**BDO LEASING AND FINANCE, INC.**
**Management Report to Stockholders**

## 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 Philippine Securities and Exchange Commission.

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

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

## Competition

The Philippine Securities and Exchange Commission'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 company 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 BDO Leasing and Finance, Inc. 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 and Allied Leasing. 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 for essential raw materials, energy or other items.

## Related Party Transactions

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.

a) As of December 31,2010, 2009 and 2008, total savings and demand deposit accounts maintained in BDO by the Group amounted to ₱42.6 million, ₱71.2 million and ₱54.2 million respectively. Interest income earned on deposits amounted to ₱4.7 million, ₱0.8 million and ₱0.6 million in 2010, 2009 and 2008 respectively.

Cash equivalents totaling ₱16.0 million, and ₱66.0 million is also maintained with BDO as of December 31, 2010 and 2009.

b) Total bills payable to BDO amounted to ₱351.0 million as of December 31, 2010 and ₱254.0 million as of December 31, 2009 and 2008. Interest expense incurred on bills payable amounted to ₱0.5 million, ₱14.2 million and ₱11.3 million in 2010, 2009 and 2008, respectively.

c) The Parent 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 Parent Company and BDO. Related rent expense incurred amounted to ₱17.8 million, ₱16.1 million and ₱12.7 million in 2010, 2009 and 2008, respectively.

d) In 2010 and 2008, the Parent Company granted short-term unsecured loan amounting to ₱10.5 and ₱668.0, respectively, to BDO Rental, at prevailing market rates. The 2010 loan is not yet fully paid as of December 31, 2010 while the 2008 loan was fully paid in 2009. The loans carrying amount as of December 31, 2010 and 2008 amounted to ₱10.5 million and ₱657.2 million and are presented as part of Loans and Other Receivables in the Parent Company's statements of financial position. Total interest income earned by the Parent Company amounted to ₱1.0 million in 2010, ₱27.6 million in 2009 and ₱6.1 million in 2008 on these loan transactions and is presented as part of Interest and Discounts in the Parent Company's statements of comprehensive income.

e) In 2009, the Group sold certain receivables with carrying amount of ₱501.4 million for ₱564.0 million to BDO, resulting to gain on sale of ₱62.6 million. The gain is as presented as Gain on Sale of Receivable under Service Fees and Other Income.

f) Compensation of key management personnel (covering officer positions starting from Assistant Vice President and up) amounted to ₱26.2 million in 2010, ₱24.6 million in 2009, and ₱20.7 million in 2008 and is included as part of Employee Benefits under Operating Costs and Expenses in the statements of comprehensive income of the Group and Parent Company. Short-term employee benefits include salaries, paid annual leave and paid sick leave, bonuses, and non-monetary benefits.

g) On June 24, 2010, the Company entered into a Service Agreement with BDO Unibank. Under the Service Agreement, BDO shall perform certain services for the Company to help it realize its corporate goals as subsidiary of the Bank.

As of December 31, 2010, the Company has no existing or expiring patents, trademarks, copyrights, licenses, franchises, concessions, and royalty agreements. It has neither need nor pending application for government approval of its principal products or services.

The Company does not foresee new changes nor amendments in the Republic Act 8556 (the Financing Company Act of 1998) that would significantly affect the Company's business.

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, 2010, the Company had 182 employees – eleven (11) senior officers, sixty-two (62) junior officers and one hundred nine (109) rank & file employees. Of the total personnel, Executive Office is composed of two (2) employees; eighty-five (85) under the Marketing group, and eighty-eight (88) under the Operations group (Administrative, Credit, Accounting, Legal and MIS) and five(5) Treasury and two (2) under the company's subsidiary, BDO Rental, Inc. In 2011, the Company anticipates sixty-eight (68) 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 the Parent Company under the terms of a Collective Bargaining Agreement ("CBA") between the Parent Company and NUBE-BDO, a legitimate labor organization duly registered with the Department of Labor and Employment. CBA expires on October 31, 2010. Coverage of the CBA includes wage increases, allowances, bonuses, loans and other benefits.

**RISK FACTORS**

**Portfolio Concentration Risks**

As of December 31, 2010, 66.89% of the Company's leasing and financing portfolio consisted of exposure in firms in the following sectors: manufacturing, transportation and communication, construction, mining, agriculture, and financial intermediaries. 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 BOD, and focuses on actively securing the Company's short-to-medium-term cash flows by minimizing the exposure to financial markets.

