

(d) *Impairment of Non-financial Assets*

Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indicators are present. The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.17. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

No impairment losses on investment properties and other assets were recognized in 2008. In 2007 and 2006, impairment on these non-financial assets amounted to P22.2 million and P14.4 million, respectively, in the Group financial statements and P22.2 million and P0.6 million, respectively, in the Parent Company financial statements (see Notes 8 and 9).

(e) *Retirement and Other Benefits*

The determination of the Group's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 2.18 and include, among others, discount rates, expected return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the expense and obligation to be recognized in such future periods.

The retirement benefit obligation and net unrecognized actuarial losses amounted to P14.7 million and P 27.0 million, respectively, in 2008, and the retirement benefit obligation and net unrecognized actuarial losses amounted to P13.6 million and P7.4 million, respectively, in 2007 (see Note 18).

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

The following table summarizes by category the carrying amounts and fair value of financial assets and liabilities not presented in the Group's and Parent Company's balance sheets at their fair value or where fair value is presented, such fair value is determined based on valuation techniques described below.

(Amounts in thousand pesos)

	2008			
	Group		Parent Company	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	P 186,128	P 186,128	P 171,907	P 171,907
Loans and other receivables	7,692,926	5,677,705	8,329,331	6,345,178
Bills payable	3,670,885	3,623,627	3,089,285	3,044,578
Accounts payable and other liabilities	194,129	194,129	159,506	159,506
Lease deposits	2,025,496	*	1,742,858	*

	2007			
	Group		Parent Company	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	P 210,180	P 210,180	P 204,653	P 204,653
Loans and other receivables	8,175,211	6,911,358	8,158,782	6,894,929
Bills payable	3,513,221	3,270,911	3,312,021	3,069,711
Accounts payable and other liabilities	238,094	238,094	232,353	232,353
Lease deposits	1,547,980	*	1,521,685	*

* not determined

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

(i) Cash and cash equivalents

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

(ii) Loans and other receivables

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

(iii) Bills payable

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

(iv) Accounts payable and other liabilities

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

(v) Lease deposits

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

4. RISK MANAGEMENT

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

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

4.1 Foreign Currency Risk

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

The Parent Company's foreign-currency denominated financial assets and liabilities translated into Philippine pesos at the closing rate at December 31, 2008 and 2007, and Philippine peso-denominated financial assets and liabilities as of December 31, 2008 and 2007, are as follows:

	2008			2007		
	U.S. Dollar	Philippine Peso	Total	U.S. Dollar	Philippine Peso	Total
Cash and cash equivalents	P 3,699,097	P 182,429,367	P 186,128,464	P 6,741,994	P 203,438,337	P 210,180,331
Loans and other receivables	-	7,692,930,296	7,692,930,296	-	8,175,211,308	8,175,211,308
Lease deposits	21,384,000	2,004,112,011	2,025,496,011	18,576,000	1,529,404,431	1,547,980,431

At December 31, 2008 and 2007, the currency exchange rates used to translate U.S. dollar denominated financial assets and liabilities to the Philippine pesos are P47.52 and P41.28, 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 +/-6.57% change and +/-4.55% change of the Philippine peso/U.S. dollar exchange rate at December 31, 2008 and 2007, 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 each balance sheet date.

If the Philippine peso had strengthened against the U.S. dollar, then this would have the following impact on the Group's financial statements:

<u>Decrease In</u>	<u>2008</u>	<u>2007</u>
Income before tax	(P 754,628)	(P 351,110)
Equity	(1,160,966)	(540,170)

If the Philippine peso had weakened against the U.S. dollar, then this would have the following impact on the Group's financial statements:

<u>Increase In</u>	<u>2008</u>	<u>2007</u>
Income before tax	P 754,628	P 351,110
Equity	1,160,966	540,170

4.2 Interest Rate Risk

At December 31, 2008 and 2007, 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 may be 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 +/-5.25% at December 31, 2008 and +/-2.95% at December 31, 2007 to a reasonably possible change in interest rates for loans and other receivables of +/-39.55% at December 31, 2008 and +/-15.13% at December 31, 2007. 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 each balance sheet date. All other variables are held constant.

	2008		2007	
Loans and other receivables	+39.55%	-39.55%	+15.13%	-15.13%
Bills payable	+5.25%	-5.25%	+2.95%	-2.95%
Group				
Increase (decrease) in:				
Income before tax:	P 6,474,539	(P 6,474,539)	P 2,488,305	(P 2,488,305)
Equity	4,208,451	(4,208,451)	1,617,399	(1,617,399)
Parent Company				
Increase (decrease) in:				
Income before tax	P 5,488,681	(P 5,488,681)	P 1,929,015	(P 1,929,015)
Equity	3,567,643	(3,567,643)	1,253,860	(1,253,860)

4.3 Credit Risk

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

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

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

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

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

Group

	2008		
	<u>Cash and Cash Equivalents</u>	<u>Loans and Other Receivables</u>	<u>Available- for-sale Securities</u>
Concentration by sector:			
Manufacturing	P -	P 2,240,687,328	P -
Financial intermediaries	186,128,464	129,714,276	-
Transportation and communication	-	1,198,756,576	-
Wholesale and retail trade and personal activities	-	1,338,309,065	-
Real estate, renting and business activities	-	239,734,898	-
Agriculture, fishing and forestry	-	35,127,939	-
Other community, social and personal activities	-	2,510,596,214	1,117,938
	<u>P 186,128,464</u>	<u>P 7,692,926,296</u>	<u>P 1,117,938</u>

	2007		
	<u>Cash and Cash Equivalents</u>	<u>Loans and Other Receivables</u>	<u>Available- for-sale Securities</u>
Concentration by sector:			
Manufacturing	P -	P 2,710,539,520	P -
Financial intermediaries	210,180,331	389,423,239	-
Transportation and communication	-	1,666,605,894	-
Wholesale and retail trade and personal activities	-	1,007,818,370	-
Real estate, renting and business activities	-	225,304,437	-
Agriculture, fishing and forestry	-	58,438,705	-
Other community, social and personal activities	-	2,117,081,143	1,087,000
	<u>P 210,180,331</u>	<u>P 8,175,211,308</u>	<u>P 1,087,000</u>

Parent Company

	2008		
	<u>Cash and Cash Equivalents</u>	<u>Loans and Other Receivables</u>	<u>Available- for-sale Securities</u>
Concentration by sector:			
Manufacturing	P -	P 2,240,687,328	P -
Financial intermediaries	171,906,630	129,714,276	-
Transportation and communication	-	1,198,756,576	-
Wholesale and retail trade and personal activities	-	1,338,309,065	-
Real estate, renting and business activities	-	896,982,404	-
Agriculture, fishing and forestry	-	35,127,939	-
Other community, social and personal activities	-	2,489,734,183	1,117,938
	<u>P 171,906,630</u>	<u>P 8,329,330,711</u>	<u>P 1,117,938</u>

	2007		
	<u>Cash and Cash Equivalents</u>	<u>Loans and Other Receivables</u>	<u>Available- for-sale Securities</u>
Concentration by sector:			
Manufacturing	P -	P 2,710,539,521	P -
Financial intermediaries	204,653,076	389,423,239	-
Transportation and communication	-	1,666,605,894	-
Wholesale and retail trade and personal activities	-	1,007,818,370	-
Real estate, renting and business activities	-	225,304,438	-
Agriculture, fishing and forestry	-	58,438,705	-
Other community, social and personal activities	-	2,100,651,558	1,087,000
	<u>P 204,653,076</u>	<u>P 8,158,781,725</u>	<u>P 1,087,000</u>

