>		<b><u>P 160,894,525</u></b>

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**

*(A Subsidiary of BDO Unibank, Inc.)*

**SCHEDULE A - FINANCIAL ASSETS**

**DECEMBER 31, 2012**

*(Amounts in Philippine Pesos)*

<i>Name of issuing entity and association of each issue (i)</i>	<i>Number of shares or principal amount of bonds or notes</i>	<i>Amount shown on the balance sheet</i>	<i>Valued based on the market quotation at end of reporting period</i>	<i>Income received and accrued</i>
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**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**

*(A Subsidiary of BDO Unibank, Inc.)*

**SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)**

**DECEMBER 31, 2012**

*(Amounts in Philippine Pesos)*

<i>Name and designation of debtor</i>	<i>Balance at beginning of period</i>	<i>Additions</i>	<i>Deductions</i>		<i>Ending Balance</i>		<i>Balance at end of period</i>
			<i>Amounts collected</i>	<i>Amounts written off</i>	<i>Current</i>	<i>Not current</i>	

***Amounts Due from Related Parties:***

- nothing to report -

***Advances/Loans to Officers and Employees:***

Lapid, Roberto Estrera	<u>P -</u>	<u>P 1,774,860</u>	<u>P 147,905</u>	<u>P -</u>	<u>P -</u>	<u>P 1,626,955</u>	<u>P 1,626,955</u>
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BDO LEASING AND FINANCE, INC. AND SUBSIDIARY  
*(A Subsidiary of BDO Unibank, Inc.)*  
**SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**  
*(Amounts in Philippine Pesos)*

<i>Name and designation of debtor</i>	<i>Balance at beginning of period</i>	<i>Additions</i>	<i>Deductions</i>		<i>Ending Balance</i>		<i>Balance at end of period</i>
			<i>Amounts collected</i>	<i>Amounts written off</i>	<i>Current</i>	<i>Not current</i>	

- nothing to report -

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**SCHEDULE D - INTANGIBLE ASSETS - OTHER ASSETS**  
**DECEMBER 31, 2012**  
*(Amounts in Philippine Pesos)*

<i>Description</i>	<i>Beginning balance</i>	<i>Additions at cost</i>	<i>Charged to cost and expenses</i>	<i>Charged to other accounts</i>	<i>Other changes additions (deductions)</i>	<i>Ending balance</i>
--------------------	--------------------------	--------------------------	-------------------------------------	----------------------------------	---	-----------------------

- nothing to report -

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
**(A Subsidiary of BDO Unibank, Inc.)**  
**SCHEDULE E - LONG-TERM DEBT**  
**DECEMBER 31, 2012**  
**(Amounts in Philippine Pesos)**

<i>Title of issue and type of obligation</i>	<i>Amount authorized by indenture</i>	<i>Amount shown under caption "Current portion of long-term debt" in related balance sheet **</i>	<i>Amount shown under caption "Long-Term Debt" in related balance sheet</i>
Bills payable *			
Development Bank of the Philippines (DBP)	P 439,000,000	P -	P 330,921,401
Land Bank of the Philippines (LBP)	<u>2,000,000</u>	<u>-</u>	<u>535,750</u>
	<u>P 441,000,000</u>	<u>P -</u>	<u>P 331,457,151</u>

\* Significant terms of the bills payable:

(1) Bills payable to DBP will mature on May 18, 2014 and bears annual interest rate of 4.25%

(2) Bills payable to LBP will mature on April 7, 2014 and bears annual interest rate of 6.89%

\*\* As a financing company, the Groups presents items in the financial statements in order of liquidity.

Bills payable as reported above are unsecured.

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**

*(A Subsidiary of BDO Unibank, Inc.)*

**SCHEDULE F - INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)**

**DECEMBER 31, 2012**

*(Amounts in Philippine Pesos)*

<i>Name of related party</i>	<i>Balance at beginning of period</i>	<i>Balance at end of period</i>
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- nothing to report -

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
*(A Subsidiary of BDO Unibank, Inc.)*  
**SCHEDULE G - GUARANTEE OF SECURITIES OF OTHER ISSUERS**  
**DECEMBER 31, 2012**  
*(Amounts in Philippine Pesos)*

<i>Name of issuing entity of securities guaranteed by the company for which this statement is filed</i>	<i>Title of issue of each class of securities guaranteed</i>	<i>Total amount of guaranteed and outstanding</i>	<i>Amount owned by person for which statement is filed</i>	<i>Nature of guarantee</i>
---	--	---	--	----------------------------