The Company does not 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 risks, market risks, liquidity risks, and operational risk 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 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 year. Consequently, the Company maybe 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.

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 operation 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.

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 relending 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 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 ₱12 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 (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 (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.; and

f. The amount of interest expense allowed as income tax deduction is reduced by an amount equal to 33% of the interest income subjected to final tax.

**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 of foreign currency, debt securities, derivatives and other similar financial instruments from 5% to 7% effective November 1, 2005.

**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 2010 and 2009, the consolidated rent expense amounted to ₱17.8 million and ₱16.1 million, respectively. Cagayan de Oro, Dagupan, San Pablo, Cavite, Davao , Iloilo and Cebu branches lease their premises from the Parent Company.

**These are the details of the branches' office premises:**

**Cagayan:**

- Operates at the 2nd 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 with no escalation clause.

**Dagupan:**

- Operates at the 2nd Floor BDO Bldg., AB Fernandez Ave., Dagupan City for a period of five years until December 2013. Monthly rental amounts to P35,244 having no escalation clause.

**San Pablo:**

- Operates at the 3rd Floor, BDO Bldg., Rizal Street corner P. Alcantara St., San Pablo City, Laguna for a period of five years and will expire on September 2012. Monthly rental amounts to

P53,226.94 and rent is to be increased annually by 10% at current rate.

**Iloilo:**

- Operates at the 2nd Floor, BDO Corporate Center, BDO Valeria Branch, Valeria St., Iloilo City for a period of five years to expire in November 2013. Monthly rental amounts to P22,000 having no escalation clause.

**Davao:**

- Operates at the 2nd Flr., BDO Davao Regional Office, 383 C.M. Recto Avenue, Davao City for a period of five years until January 2014 with no escalation clause. Monthly rental amounts to P36,145.

**Cavite:**

- Operates at the 2nd Flr., BDO Building., Damarinas Technopark Paliparan I, Dasmarinas, Cavite City for a period of five years. Contract expires on July 2014. Monthly rental amounts P 32,472.

**Cebu:**

- Operates at the Mezzanine Floor, BDO Bldg., Gorordo Ave. Lahug, Cebu City for a period of 5 years and will expire on May 2014. Monthly rental is at P 30,748 having no escalation clause.

**Pampanga:**

- Operates at the 2nd Flr., Palm Bldg., McArthur Highway, Sindalan, San Fernando Pampanga for a period of ten years until December 2016. Monthly rental is at P21,083.04 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 until February 28, 2011. Monthly rental is at P218,552.

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 – ₱16.4 million; Cebu – ₱3.2 million; Davao – ₱1.6 million; Dagupan – ₱3.5 million; San Pablo – ₱2.3 million; Cagayan – ₱3.3 million; Iloilo – ₱1.6 million; Cavite – ₱0.36 million; Pampanga – ₱1.2 million and BDO Rental, Inc. – ₱2.9 billion.

## 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, are expected to have a material adverse effect on the Company or its consolidated financial condition.

## 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.

# OPERATIONAL AND FINANCIAL INFORMATION

## 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, 2010 was 62,693,718 shares or a total value of ₱81,776,628.

**Dividends**

On June 2, 2010 and December 8, 2010, the Company's Board of Directors approved the declaration of cash dividends at ₱0.05 per share in favor of stockholders of record as of June 30, 2010, paid on July 26, 2010 and at ₱0.10 per share in favor of stockholders of record as of December 22, 2010 which was paid on January 18, 2011. Total dividends in 2010 amounted to ₱432.50 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 equity.

**Market Information**

The principal market for the Company's common equity is the Philippine Stock Exchange (PSE)

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

| 2011 | High | Low | 2010 | High | Low |
|---|---|---|---|---|---|
| 1st quarter | 1.90 | 1.55 | 1st quarter | 1.50 | 1.48 |
| | | | 2nd quarter | 1.70 | 1.48 |
| | | | 3rd quarter | 1.69 | 1.54 |
| | | | 4th quarter | 1.69 | 1.46 |

| 2009 | High | Low | 2008 | High | Low |
|---|---|---|---|---|---|
| 1st quarter | P1.30 | P0.93 | 1st quarter | P1.80 | P1.40 |
| 2nd quarter | P1.36 | P0.93 | 2nd quarter | P1.96 | P1.40 |
| 3rd quarter | P1.30 | P1.18 | 3rd quarter | P1.96 | P1.30 |

As at April 28, 2011, March 31, 2011 and December 31, 2010, the closing price of the Company's share were at P 1.75, P 1.90 and ₱1.54, respectively.