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

	2008	
	<u>Loans and Other Receivables</u>	<u>Available-for- Sale Securities</u>
Carrying Amount	P 7,692,926,296	P 1,117,938
Individually Impaired		
Grade D: Impaired	196,867,282	-
Grade E: Impaired	247,534,888	-
Grade F: Impaired	45,804,614	-
Gross Amount	490,206,784	-
Allowance for impairment	(124,147,805)	-
Carrying amount	<u>366,058,979</u>	<u>-</u>
Past due but not impaired		
Grade A	<u>144,843,759</u>	<u>-</u>
<i>Aging of Past Due</i>		
30- 60 days	208,440	-
61-90 days	2,488,106	-
91-180 days	90,145,762	-
More than 180 days	52,001,451	-
Carrying amount	<u>144,843,759</u>	<u>-</u>
Neither past due nor impaired		
Grade A	<u>7,182,023,558</u>	<u>1,117,938</u>
Total carrying amount	<u>P 7,692,926,296</u>	<u>P 1,117,938</u>

	<u>2007</u>	
	<u>Loans and Other Receivables</u>	<u>Available-for- Sale Securities</u>
Carrying Amount	P 8,175,211,308	P 1,087,000
Individually Impaired		
Grade D: Impaired	41,054,759	-
Grade E: Impaired	254,750,489	-
Grade F: Impaired	<u>73,079,493</u>	<u>-</u>
Gross Amount	368,884,741	-
Allowance for impairment	(207,090,581)	-
Carrying amount	<u>161,794,160</u>	<u>-</u>
Past due but not impaired		
Grade A	<u>176,486,940</u>	<u>-</u>
<i>Aging of Past Due</i>		
30- 60 days	1,968,729	-
61-90 days	7,904,690	-
91-180 days	47,240,818	-
More than 180 days	<u>119,372,703</u>	<u>-</u>
Carrying amount	<u>176,486,940</u>	<u>-</u>
Neither past due nor impaired		
Grade A	<u>7,836,930,208</u>	<u>1,087,000</u>
Total carrying amount	<u>P 8,175,211,308</u>	<u>P 1,087,000</u>

The Group holds collateral against loans and other receivables in the form of mortgage interests over real and personal properties. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral is not held against available-for-sale securities, and no such collateral was held at December 31, 2008 and 2007.

The Group holds collateral against loans and other receivables in the form of real and personal properties. An estimate of the fair value of collateral and other security enhancements held against loans and other receivables as of December 31, 2008 and 2007 is shown below:

	<u>2008</u>	<u>2007</u>
Against past due but not impaired		
Real property	P 54,671,043	P 427,065,255
Personal property	112,830,950	505,794,382
Against neither past due nor impaired		
Real property	997,921,698	1,671,753,058
Personal property	<u>9,120,095,964</u>	<u>7,334,226,834</u>
	<u>P10,285,519,655</u>	<u>P9,938,839,529</u>

4.4 Liquidity Risk

The primary business of financing companies entails the borrowing and relending of funds. Consequently, financing companies are subject to substantial leverage, and may therefore be 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 has a license from the SEC to issue P4 billion STCPs.

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

Presented below are the financial assets and liabilities as of December 31, 2008 and 2007 analyzed according to when they are expected to be recovered or settled. The amounts of financial liabilities disclosed in the maturity analysis are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amounts included in the balance sheet because the balance sheet amounts are based on discounted cash flows.

	One to Three Months	Three Months to One Year	One to Three Years	More than Three Years	Total
<u>2008</u>					
Group					
Financial assets					
Cash and cash equivalents	P 186,128,464	P -	P -	P -	P 186,128,464
Loans and other receivables	2,099,934,105	2,154,702,211	2,708,480,982	729,808,998	7,692,926,296
Other assets	<u>1,117,937</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,117,937</u>
	<u>P2,287,180,506</u>	<u>P 2,154,702,211</u>	<u>P 2,708,480,982</u>	<u>P729,808,998</u>	<u>P 7,880,172,697</u>
Financial liabilities					
Bills payable	P 3,136,867,184	P 544,684,834	P -	P -	P 3,681,552,018
Accounts payable and other liabilities	158,793,424	-	-	14,661,499	173,454,923
Lease deposits	<u>168,653,080</u>	<u>430,015,778</u>	<u>1,321,838,786</u>	<u>223,799,617</u>	<u>2,144,307,261</u>
	<u>P3,464,313,688</u>	<u>P 974,700,612</u>	<u>P 1,321,838,786</u>	<u>P 238,461,116</u>	<u>P 5,999,314,202</u>

	<u>One to Three Months</u>	<u>Three Months to One Year</u>	<u>One to Three Years</u>	<u>More than Three Years</u>	<u>Total</u>
<u>2008</u>					
Parent Company					
Financial assets					
Cash and cash equivalents	P 171,906,630	P -	P -	P -	P 171,906,630
Loans and other receivables	2,501,338,520	2,389,702,211	2,708,480,982	729,808,998	8,329,330,711
Other assets	<u>1,117,937</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,117,937</u>
	<u>P2,674,363,087</u>	<u>P 2,389,702,211</u>	<u>P 2,708,480,982</u>	<u>P729,808,998</u>	<u>P 8,502,355,278</u>
Financial liabilities					
Bills payable	P2,548,961,133	P 544,684,834	P -	P -	P 3,093,645,967
Accounts payable and other liabilities	144,844,202	-	-	14,661,499	159,505,701
Lease deposits	<u>167,087,017</u>	<u>423,930,626</u>	<u>994,994,596</u>	<u>220,025,481</u>	<u>1,806,037,720</u>
	<u>P2,860,892,352</u>	<u>P 968,615,460</u>	<u>P 994,994,596</u>	<u>P234,686,980</u>	<u>P 5,059,189,388</u>
<u>2007</u>					
Group					
Financial assets					
Cash and cash equivalents	P 210,180,331	P -	P -	P -	P 210,180,331
Loans and other receivables	2,109,202,543	2,168,409,179	3,333,374,077	564,225,509	8,175,211,308
Other assets	<u>1,087,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,087,000</u>
	<u>P 2,320,469,874</u>	<u>P 2,168,409,179</u>	<u>P 3,333,374,077</u>	<u>P 564,225,509</u>	<u>P 8,386,478,639</u>
Financial liabilities					
Bills payable	P 2,854,540,106	P 34,081,891	P 706,110,405	P -	P 3,594,732,402
Accounts payable and other liabilities	-	224,493,858	-	13,599,738	238,093,596
Lease deposits	<u>85,587,672</u>	<u>339,939,051</u>	<u>975,815,852</u>	<u>241,971,154</u>	<u>1,643,313,729</u>
	<u>P 2,940,127,778</u>	<u>P 598,514,800</u>	<u>P 1,681,926,257</u>	<u>P 255,570,892</u>	<u>P 5,476,139,727</u>
Parent Company					
Financial assets					
Cash and cash equivalents	P 204,653,076	P -	P -	P -	P 204,653,076
Loans and other receivables	2,109,202,543	2,151,979,596	3,333,374,077	564,225,509	8,158,781,725
Other assets	<u>1,087,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,087,000</u>
	<u>P 2,314,942,619</u>	<u>P 2,151,979,596</u>	<u>P 3,333,374,077</u>	<u>P564,225,509</u>	<u>P 8,364,521,801</u>
Financial liabilities					
Bills payable	P 2,652,212,988	P 34,081,891	P 706,110,405	P -	P 3,392,405,284
Accounts payable and other liabilities	-	218,753,399	-	13,599,738	232,353,137
Lease deposits	<u>80,469,488</u>	<u>319,126,221</u>	<u>913,985,375</u>	<u>208,103,876</u>	<u>1,521,684,960</u>
	<u>P 2,732,682,476</u>	<u>P 571,961,511</u>	<u>P 1,620,095,780</u>	<u>P221,703,614</u>	<u>P 5,146,443,381</u>

5. CASH AND CASH EQUIVALENTS

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

	<u>Group</u>		<u>Parent Company</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Cash on hand and in banks	P 184,058,876	P 181,154,051	P 169,837,042	P 175,626,796
Cash equivalents	<u>2,069,588</u>	<u>29,026,280</u>	<u>2,069,588</u>	<u>29,026,280</u>
	<u>P 186,128,464</u>	<u>P 210,180,331</u>	<u>P 171,906,630</u>	<u>P 204,653,076</u>

Cash in banks earn interest at rates based on daily bank deposit rates. Cash equivalents represent a special savings account and time-deposit with annual interest rate ranging from 2.375% to 3.00% in 2008 and 0.75% and 3.50% in 2007.

6. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Receivable from customers:				
Finance lease receivables	P 3,587,101,500	P 3,875,130,372	P 3,587,101,500	P 3,875,130,372
Residual value of leased assets	1,664,751,989	1,438,325,567	1,664,751,989	1,438,325,567
Unearned lease income	(526,461,007)	(562,641,824)	(526,461,007)	(562,641,824)
	<u>4,725,392,482</u>	<u>4,750,814,115</u>	<u>4,725,392,482</u>	<u>4,750,814,115</u>
Loans and receivables financed	3,643,534,416	4,312,877,192	4,306,425,256	4,312,877,192
Unearned finance income	(515,879,834)	(641,817,719)	(521,524,227)	(641,817,719)
Clients' equity	(127,251,434)	(79,917,520)	(127,251,434)	(79,917,520)
	<u>3,000,403,148</u>	<u>3,591,141,953</u>	<u>3,657,649,595</u>	<u>3,591,141,953</u>
Other receivables:				
Accounts receivable	52,249,291	34,654,234	31,407,259	18,224,652
Sales contract receivable	47,448,734	9,141,270	47,448,734	9,141,270
Advances to gratuity fund	-	3,346,051	-	3,346,050
Accrued interest receivable	376,926	2,000,746	376,926	2,000,746
	<u>100,074,951</u>	<u>49,142,301</u>	<u>79,232,919</u>	<u>32,712,718</u>
Total	7,825,870,581	8,391,098,369	8,462,274,996	8,374,668,786
Less allowance for impairment losses	(132,944,285)	(215,887,061)	(132,944,285)	(215,887,061)
	<u>P 7,692,926,296</u>	<u>P 8,175,211,308</u>	<u>P 8,329,330,711</u>	<u>P 8,158,781,725</u>

As of December 31, 2008 and 2007, 61% and 54%, 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 9% to 37% in 2008 and 9% to 40% in 2007.

The fair value loss on initial recognition of the residual value receivables under finance lease amounted to P14,182,647 and P92,576,184 in 2008 and 2007, respectively, (none in 2006), and is presented as part of Fair Value Gains under Other Income in the Group income statements (see Note 14).

Interest income on receivables pertaining to the residual value of assets under finance lease accrued using the effective interest method amounted to P31,139,041, P47,875,440 and nil in 2008, 2007 and 2006, respectively, and is presented as part of Interest and Discounts in the Group income statements.

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

	<u>Group</u>		<u>Parent Company</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Secured:				
Real estate mortgage	P 944,395,347	P 996,222,263	P 944,395,347	P 996,222,263
Chattel mortgage	<u>5,949,493,879</u>	<u>6,035,966,256</u>	<u>5,982,651,848</u>	<u>6,035,966,256</u>
	6,893,889,226	7,032,188,519	6,927,047,195	7,032,188,519
Unsecured	<u>799,037,070</u>	<u>1,143,022,789</u>	<u>1,402,283,516</u>	<u>1,126,593,206</u>
	<u>P7,692,926,296</u>	<u>P8,175,211,308</u>	<u>P8,329,330,711</u>	<u>P 8,158,781,725</u>

An analysis of the Parent Company's finance lease receivables as of December 31, 2008 and 2007 follows:

	<u>2008</u>	<u>2007</u>
Maturity of gross investment in:		
Finance lease receivables		
Within 1 year	P 2,263,034,090	P 1,931,378,049
Beyond 1 year but not beyond 5 years	<u>1,324,067,410</u>	<u>1,943,752,323</u>
	<u>3,587,101,500</u>	<u>3,875,130,372</u>
Residual value of leased assets		
Within 1 year	568,968,903	350,733,514
Beyond 1 year but not beyond 5 years	<u>1,095,783,086</u>	<u>1,087,592,053</u>
	<u>1,664,751,989</u>	<u>1,438,325,567</u>
Gross finance lease receivable	5,251,853,489	5,313,455,939
Unearned lease income	(<u>526,461,007</u>)	(<u>562,641,824</u>)
Net investment in finance lease receivables	<u>P 4,725,392,482</u>	<u>P 4,750,814,115</u>

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

	<u>2008</u>	<u>2007</u>
Due within 1 year	P 2,763,864,205	P 2,057,244,959
Due beyond 1 year but not beyond 5 years	<u>1,961,528,277</u>	<u>2,693,569,156</u>
Net investment in finance lease receivables	<u>P 4,725,392,482</u>	<u>P 4,750,814,115</u>

Past due finance lease receivables amounted to P344.9 million and P250.3 million as of December 31, 2008 and 2007, respectively.

Past due loans and receivables financed amounted to P290.1 million and P441.0 million as of December 31, 2008 and 2007, respectively.

During 2008 and 2007, the Board of Directors approved the write-off of certain loans and receivables financed and finance lease receivables with total amount of P157.9 million and P168.6 million, respectively.

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

	Group			Parent Company		
	2008	2007	2006	2008	2007	2006
Loans and receivables financed P	555,979,151	P 644,059,633	P 569,069,663	P 562,123,980	P 644,059,633	P 569,069,663
Finance lease receivables	455,610,225	432,473,319	367,881,228	455,610,225	432,473,319	367,881,228
Due from affiliates and other loans	404,866	853,856	8,061,509	349,455	794,935	7,940,964
Cash and cash equivalents	467,937	439,615	860,185	458,381	433,557	855,407
	<u>P 1,012,462,179</u>	<u>P 1,077,826,423</u>	<u>P 945,872,585</u>	<u>P 1,018,542,041</u>	<u>P 1,077,761,444</u>	<u>P 945,747,262</u>

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

	Group		Parent Company	
	2008	2007	2008	2007
Balance at beginning of year	P 215,887,061	P 227,240,561	P 215,887,061	P 227,240,561
Impairment loss during the year	75,000,000	157,284,536	75,000,000	157,284,536
Accounts written-off	(157,942,776)	(168,638,036)	(157,942,776)	(168,638,036)
Balance at end of year	<u>P 132,944,285</u>	<u>P 215,887,061</u>	<u>P 132,944,285</u>	<u>P 215,887,061</u>

7. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization at the beginning and end of 2008 and 2007 are shown below.

Group

	Transportation and Other Equipment	Furniture, Fixtures and Others	Leasehold Improvements	Total
December 31, 2008				
Cost	P 1,847,892,491	P 18,783,702	P 9,790,926	P 1,876,467,119
Accumulated depreciation and amortization	(213,390,712)	(11,953,749)	(1,438,377)	(226,782,838)
Net carrying amount	<u>P 1,634,501,779</u>	<u>P 6,829,953</u>	<u>P 8,352,549</u>	<u>P 1,649,684,281</u>
December 31, 2007				
Cost	P 345,521,205	P 19,530,940	P 3,242,529	P 368,294,674
Accumulated depreciation and amortization	(43,707,738)	(13,819,867)	(683,683)	(58,211,288)
Net carrying amount	<u>P 301,813,467</u>	<u>P 5,711,073</u>	<u>P 2,558,846</u>	<u>P 310,083,386</u>

	<u>Transportation and Other Equipment</u>	<u>Furniture, Fixtures and Others</u>	<u>Leasehold Improvements</u>	<u>Total</u>
January 1, 2007				
Cost	P 252,745,151	P 35,912,222	P 2,667,736	P 291,325,109
Accumulated depreciation and amortization	(22,498,803)	(18,984,197)	(847,706)	(42,330,706)
Net carrying amount	<u>P 230,246,348</u>	<u>P 16,928,025</u>	<u>P 1,820,030</u>	<u>P 248,994,403</u>
Parent Company				
December 31, 2008				
Cost	P -	P 18,783,702	P 9,761,551	P 28,545,253
Accumulated depreciation and amortization	-	(11,953,749)	(1,409,002)	(13,362,751)
Net carrying amount	<u>P -</u>	<u>P 6,829,953</u>	<u>P 8,352,549</u>	<u>P 15,182,502</u>
December 31, 2007				
Cost	P -	P 19,530,940	P 3,134,824	P 22,665,764
Accumulated depreciation and amortization	-	(13,819,867)	(605,352)	(14,425,219)
Net carrying amount	<u>P -</u>	<u>P 5,711,073</u>	<u>P 2,529,472</u>	<u>P 8,240,545</u>
January 1, 2007				
Cost	P -	P 35,912,221	P 2,550,240	P 38,462,461
Accumulated depreciation and amortization	-	(18,984,196)	(798,750)	(19,782,946)
Net carrying amount	<u>P -</u>	<u>P 16,928,025</u>	<u>P 1,751,490</u>	<u>P 18,679,515</u>

A reconciliation of the carrying amounts of property and equipment at the beginning and end of 2008 and 2007 is shown below.