- nothing to report -

**BDO LEASING AND FINANCE, INC AND SUBSIDIARY**

*(A Subsidiary of BDO Unibank, Inc.)*

**SCHEDULE H - CAPITAL STOCK**

**DECEMBER 31, 2012**

<i>Title of Issue</i>	<i>Number of Shares Authorized</i>	<i>Number of Shares Issued and Outstanding under Related Balance Sheet Caption *</i>	<i>Number of Shares. Reserved for Options, Warrants, Conversions and Other Rights</i>	<i>Number or Shares Held By</i>		
				<i>Related Parties (Parent, Affiliates)</i>	<i>Directors, Officers and Employees</i>	<i>Others</i>
Preferred Shares	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Common Shares	<u>3,400,000,000</u>	<u>2,162,475,312</u>	<u>-</u>	<u>1,890,610,907</u>	<u>134,340</u>	<u>271,730,065</u>

\* Determination of number of shares issued and outstanding:

Number of shares issued 2,225,169,030

Less shares held in treasury 62,693,718

2,162,475,312

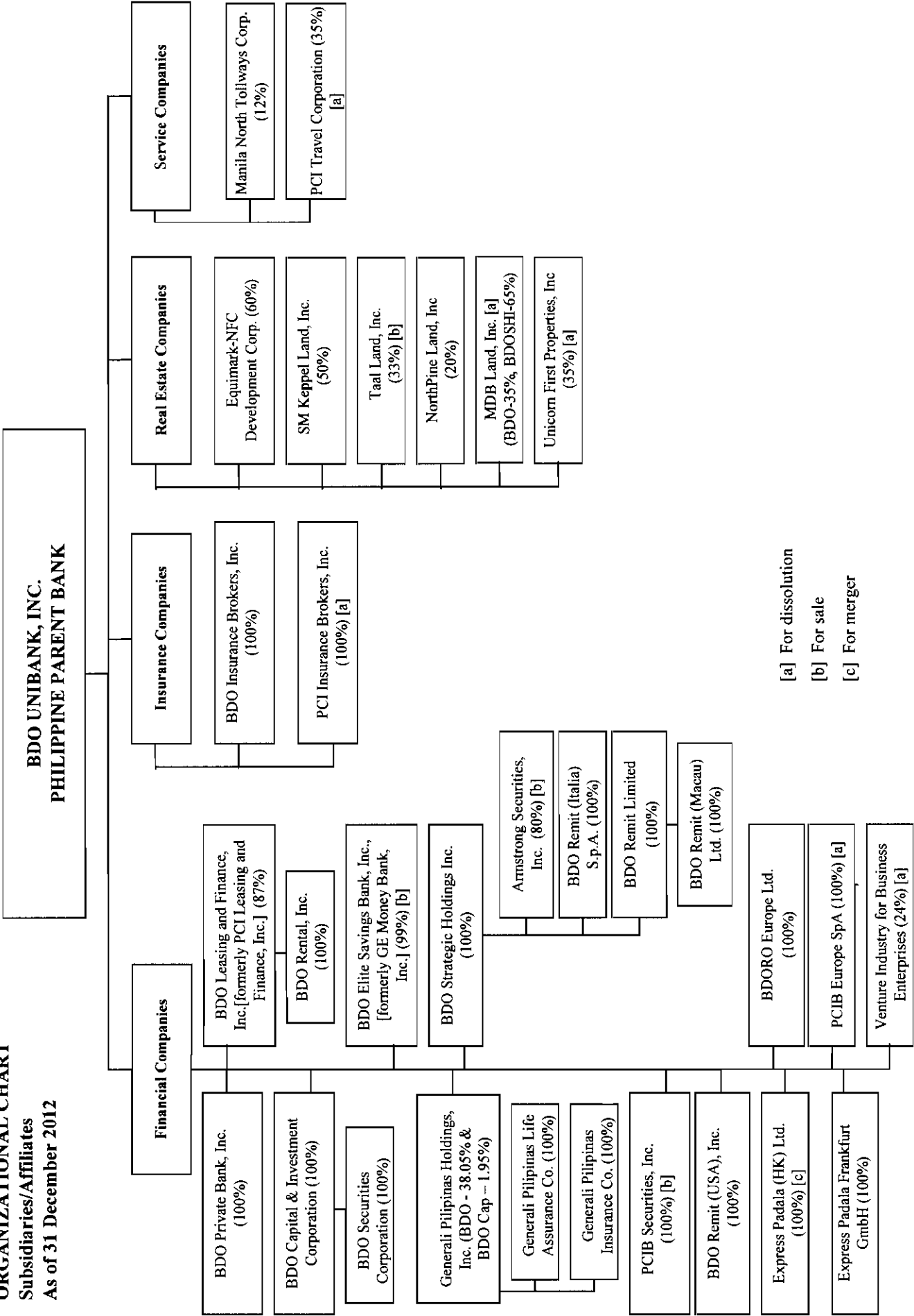
**BDO LEASING AND FINANCE, INC.**  
**BDO Leasing Centre, Corinthian Gardens, Ortigas Avenue, Quezon City**