	<u>Transportation and Other Equipment</u>	<u>Furniture, Fixtures and Others</u>	<u>Leasehold Improvements</u>	<u>Total</u>
Group				
Balance at January 1, 2008, net of accumulated depreciation and amortization	P 301,813,467	P 5,711,073	P 2,558,846	P 310,083,386
Additions	1,511,587,319	6,409,892	7,620,428	1,525,617,639
Disposals	(6,524,189)	(1,643,208)	(388,348)	(8,555,745)
Depreciation and amortization charges for the year	(172,374,818)	(3,647,804)	(1,438,377)	(177,460,999)
Balance at December 31, 2008, net of accumulated depreciation and amortization	<u>P 1,634,501,779</u>	<u>P 6,829,953</u>	<u>P 8,352,549</u>	<u>P 1,649,684,281</u>

	<u>Transportation and Other Equipment</u>	<u>Furniture, Fixtures and Others</u>	<u>Leasehold Improvements</u>	<u>Total</u>
Balance at January 1, 2007, net of accumulated depreciation and amortization	P 230,246,348	P 16,928,025	P 1,820,030	P 248,994,403
Additions	94,313,472	3,284,242	1,424,786	99,022,500
Disposals	(310,681)	(8,774,127)	(2,287)	(9,087,095)
Depreciation and amortization charges for the year	(22,435,672)	(5,727,067)	(683,683)	(28,846,422)
 Balance at December 31, 2007, net of accumulated depreciation and amortization	 <u>P 301,813,467</u>	 <u>P 5,711,073</u>	 <u>P 2,558,846</u>	 <u>P 310,083,386</u>
Parent Company				
Balance at January 1, 2008, net of accumulated depreciation and amortization	P -	P 5,711,073	P 2,529,472	P 8,240,545
Additions	-	6,409,892	7,620,427	14,030,319
Disposals	-	(1,643,208)	(388,348)	(2,031,556)
Depreciation and amortization charges for the year	-	(3,647,804)	(1,409,002)	(5,056,806)
 Balance at December 31, 2008, net of accumulated depreciation and amortization	 <u>P -</u>	 <u>P 6,829,953</u>	 <u>P 8,352,549</u>	 <u>P 15,182,502</u>
Balance at January 1, 2007, net of accumulated depreciation and amortization	P -	P 16,928,025	P 1,751,490	P 18,679,515
Additions	-	3,284,242	1,424,786	4,709,028
Disposals	(-)	(8,774,127)	(2,287)	(8,776,414)
Depreciation and amortization charges for the year	(-)	(5,727,067)	(644,517)	(6,371,584)
 Balance at December 31, 2007, net of accumulated depreciation and amortization	 <u>P -</u>	 <u>P 5,711,073</u>	 <u>P 2,529,472</u>	 <u>P 8,240,545</u>

Depreciation and amortization charges for the year are included as part of Occupancy and Equipment-Related Expenses under Operating Costs and Expenses in the income statements (see Note 15).

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

Cost	P1,370,033,704
Accumulated depreciation	(95,372,860)
 Net carrying amount	 <u>P1,274,660,844</u>

Total operating lease income earned from the leases presented as part of Rent in the Group income statements amounted to P111,378,455 in 2008. The carrying amount of lease deposits payable to the lessee amounted to P239,753,078 as of December 31, 2008. Interest expense accrued on such lease deposits included as part of Interest and Financing Charges under Operating Costs and Expenses in the Group income statements amounted to P1,842,692 in 2008.

As of December 31, 2008 and 2007, the net book value of transportation and other equipment leased out by the Group under operating lease arrangements amounted to P1,580,358,279 and P292,849,527, respectively.

8. 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 2008 and 2007 in the Group and Parent Company financial statements are shown below.

<u>2008</u>	<u>Land</u>	<u>Building and Improvements</u>	<u>Total</u>
December 31, 2008			
Cost	P 682,376,673	P 110,339,165	P 792,715,838
Accumulated depreciation	-	(25,949,117)	(25,949,117)
Accumulated impairment	-	(15,137,623)	(15,137,623)
Net carrying amount	<u>P 682,376,673</u>	<u>P 69,252,425</u>	<u>P 751,629,098</u>
<u>2007</u>			
December 31, 2007			
Cost	P 613,560,612	P 134,314,692	P 747,875,304
Accumulated depreciation	-	(18,745,752)	(18,745,752)
Accumulated impairment	-	(22,852,816)	(22,852,816)
Net carrying amount	<u>P 613,560,612</u>	<u>P 92,716,124</u>	<u>P 706,276,736</u>
January 1, 2007			
Cost	P 597,580,037	P 82,118,062	P 679,698,099
Accumulated depreciation	-	(5,617,947)	(5,617,947)
Accumulated impairment	-	(701,472)	(701,472)
Net carrying amount	<u>P 597,580,037</u>	<u>P 75,798,643</u>	<u>P 673,378,680</u>

A reconciliation of the carrying amounts at the beginning and end of 2008 and 2007 of investment properties in the Group and Parent Company financial statements is shown below.

<u>2008</u>	<u>Land</u>	<u>Building and Improvements</u>	<u>Total</u>
Balance at January 1, 2008, net of accumulated depreciation and impairment	P 613,560,612	P 92,716,124	P 706,276,736
Additions	82,899,599	31,817,925	114,717,524
Disposals	(14,083,538)	(46,640,132)	(60,723,670)
Depreciation and amortization charges for the year	<u>-</u>	<u>(8,641,492)</u>	<u>(8,641,492)</u>
Balance at December 31, 2008, net of accumulated depreciation and impairment	<u>P 682,376,673</u>	<u>P 69,252,425</u>	<u>P 751,629,098</u>
 <u>2007</u>			
Balance at January 1, 2007, net of accumulated depreciation and impairment	P 597,580,037	P 75,798,643	P 673,378,680
Additions	47,754,760	62,848,638	110,603,398
Disposals	(31,774,185)	(9,434,290)	(41,208,475)
Depreciation and amortization charges for the year	-	(14,345,523)	(14,345,523)
Impairment loss for the year	<u>-</u>	<u>(22,151,344)</u>	<u>(22,151,344)</u>
Balance at December 31, 2007, net of accumulated depreciation and impairment	<u>P 613,560,612</u>	<u>P 92,716,124</u>	<u>P 706,276,736</u>

The appraised values of the investment properties as of December 31, 2008 and 2007 follow:

	<u>2008</u>	<u>2007</u>
Land	P 950,255,513	P 721,110,756
Building and improvements	<u>115,675,047</u>	<u>97,767,243</u>
	<u>P1,065,930,560</u>	<u>P 818,877,999</u>

Income (loss) from sale of investment properties lodged under Miscellaneous Income amounted to P3.9 million, (P11.7 million) and P4.5 million in 2008, 2007, and 2006, respectively.

A reconciliation of the allowance for impairment on investment properties at the beginning and end of 2008 and 2007 is shown below.

	<u>2008</u>	<u>2007</u>
Balance at beginning of year	P 22,852,816	P 701,472
Impairment during the year	-	22,151,344
Disposals	<u>(7,715,193)</u>	<u>-</u>
Balance at end of year	<u>P 15,137,623</u>	<u>P 22,852,816</u>

9. OTHER ASSETS

Other assets consist of the following:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Input value-added tax (VAT)	P 85,543,670	P 23,750,712	P -	P -
Investment in a subsidiary	-	-	46,875,000	40,000,000
Prepaid expenses	27,580,847	12,643,456	26,568,336	12,092,059
Repossessed chattels and other equipment - net	23,048,619	18,335,333	23,048,619	18,335,333
Available-for-sale securities	1,117,938	1,087,000	1,117,938	1,087,000
Miscellaneous - net	<u>4,578,098</u>	<u>6,552,223</u>	<u>4,365,227</u>	<u>6,336,464</u>
	141,869,172	62,368,724	101,975,120	77,850,856
Allowance for impairment losses	<u>(13,783,137)</u>	<u>(13,783,137)</u>	<u>-</u>	<u>-</u>
	<u>P 128,086,035</u>	<u>P 48,585,587</u>	<u>P 101,975,120</u>	<u>P 77,850,856</u>

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

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

The movements of this account are presented below.

	<u>2008</u>	<u>2007</u>
Balance at beginning of year	P 40,000,000	P 10,000,000
Additions during the year	<u>-</u>	<u>30,000,000</u>
	40,000,000	40,000,000
Deposit for stock subscription	<u>6,875,000</u>	<u>-</u>
Balance at end of year	<u>P 46,875,000</u>	<u>P 40,000,000</u>

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

	<u>2008</u>	<u>2007</u>
Cost	P 31,651,291	P 20,322,006
Accumulated depreciation	(8,602,672)	(1,986,673)
Net carrying amount	<u>P 23,048,619</u>	<u>P 18,335,333</u>

A reconciliation of the carrying amounts of repossessed chattels and other equipment at the beginning and end of 2008 and 2007 is shown below.

	<u>2008</u>	<u>2007</u>
Balance at January 1, net of accumulated depreciation	P 18,335,333	P 39,757,993
Additions	28,903,404	57,102,192
Disposals	(14,517,949)	(73,417,585)
Depreciation charges for the year	(9,672,169)	(5,107,267)
Net carrying amount:	<u>P 23,048,619</u>	<u>P 18,335,333</u>

No impairment loss was recognized on repossessed chattels and other equipment in 2008 and 2007.

Available-for-sale securities consist of Philippine Long Distance Telephone Co. (PLDT) preferred and golf and country club shares of stock. These securities are carried net of fair value loss of P262,063 and P285,000 as of December 31, 2008 and 2007, respectively.

10. BILLS PAYABLE

This account consists of borrowings from:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Banks	P 1,635,284,834	P 2,693,020,864	P 1,053,684,834	P 2,491,820,864
Others	2,035,600,000	820,200,000	2,035,600,000	820,200,000
Accrued interest	<u>10,667,185</u>	<u>9,371,812</u>	<u>4,361,133</u>	<u>8,440,527</u>
	<u>P 3,681,552,019</u>	<u>P 3,522,592,676</u>	<u>P 3,093,645,967</u>	<u>P 3,320,461,391</u>

Bills payable to banks represent peso borrowings from BDO Unibank and other local banks, with annual interest rates ranging from 6.00% to 9.25% in 2008 and 5.50% to 6.95% in 2007. As of December 31, 2008 and 2007, bills payable - others represent short-term notes issued to individual investors, with annual interest rates ranging from 4.00% to 7.48% and 4.00% to 6.25%, respectively.

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

	<u>Group</u>		<u>Parent Company</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Secured:				
Real estate mortgage	P 255,106,229	P -	P 255,106,229	P -
Chattel mortgage	-	-	-	-
	<u>255,106,229</u>	<u>-</u>	<u>255,106,229</u>	<u>-</u>
Unsecured	<u>3,426,445,790</u>	<u>3,522,592,676</u>	<u>2,838,539,738</u>	<u>3,320,461,391</u>
	<u>P 3,681,552,019</u>	<u>P 3,522,592,676</u>	<u>P 3,093,645,967</u>	<u>P 3,320,461,391</u>

Interest and financing charges consist of interest on:

<u>Group</u>	<u>Note</u>	<u>2008</u>		<u>2007</u>		<u>2006</u>	
Bills payable - banks		P 150,814,395	P 182,524,174	P 182,524,174	P 192,586,351		
Bills payable - others		80,796,497	46,424,489	46,424,489	38,447,238		
Amortization on lease deposits	12	<u>52,847,350</u>	<u>72,409,014</u>	<u>72,409,014</u>	<u>954,907</u>		
		<u>P 284,458,242</u>	<u>P 301,357,677</u>	<u>P 301,357,677</u>	<u>P 231,988,496</u>		
 <u>Parent Company</u>							
Bills payable - banks		P 130,349,039	P 171,413,871	P 171,413,871	P 182,521,518		
Bills payable - others		80,796,497	46,424,489	46,424,489	38,447,238		
Amortization on lease deposits		<u>44,057,711</u>	<u>69,002,567</u>	<u>69,002,567</u>	<u>-</u>		
		<u>P 255,203,247</u>	<u>P 286,840,927</u>	<u>P 286,840,927</u>	<u>P 220,968,756</u>		

11. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities consist of the following:

	<u>Note</u>	<u>Group</u>		<u>Parent Company</u>	
		<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Deferred tax liabilities – net	21	P 72,316,988	P 40,903,255	P 79,203,688	P 40,828,803
Accounts payable		40,785,978	36,194,036	29,903,667	32,547,245
Deferred rent		20,673,861	-	-	-
Retirement benefit obligation		14,661,499	13,599,738	14,661,499	13,599,738
Accrued taxes and other expenses		13,730,028	15,071,168	13,096,625	14,762,375
Accrued insurance payable		12,080,616	17,497,231	11,654,953	16,974,827
Income tax payable - current		8,945,139	106,753,144	190,059	105,585,326
Withholding taxes payable		4,335,581	4,185,538	4,240,756	4,183,554
Other liabilities		<u>6,599,094</u>	<u>3,882,486</u>	<u>6,554,454</u>	<u>3,871,269</u>
		<u>P 194,128,784</u>	<u>P 238,093,596</u>	<u>P 159,505,701</u>	<u>P 232,353,137</u>

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

12. LEASE DEPOSITS

Lease deposits consist of deposits on:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Finance leases	P 1,742,857,670	P 1,521,684,960	P 1,742,857,671	P 1,521,684,960
Operating leases	<u>282,638,341</u>	<u>26,295,471</u>	<u>-</u>	<u>-</u>
	<u>P 2,025,496,011</u>	<u>P 1,547,980,431</u>	<u>P 1,742,857,671</u>	<u>P 1,521,684,960</u>

The fair value gains on initial recognition of lease deposits (representing excess of principal amount over fair value of leased deposits) amounted to P65,281,566, P180,011,771 and P1,069,042 in 2008, 2007 and 2006, respectively, and are included as part of Fair Value Gains under Other Income in the Group income statements, net of fair value losses recognized on initial recognition of residual value receivables under finance lease (see Note 6).

Interest expense on lease deposits accrued using the effective interest method amounted to P52,847,350, P72,409,014 and P954,907 in 2008, 2007 and 2006, respectively, and is included as part of Interest and Financing Charges under Operating Costs and Expenses in the Group income statements (see Note 10).

13. EQUITY

13.1 Capital Management Objectives, Policies and Procedures

The Group's capital management objectives are:

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

The Group monitors capital on the basis of the carrying amount of equity as presented on the face of the balance sheets.

13.2 Capital Stock

The Parent Company has 200,000 authorized preferred shares at P100 par value 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.

As of December 31, 2008, 2007 and 2006, out of the total authorized capital stock of 3,400,000,000 common shares with par value of P1 per share, 2,225,169,030 common shares amounting to P2,225,169,030 are issued and outstanding.

As of December 31, 2008, the Parent Company has 1,280 stockholders owning 100 or more shares each of the Parent Company's common stock.