**Reconciliation of Retained Earnings Available for Dividend Declaration**  
**For the Year Ended December 31, 2012**  
*(Amounts in Millions of Philippine Pesos)*

<b>Unappropriated Retained Earnings at Beginning of Year</b>		P	1,451.8
<b>Prior Years' Outstanding Reconciling Items, net of tax</b>			
Deferred tax income	( P	8.8 )	
Unrealized actuarial gains	(	<u>0.4</u> )	( <u>9.2</u> )
<b>Unappropriated Retained Earnings Available for</b>			
<b>Dividend Declaration at Beginning of Year, as Adjusted</b>			<u>1,442.6</u>
<b>Net Profit Realized during the Year</b>			
Net profit per audited financial statements			363.4
Non-actual/unrealized income, net of tax			
Deferred tax income	(	60.9 )	
Unrealized actuarial gain	(	<u>1.8</u> )	( <u>62.7</u> )
			<u>300.7</u>
<b>Other Transactions During the Year</b>			
Dividends declared			( <u>108.1</u> )
<b>Retained Earnings Restricted for Treasury Shares</b>			( <u>81.8</u> )
<b>Unappropriated Retained Earnings Available for</b>			
<b>Dividend Declaration at End of Year</b>		<b>P</b>	<b><u>1,553.4</u></b>



**BDO UNIBANK GROUP**  
**ORGANIZATIONAL CHART**  
**Subsidiaries/Affiliates**  
**As of 31 December 2012**



[a] For dissolution  
 [b] For sale  
 [c] For merger

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**

**Schedule of Philippine Financial Reporting Standards and Interpretations  
Adopted by the Securities and Exchange Commission and the  
Financial Reporting Standards Council as of December 31, 2012**

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Framework for the Preparation and Presentation of Financial Statements</b>		✓		
Conceptual Framework Phase A: Objectives and Qualitative Characteristics		✓		
<b>Practice Statement Management Commentary</b>			✓	
<b><i>Philippine Financial Reporting Standards (PFRS)</i></b>				
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	✓		
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	✓		
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters	✓		
	Amendments to PFRS 1: Government Loans* ( <i>effective January 1, 2013</i> )			✓
<b>PFRS 2</b>	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
<b>PFRS 3 (Revised)</b>	Business Combinations	✓		
<b>PFRS 4</b>	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations	✓		
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources			✓
<b>PFRS 7</b>	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities* ( <i>effective January 1, 2013</i> )			✓
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures* ( <i>effective January 1, 2015</i> )			✓
<b>PFRS 8</b>	Operating Segments	✓		
<b>PFRS 9</b>	Financial Instruments ( <i>effective January 1, 2015</i> )			✓
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures* ( <i>effective January 1, 2015</i> )			✓
<b>PFRS 10</b>	Consolidated Financial Statements* ( <i>effective January 1, 2013</i> )			✓
	Amendments to PFRS 10: Transition Guidance* ( <i>effective January 1, 2013</i> )			✓
	Amendments to PFRS 10: Investment Entities* ( <i>effective January 1, 2013</i> )			✓
<b>PFRS 11</b>	Joint Arrangements* ( <i>effective January 1, 2013</i> )			✓
	Amendments to PFRS 11: Transition Guidance* ( <i>effective January 1, 2013</i> )			✓
<b>PFRS 12</b>	Disclosure of Interests in Other Entities* ( <i>effective January 1, 2013</i> )			✓
	Amendments to PFRS 12: Transition Guidance* ( <i>effective January 1, 2013</i> )			✓
	Amendments to PFRS 12: Investment Entities* ( <i>effective January 1, 2013</i> )			✓
<b>PFRS 13</b>	Fair Value Measurement* ( <i>effective January 1, 2013</i> )			✓

<i>Philippine Accounting Standards (PAS)</i>				
<b>PAS 1 (Revised)</b>	Presentation of Financial Statements	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
<b>PAS 2</b>	Inventories			✓
<b>PAS 7</b>	Statement of Cash Flows	✓		
<b>PAS 8</b>	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
<b>PAS 10</b>	Events after the Reporting Period	✓		
<b>PAS 11</b>	Construction Contracts			✓
<b>PAS 12</b>	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
<b>PAS 16</b>	Property, Plant and Equipment	✓		
<b>PAS 17</b>	Leases	✓		
<b>PAS 18</b>	Revenue	✓		
<b>PAS 19</b>	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓		
<b>PAS 19 (Revised)</b>	Employee Benefits* ( <i>effective January 1, 2013</i> )			✓
<b>PAS 20</b>	Accounting for Government Grants and Disclosure of Government Assistance			✓
<b>PAS 21</b>	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment to PAS 21: Net Investment in a Foreign Operation	✓		
<b>PAS 23 (Revised)</b>	Borrowing Costs	✓		
<b>PAS 24 (Revised)</b>	Related Party Disclosures	✓		
<b>PAS 26</b>	Accounting and Reporting by Retirement Benefit Plans	✓		
<b>PAS 27</b>	Consolidated and Separate Financial Statements	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in Subsidiary, Jointly Controlled Entity or Associate	✓		
<b>PAS 27 (Amended)</b>	Separate Financial Statements* ( <i>effective January 1, 2013</i> )			✓
	Amendments to PAS 27 (Amended): Investment Entities* ( <i>effective January 1, 2013</i> )			✓
<b>PAS 28</b>	Investments in Associates			✓
<b>PAS 28 (Amended)</b>	Investments in Associates and Joint Ventures* ( <i>effective January 1, 2013</i> )			✓
<b>PAS 29</b>	Financial Reporting in Hyperinflationary Economies			✓
<b>PAS 31</b>	Interests in Joint Ventures			✓
<b>PAS 32</b>	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities* ( <i>effective January 1, 2014</i> )			✓

<b>PAS 33</b>	Earnings per Share	✓		
<b>PAS 34</b>	Interim Financial Reporting	✓		
<b>PAS 36</b>	Impairment of Assets	✓		
<b>PAS 37</b>	Provisions, Contingent Liabilities and Contingent Assets	✓		
<b>PAS 38</b>	Intangible Assets			✓
<b>PAS 39</b>	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items	✓		
<b>PAS 40</b>	Investment Property	✓		
<b>PAS 41</b>	Agriculture			✓
<b><i>Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)</i></b>				
<b>IFRIC 1</b>	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
<b>IFRIC 2</b>	Members' Share in Co-operative Entities and Similar Instruments			✓
<b>IFRIC 4</b>	Determining Whether an Arrangement Contains a Lease	✓		
<b>IFRIC 5</b>	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
<b>IFRIC 6</b>	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
<b>IFRIC 7</b>	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies			✓
<b>IFRIC 9</b>	Reassessment of Embedded Derivatives**	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives**	✓		
<b>IFRIC 10</b>	Interim Financial Reporting and Impairment	✓		
<b>IFRIC 12</b>	Service Concession Arrangements			✓
<b>IFRIC 13</b>	Customer Loyalty Programmes			✓
<b>IFRIC 14</b>	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement and their Interaction	✓		
<b>IFRIC 16</b>	Hedges of a Net Investment in a Foreign Operation			✓
<b>IFRIC 17</b>	Distributions of Non-cash Assets to Owners**	✓		
<b>IFRIC 18</b>	Transfers of Assets from Customers**	✓		
<b>IFRIC 19</b>	Extinguishing Financial Liabilities with Equity Instruments**	✓		
<b>IFRIC 20</b>	Stripping Costs in the Production Phase of a Surface Mine ( <i>effective January 1, 2013</i> )			✓

<i>Philippine Interpretations - Standing Interpretations Committee (SIC)</i>				
<b>SIC-7</b>	Introduction of the Euro			✓
<b>SIC-10</b>	Government Assistance - No Specific Relation to Operating Activities			✓
<b>SIC-12</b>	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
<b>SIC-13</b>	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
<b>SIC-15</b>	Operating Leases - Incentives	✓		
<b>SIC-25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders**	✓		
<b>SIC-27</b>	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
<b>SIC-29</b>	Service Concession Arrangements: Disclosures			✓
<b>SIC-31</b>	Revenue - Barter Transactions Involving Advertising Services**	✓		
<b>SIC-32</b>	Intangible Assets - Web Site Costs			✓

\* These standards will be effective for periods subsequent to 2012 and are not early adopted by the Group

\*\* These standards have been adopted in the preparation of financial statements but the Group has no significant transactions covered in both years presented.