14. OTHER INCOME

This account is composed of the following:

	Notes	2008	2007	2006
Group				
Fair value gains - net	6, 12	P 51,098,919	P 87,435,587	P 1,069,042
Miscellaneous	16	<u>27,831,244</u>	<u>3,324,160</u>	<u>35,105,926</u>
		<u>P 78,930,163</u>	<u>P 90,759,747</u>	<u>P 36,174,968</u>
Parent Company				
Fair value gains - net		P 1,519,003	P 69,285,038	P -
Miscellaneous	16	<u>28,354,924</u>	<u>3,780,911</u>	<u>35,996,520</u>
		<u>P 29,873,927</u>	<u>P 73,065,949</u>	<u>P 35,996,520</u>

15. OPERATING COSTS AND EXPENSES

This account is composed of the following:

	Notes	2008	2007	2006
Group				
Interest and financing charges	10	P 284,458,242	P 301,357,677	P 231,988,496
Occupancy and equipment-related expenses	7, 8, 9	221,220,692	72,803,008	52,993,692
Employee benefits	18	114,321,541	127,595,759	140,390,316
Taxes and licenses	21	80,726,673	71,826,378	75,802,799
Impairment and credit losses	6, 8	75,000,000	179,435,880	29,762,091
Litigation/assets acquired expenses		26,600,838	27,424,468	21,481,428
Miscellaneous	16	<u>35,579,145</u>	<u>38,053,863</u>	<u>41,263,190</u>
		<u>P 837,907,131</u>	<u>P 818,497,033</u>	<u>P 593,682,012</u>

	Notes	2008	2007	2006
<u>Parent Company</u>				
Interest and financing charges	10	P 255,203,247	P 286,840,927	P 220,968,756
Occupancy and equipment-related expenses		48,471,542	50,243,396	41,996,469
Employee benefits	18	114,321,541	127,595,759	140,390,316
Taxes and licenses	21	78,307,642	70,582,961	75,036,515
Impairment and credit losses	6, 8	75,000,000	179,435,880	15,978,954
Litigation/assets acquired expenses		26,600,838	27,424,468	- 21,481,428
Miscellaneous	16	<u>32,696,225</u>	<u>37,580,913</u>	<u>41,135,620</u>
		<u>P 630,601,035</u>	<u>P 779,704,304</u>	<u>P 556,988,058</u>

16. MISCELLANEOUS INCOME AND EXPENSES

Miscellaneous income is composed of the following:

	2008	2007	2006
<u>Group</u>			
Gain (loss) from sale and exchange of assets acquired	P 9,151,898	(P 17,718,448)	P 445,418
Rent	6,805,837	6,176,084	7,976,192
Recovery on accounts written-off	4,709,858	4,648,900	9,627,277
Others	<u>7,163,651</u>	<u>10,217,624</u>	<u>17,057,039</u>
	<u>P 27,831,244</u>	<u>P 3,324,160</u>	<u>P 35,105,926</u>

Parent Company

Gain (loss) from sale and exchange of assets acquired	P 9,151,898	(P 17,718,448)	P 445,418
Rent	6,805,837	6,176,084	7,976,192
Recovery on accounts written-off	4,709,858	4,648,900	9,627,277
Others	<u>7,687,331</u>	<u>10,674,375</u>	<u>17,947,633</u>
	<u>P 28,354,924</u>	<u>P 3,780,911</u>	<u>P 35,996,520</u>

Miscellaneous expense is composed of the following:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Group			
Travelling	P 7,290,265	P 5,896,569	P 7,477,365
Security, clerical and messengerial	6,110,975	5,585,341	4,073,181
Management and other professional fees	3,822,494	2,489,155	2,810,338
Information technology	3,775,696	2,116,619	2,015,562
Entertainment, amusement and recreation	2,422,673	3,818,161	4,350,265
Fuel and lubricants	2,367,258	5,150,221	7,103,369
Foreign currency exchange loss (gain)	2,261,364 (284,288)	2,978,365
Supplies	2,123,329	1,557,973	1,547,594
Advertising and publicity	1,122,946	676,975	5,246,313
Others	<u>4,282,145</u>	<u>11,047,137</u>	<u>3,660,838</u>
	<u>P 35,579,145</u>	<u>P 38,053,863</u>	<u>P 41,263,190</u>

Parent Company

Travelling	P 7,290,265	P 5,894,359	P 7,477,365
Security, clerical and messengerial	5,978,206	5,516,630	4,073,181
Management and other professional fees	3,822,494	2,489,155	2,810,338
Information technology	3,775,696	2,116,619	2,015,562
Entertainment, amusement and recreation	2,422,280	3,816,752	4,350,265
Fuel and lubricants	2,367,258	5,150,221	7,103,369
Foreign currency exchange loss (gain)	2,261,364 (284,288)	2,978,365
Supplies	2,103,814	1,557,973	1,505,820
Advertising and publicity	1,122,946	676,975	5,246,313
Others	<u>1,551,902</u>	<u>10,646,517</u>	<u>3,575,042</u>
	<u>P 32,696,225</u>	<u>P 37,580,913</u>	<u>P 41,135,620</u>

17. LEASES

The Parent Company'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 income statements for the years ended December 31, 2008, 2007 and 2006 amounted to P256.4 million, P58.4 million and P58.8 million, respectively.

Future minimum rentals receivable under operating leases follow:

	<u>2008</u>	<u>2007</u>
Within one year	P 765,373,681	P 7,915,279
After one year but not more than five years	<u>457,775,617</u>	<u>218,934,523</u>
	<u>P1,223,149,298</u>	<u>P 226,849,802</u>

18. EMPLOYEE BENEFITS

18.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are presented below:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Salaries and wages	P 65,066,221	P 47,878,808	P 39,100,419
Bonuses	23,875,615	44,445,372	85,468,421
Retirement - defined benefit plan	7,961,761	22,455,441	2,559,665
Social security costs	2,893,065	2,436,148	1,846,158
Other benefits	<u>14,524,879</u>	<u>10,379,990</u>	<u>11,415,653</u>
	<u>P 114,321,541</u>	<u>P 127,595,759</u>	<u>P 140,390,316</u>

18.2 Employee Retirement Benefit Obligation

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

The amounts of retirement benefit obligation presented in the balance sheets as part Accounts Payable and Other Liabilities, respectively, are determined as follows (see Note 11):

	<u>2008</u>	<u>2007</u>
Present value of the obligation	P 86,293,460	P 67,433,463
Fair value of plan assets	(44,648,051)	(46,415,173)
Excess of obligation	41,645,409	21,018,290
Unrecognized actuarial losses	(26,983,910)	(7,418,552)
Retirement benefit obligation	<u>P 14,661,499</u>	<u>P 13,599,738</u>

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

	<u>2008</u>	<u>2007</u>
Balance at beginning of year	P 67,433,463	P 33,174,773
Current service cost and interest cost	11,647,967	6,406,284
Actuarial losses	18,857,807	29,185,049
Benefits paid by the plan	(11,645,777)	(1,332,643)
Balance at end of year	<u>P 86,293,460</u>	<u>P 67,433,463</u>

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

	<u>2008</u>	<u>2007</u>
Balance at beginning of year	P 46,415,173	P 43,455,879
Contributions paid into the plan	6,900,000	1,200,000
Benefits paid by the plan	(11,645,777)	(1,332,643)
Actuarial losses	(734,559)	(819,092)
Expected return on plan assets	<u>3,713,214</u>	<u>3,911,029</u>
Balance at end of year	<u>P 44,648,051</u>	<u>P 46,415,173</u>

Actual return on plan assets amounted P3.0 million in 2008 and P3.1 million in 2007.