BDO Leasing and Finance, Inc. and Subsidiary  
Financial Ratios  
December 31, 2012 and 2011  
*(Amounts in Millions of Philippine Pesos)*

	2012	2011	2012	2011
<b>I. Current/liquidity ratios</b>				
Current ratio				
<u>Total current assets</u>	<u>5,684.0</u>	<u>9,314.7</u>	<b>0.42</b>	0.78
Total current liabilities	13,529.2	11,888.3		
Quick ratio				
<u>Quick assets</u>	<u>5,593.4</u>	<u>9,164.1</u>	<b>0.41</b>	0.77
Total current liabilities	13,529.2	11,888.3		
<b>II. Solvency ratios; debt-to-equity ratios</b>				
Solvency ratio				
<u>(After tax net profit + Depreciation)</u>	<u>597.4</u>	<u>605.1</u>	<b>0.04</b>	0.04
Total liabilities	16,101.4	13,488.3		
Debt-to-equity ratio				
<u>Total liabilities</u>	<u>16,101.4</u>	<u>13,488.3</u>	<b>3.47</b>	3.09
Total equity	4,634.3	4,361.0		

**BDO Leasing and Finance, Inc. and Subsidiary**  
**Financial Ratios**  
**December 31, 2012 and 2011**  
*(Amounts in Millions of Philippine Pesos)*

	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>III. Asset-to-equity ratio</b>				
Asset-to-equity ratio				
<u>Total assets</u>	<u>20,735.5</u>	<u>17,849.3</u>	<b>4.48</b>	4.09
<u>Total equity</u>	<u>4,633.4</u>	<u>4,361.0</u>		
<b>IV. Interest coverage ratio</b>				
Interest coverage ratio				
<u>Earnings before interest and taxes</u>	<u>976.3</u>	<u>772.2</u>	<b>2.12</b>	1.99
<u>Interest expense</u>	<u>461.6</u>	<u>387.7</u>		
<b>V. Profitability ratios</b>				
Net profit margin				
<u>Net Profit</u>	<u>402.3</u>	<u>303.7</u>	<b>22.84%</b>	18.54%
<u>Interest income + Other operating income</u>	<u>1,761.4</u>	<u>1,638.3</u>		
Return on equity				
<u>Net profit</u>	<u>402.3</u>	<u>303.7</u>	<b>8.94%</b>	6.80%
<u>Average equity</u>	<u>4,497.7</u>	<u>4,463.4</u>		
Return on assets				
<u>Net profit</u>	<u>402.3</u>	<u>303.7</u>	<b>2.09%</b>	1.83%
<u>Average assets</u>	<u>19,292.4</u>	<u>16,568.9</u>		

**BDO Leasing and Finance, Inc. and Subsidiary**  
**Financial Ratios**  
**December 31, 2012 and 2011**  
*(Amounts in Millions of Philippine Pesos)*

	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>VI. Others</b>				
Total real estate investments to Assets				
<u>Total investment properties</u>	<u>379.5</u>	<u>428.9</u>	<b>1.83%</b>	2.40%
Total assets	<b>20,735.5</b>	17,849.3		
Loans to Assets				
<u>Total loans and other receivables</u>	<u>17,245.0</u>	<u>14,571.3</u>	<b>83.17%</b>	81.64%
Total assets	<b>20,735.5</b>	17,849.3		
DOSRI to Net worth				
<u>Receivables from Directors, Officers     Stakeholders and Related Interests</u>	<u>1.6</u>	<u>-</u>	<b>0.03%</b>	0.00%
Total equity	<b>4,634.3</b>	4,361.0		
Amount of receivable from a single corporation to Total receivables				
<u>Loan to a single corporation</u>	<u>1,275.6</u>	<u>1,114.2</u>	<b>7.40%</b>	6.24%
Total loans and other receivables	<b>17,245.0</b>	17,849.3		