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current service costs	P 6,024,016	P 4,084,050	P 2,570,288
Interest costs	5,623,951	2,322,234	3,436,227
Expected return on plan assets	(3,713,214)	(3,911,029)	(3,467,636)
Effect of asset limit	-	(3,003,813)	-
Past service cost	-	237,151	20,655
Net actuarial loss recognized	<u>27,008</u>	<u>22,726,848</u>	<u>131</u>
	<u>P 7,961,761</u>	<u>P 22,455,441</u>	<u>P 2,559,665</u>

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

	<u>2008</u>	<u>2007</u>
Discount rates	11.38%	8.34%
Expected rate of return on plan assets	7.00%	8.00%
Expected rate of salary increases	10.00%	10.00%

19. RELATED PARTY TRANSACTIONS

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

- a. As of December 31, 2008 and 2007, total savings and demand deposit accounts maintained in BDO Unibank by the Group amounted to P54,195,299 and P189,846,725, respectively. Interest income earned on deposits amounted to P645,186 , P850,810 and P2,377,659 in 2008, 2007 and 2006, respectively.
- b. Total bills payable to BDO Unibank amounted to P254,000,000 and P4,074,999 as of December 31, 2008 and 2007, respectively. Interest expense incurred on bills payable amounted to P11,272,437 , P22,524,722 and P116,692,741 in 2008, 2007 and 2006, respectively.

- c. The Parent Company leases its head office premises from BDO Unibank for a period of five years from July 1, 2005 to June 30, 2010, renewable for such period and under such terms and conditions as may be agreed upon with the Parent Company. The rentals shall be increased on the 4th year at a rate of 15.00% of the current rate. Related rent expense incurred amounted to P12.7 million, P12.49 million and P9.25 million in 2008, 2007 and 2006, respectively.
- d. In 2008, the Parent Company granted short-term unsecured loan to BDO Rental amounting to P667,600,000, presented as part of Loans and Other Receivables in the Parent Company's balance sheets. The loan bears annual interest rates ranging from 8.00% to 8.75%. As of December 31, 2008, the carrying amount of the loan amounted to P657,246,447. Total interest income earned by the Parent Company amounted to P6,144,829 and is presented as part of Interest and Discounts in the Parent Company's income statement.
- e. Loans to officers and employees, with annual interest rates ranging from 9% to 10%, amounted to P8,446,241 and P6,172,679 as of December 31, 2008 and 2007, respectively. Interest income earned on these loans amounted to P441,452, P559,507 and P598,696 in 2008, 2007 and 2006, respectively. These loans have payment terms ranging from 18 to 36 months except for housing loans which are payable in 5 to 20 years.
- f. Compensation of key management personnel (covering officer positions starting from Assistant Vice President and up) included as part of Employee Benefits under Operating Costs and Expenses in the income statements of the Group and Parent Company follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Short-term employee benefits	P 20,680,000	P 17,640,379	P 14,230,461
Post-employment pension and medical benefits	<u>-</u>	<u>-</u>	<u>163,240</u>
	<u>P 20,680,000</u>	<u>P 17,640,379</u>	<u>P 14,393,701</u>

Short-term employee benefits include salaries, paid annual leave and paid sick leave, profit sharing and bonuses, and non-monetary benefits.

20. BUSINESS SEGMENTS

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

The products under the leasing segment are the following:

- Direct leases; and
- Sale-and-leaseback arrangements.

The products under the financing segment are the following:

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

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

Primary segment information as of and for the years ended December 31, 2008 and 2007 follows (in thousands):

	2008			
	Leasing	Financing	Others	Total
Segment revenues	P 712,032	P 524,896	P 131,541	P 1,368,469
Segment expenses	<u>435,974</u>	<u>321,391</u>	<u>80,542</u>	<u>837,907</u>
Segment results	276,058	203,505	50,999	530,562
Income tax expense				<u>164,978</u>
Net income				<u>P 365,584</u>
Segment assets	P 6,490,588	P 2,880,230	P -	P 9,370,818
Unallocated assets				<u>1,037,636</u>
Total assets				<u>P 10,408,454</u>
Segment liabilities	P 3,726,212	P 1,970,169	P -	P 5,696,381
Unallocated liabilities				<u>204,796</u>
Total liabilities				<u>P 5,901,177</u>
Other segment information :				
Capital expenditures	P 1,510,573	P -	P 14,030	P 1,524,603
Depreciation and amortization	172,404	-	23,371	195,775
	2007			
	Leasing	Financing	Others	Total
Segment revenues	P 494,407	P 579,819	P 167,824	P 1,242,050
Segment expenses	<u>325,809</u>	<u>382,094</u>	<u>110,594</u>	<u>818,497</u>
Segment results	168,598	197,725	57,230	423,553
Income tax expense				<u>81,901</u>
Net income				<u>P 341,652</u>
Segment assets	P 5,022,005	P 3,414,674	P -	P 8,436,679
Unallocated assets				<u>1,013,658</u>
Total assets				<u>P 9,450,337</u>
Segment liabilities	P 3,184,937	P 1,876,265	P -	P 5,061,202
Unallocated liabilities				<u>247,465</u>
Total liabilities				<u>P 5,308,667</u>
Other segment information :				
Capital expenditures	P 94,313	P -	P 4,709	P 99,022
Depreciation and amortization	22,436	-	25,794	48,230

Segment expenses are allocated on the basis of gross income.

Net segment assets are comprised of the following:

	2008		2007	
	Leasing	Financing	Leasing	Financing
Receivables	P 3,587,102	P 3,643,534	P 3,875,130	P 4,312,877
Residual value of leased assets	1,664,752	-	1,438,326	-
Unearned income	(526,461)	(515,880)	(562,642)	(641,818)
Client's equity	-	(127,251)	-	(79,917)
	<u>4,725,393</u>	<u>3,000,403</u>	<u>4,750,814</u>	<u>3,591,142</u>
Allowance for impairment losses	(3,975)	(120,173)	(30,623)	(176,468)
	<u>4,721,418</u>	<u>2,880,230</u>	<u>4,720,191</u>	<u>3,414,674</u>
Equipment under lease	<u>1,769,170</u>	<u>-</u>	<u>301,814</u>	<u>-</u>
	<u>P 6,490,588</u>	<u>P 2,880,230</u>	<u>P 5,022,005</u>	<u>P 3,414,674</u>

Bills payable to BDO Unibank amounting to P254.0 million and P4.1 million as of December 31, 2008 and 2007, respectively, are allocated between the leasing and financing segments based on the carrying amounts of receivables of these segments as of December 31, 2008 and 2007. Deposits on lease amounting to P2.025 billion and P1.548 billion as of December 31, 2008 and 2007, respectively, are included in the leasing segment.

21. TAXES

21.1 Taxes and Licenses

This account is composed of the following:

	Group		
	2008	2007	2006
Gross receipts tax	P 53,886,085	P 50,519,821	P 54,935,186
Documentary stamp tax	16,680,555	11,991,403	12,601,844
Local taxes	7,130,514	6,657,172	6,615,916
Others	<u>3,029,519</u>	<u>2,657,982</u>	<u>1,649,853</u>
	<u>P 80,726,673</u>	<u>P 71,826,378</u>	<u>P 75,802,799</u>
	Parent Company		
	2008	2007	2006
Gross receipts tax	P 53,886,085	P 50,519,821	P 54,935,186
Documentary stamp tax	14,752,590	11,117,391	12,302,936
Local taxes	6,639,448	6,287,767	6,149,040
Others	<u>3,029,519</u>	<u>2,657,982</u>	<u>1,649,353</u>
	<u>P 78,307,642</u>	<u>P 70,582,961</u>	<u>P 75,036,515</u>

21.2 Current and Deferred Income Taxes

The components of tax expense for the years ended December 31 are as follows:

	<u>Group</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current tax expense:			
Regular corporate income tax (RCIT) at 35%	P 133,401,372	P 90,830,908	P 128,899,822
Final tax at 20%, 10% and 7.5%	<u>163,116</u>	<u>173,552</u>	<u>454,528</u>
	<u>133,564,488</u>	<u>91,004,460</u>	<u>129,354,350</u>
Deferred tax expense (income)			
Deferred tax relating to origination and reversal of temporary differences	37,257,055	(9,103,604)	12,953,767
Deferred tax relating to reduction in tax rate	(<u>5,843,322</u>)	<u>-</u>	<u>-</u>
	<u>31,413,733</u>	<u>9,103,604</u>	<u>12,953,767</u>
Tax expense reported in the income statement	<u>P 164,978,221</u>	<u>P 81,900,856</u>	<u>P 142,308,117</u>
	<u>Parent Company</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current tax expense:			
Regular corporate income tax (RCIT) at 35%	P 107,244,938	P 86,188,220	P 117,729,715
Final tax at 20%, 10% and 7.5%	<u>161,205</u>	<u>172,340</u>	<u>434,565</u>
	<u>107,406,143</u>	<u>86,360,560</u>	<u>118,164,280</u>
Deferred tax expense (income)			
Deferred tax relating to origination and reversal of temporary differences	44,207,571	(12,371,581)	16,147,292
Deferred tax relating to reduction in tax rate	(<u>5,832,686</u>)	<u>-</u>	<u>-</u>
	<u>38,374,885</u>	<u>(12,371,581)</u>	<u>16,147,292</u>
Tax expense reported in the income statement	<u>P 145,781,028</u>	<u>P 73,988,979</u>	<u>P 134,311,572</u>

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

	<u>Group</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Tax on pretax income at 35%	P 185,755,312	P 148,243,559	P 161,430,880
Adjustment for income subjected to lower tax rates	(122,972)	(258,891)	(2,659,557)
Tax effects of:			
Non-taxable income	(33,916,478)	(134,312,693)	(30,075,655)
Non-deductible expense	24,971,887	68,047,255	12,304,533
Reduction in deferred tax rate	(12,052,831)	-	-
Non-deductible interest expense	<u>343,303</u>	<u>181,626</u>	<u>1,307,916</u>
 Tax expense reported in the income statement	 <u>P 164,978,221</u>	 <u>P 81,900,856</u>	 <u>P 142,308,117</u>

	<u>Parent Company</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Tax on pretax income at 35%	P 153,464,277	P 135,171,228	P 153,588,604
Adjustment for income subjected to lower tax rates	(121,538)	(257,982)	(2,644,585)
Tax effects of:			
Non-deductible expense	21,863,121	66,854,999	6,709,074
Non-taxable income	(16,563,508)	(127,960,001)	(24,634,765)
Reduction in deferred tax rate	(13,200,615)	-	-
Non-deductible interest expense	<u>339,291</u>	<u>180,735</u>	<u>1,293,244</u>
 Tax expense reported in the income statement	 <u>P 145,781,028</u>	 <u>P 73,988,979</u>	 <u>P 134,311,572</u>

The components of deferred tax liabilities as of December 31, 2008 and 2007 are as follows:

	<u>Balance Sheets</u>			
	<u>Group</u>		<u>Parent Company</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Deferred tax assets:				
Allowance for impairment and credit losses	P 48,559,513	P 88,383,055	P 44,424,571	P 83,558,957
Accumulated depreciation on investment properties	7,784,735	6,561,013	7,784,735	6,561,013
Retirement benefit liability	4,398,450	4,759,908	4,398,450	4,759,908
Others	1,666,323	3,031,472	1,249,849	3,031,472
Deferred tax liabilities:				
Lease income differential	(133,161,833)	(142,648,036)	(135,497,116)	(137,749,486)
Unrealized gain on exchange of assets	(1,564,177)	(990,667)	(1,564,177)	(990,667)
 Net deferred tax liabilities	 <u>P 72,316,988</u>	 <u>P 40,903,255</u>	 <u>P 79,203,688</u>	 <u>P 40,828,803</u>

	<u>Group Income Statements</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Allowance for impairment losses	P 39,823,542	(P 3,779,245)	(P 9,892,092)
Lease income differential	(9,486,205)	8,964,018	24,930,428
Accumulated depreciation on investment properties	(1,223,722)	(4,594,732)	1,251,821
Unrealized gain on exchange of assets	573,510	(3,728,890)	(1,034,213)
Retirement liability (asset)	361,459	(7,439,404)	(1,311,750)
Unamortized past service cost	-	134,801	87,962
Others	<u>1,365,149</u>	<u>1,339,848</u>	<u>(1,078,389)</u>
Deferred tax expense (income)	<u>P 31,413,733</u>	<u>(P 9,103,604)</u>	<u>P 12,953,767</u>

	<u>Parent Company Income Statements</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Allowance for impairment losses	P 39,134,384	(P 3,779,245)	(P 5,067,994)
Lease income differential	(2,252,371)	5,696,041	23,299,855
Accumulated depreciation on investment properties	(1,223,722)	(4,594,732)	1,251,821
Unrealized gain on exchange of assets	573,510	(3,728,890)	(1,034,213)
Retirement liability (asset)	361,459	(7,439,404)	(1,311,750)
Unamortized past service cost	-	134,801	87,962
Others	<u>1,781,625</u>	<u>1,339,848</u>	<u>(1,078,389)</u>
Deferred tax expense (income)	<u>P 38,374,885</u>	<u>(P 12,371,581)</u>	<u>P 16,147,292</u>

21.3 Relevant Tax Regulations

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

- a. The RCIT tax of 32% (30% starting January 1, 2009) is imposed on taxable income net of applicable deductions;
- b. Fringe benefits tax (same rate as the RCIT) is imposed on the grossed-up value of the benefits given by employers to their managerial and supervisory employees (this is a final tax to be paid by the employer);
- c. Minimum corporate income tax (MCIT) of 2% based on gross income, as defined under the Tax Code, is required to be paid at the end of the year starting on the fourth year from the date of registration with the Bureau of Internal Revenue (BIR) whenever the RCIT is lower than the MCIT. On October 19, 2007, the BIR issued RR No. 12-2007 which requires the quarterly computation and payment of the MCIT beginning on the income tax return for the fiscal quarter ending September 30, 2007. This RR amended certain provisions of RR No. 9-98 which specifically provides for the computation of the MCIT at end of each taxable year. Thus, in the computation of the tax due for the taxable quarter, if the computed quarterly MCIT is higher than the quarterly normal income tax, the tax due to be paid for such taxable quarter at the time of filing the quarterly corporate income tax return shall be the MCIT which is 2% of the gross income as of the end of the taxable quarter;

- d. Net operating loss carryover (NOLCO) can be claimed as deduction against taxable income within three years after NOLCO is incurred;
- e. Effective July 2008, Republic Act 9504 was approved giving corporate taxpayers an option to claim itemized deduction or optional standard deduction (OSD) equivalent to 40% of gross sales. Once the option to use OSD is made, it shall be irrevocable for the taxable year for which the option was made; and
- f. The amount of interest expense allowed as income tax deduction is reduced by an amount equal to 42% of the interest income subjected to final tax.

21.4 Gross Receipts Tax (GRT)/ VAT

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

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

On May 24, 2005, the amendments on RA 9337 was approved amending, among others, the gross receipts tax on royalties, rentals of property, real or personal, profits from exchange and on net trading gains within the taxable year on foreign currency, debt securities, derivatives and other similar financial instruments from 5% to 7% effective November 1, 2005.

22. EARNINGS PER SHARE

Basic / diluted earnings per share were computed as follows:

	<u>Group</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net income	P 365,583,778	P 341,652,169	P 318,922,968
Divided by the weighted average number of outstanding common shares	<u>2,162,475,312</u>	<u>2,162,475,336</u>	<u>2,162,509,281</u>
Basic / diluted earnings per share	<u>P 0.17</u>	<u>P 0.16</u>	<u>P 0.15</u>
	<u>Parent Company</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net income	P 292,688,335	P 312,214,529	P 304,513,012
Divided by the weighted average number of outstanding common shares	<u>2,162,475,312</u>	<u>2,162,475,336</u>	<u>2,162,509,281</u>
Basic / diluted earnings per share	<u>P 0.14</u>	<u>P 0.14</u>	<u>P 0.14</u>

There were no outstanding dilutive potential common shares as of December 31, 2008, 2007 and 2006.

23. CONTINGENT LIABILITIES AND COMMITMENTS

In addition to those already mentioned in the preceding notes, in the ordinary course of business, the Group incurs contingent liabilities and commitments arising from normal business transactions which are not reflected in the accompanying financial statements. As of December 31, 2008, management does not anticipate significant losses from these contingencies and commitments that would adversely affect the Group's financial position and results of operations.