Total number of stockholders as of March 31, 2011 was one thousand two hundred thirty nine (1,239) and as of December 31, 2010 was one thousand two hundred forty two (1,242). Common shares outstanding as of March 31, 2011 and December 31, 2010 totaled 2,162,475,312.

**Holders**

The Company's common stockholders, with their respective shareholdings, as of March 31, 2011 and December 31, 2010 are as follows:

| Name | No. of Shares Held | % to Total |
|---|---|---|
| Banco de Oro Unibank, Inc. (Parent Company) | 1,840,114,248 | 85.092960% |
| Various Stockholders | 322,361,064 | 14.907040% |
| | 2,162,475,312 | 100.0000% |

The top twenty (20) stockholders of the Company as of March 31, 2011 are as follows:

| Name of Stockholders | Securities | Shares Held | Total Outstanding |
|---|---|---|---|
| Banco De Oro Unibank, Inc. | Common | 1,840,114,248 | 85.092960% |
| PCD Nominee Corp.(Filipino) | Common | 190,127,245 | 8.792112% |
| Samuel Uy Chua | Common | 21,000,000 | 0.971109% |
| Wilson Chua | Common | 19,261,980 | 0.890738% |
| Equitable Computer Services,Inc.A/C Equitable | Common | 12,320,000 | 0.569717% |
| Wilson Chua &/or Ruby C. Chua | Common | 6,943,000 | 0.321067% |
| Panfilo Castro Jr., | Common | 6,140,000 | 0.283934% |
| PCD Nominee Corp.(Foreigner) | Common | 5,213,058 | 0.241069% |
| 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% |
| Virginia Chua | Common | 2,367,750 | 0.109493% |
| Equitable Computer Services,Inc. | Common | 2,070,200 | 0.095733% |
| Wilson Chua &/or Virginia Chua | Common | 1,421,000 | 0.065712% |
| Victor Barranda | Common | 1,157,475 | 0.053525% |
| Guild Securities Inc. | Common | 1,143,945 | 0.052900% |
| Eduardo Dy | Common | 1,143,560 | 0.052882% |
| Mercury Group of Companies | Common | 1,089,165 | 0.050367% |

The top twenty (20) stockholders of the Company as of December 31, 2010 are as follows:

| *Name of Stockholders* | *Securities* | *Shares Held* | *Total Outstanding* |
|---|---|---|---|
| Banco De Oro Unibank, Inc. | Common | 1,840,114,248 | 85.092960% |
| PCD Nominee Corp.(Filipino) | Common | 197,902,730 | 9.151676% |
| Samuel Uy Chua | Common | 21,000,000 | 0.971109% |
| Wilson Chua | Common | 19,261,980 | 0.890738% |
| Equitable Computer Services,Inc.A/C Equitable | Common | 12,320,000 | 0.569717% |
| Wilson Chua &/or Ruby C. Chua | Common | 6,943,000 | 0.321067% |
| Panfilo Castro Jr., | Common | 6,140,000 | 0.283934% |
| PCD Nominee Corp.(Foreigner) | Common | 5,213,058 | 0.241069% |
| Felly G. Castro | Common | 5,100,480 | 0.235863% |
| Samuel Uy Chua | Common | 3,011,150 | 0.139246% |
| Constantino Chua | Common | 2,497,200 | 0.115479% |
| Virginia Chua | Common | 2,367,750 | 0.109493% |
| Equitable Computer Services,Inc. | Common | 2,070,200 | 0.095733% |
| Wilson Chua &/or Virginia Chua | Common | 1,421,000 | 0.065712% |
| Victor Barranda | Common | 1,157,475 | 0.053525% |
| Guild Securities Inc. | Common | 1,143,945 | 0.052900% |
| Eduardo Dy | Common | 1,143,560 | 0.052882% |
| Mercury Group of Companies,Inc. | Common | 1,089,165 | 0.050367% |
| Constantino Chua &/or Willington Chua &/or George Chua | Common | 1,020,000 | 0.047168% |
| Nardo R. Leviste | Common | 759,000 | 0.035099% |

**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

**Management's Discussion and Analysis or Plan of Operation**

**March 2011 Compared to March 2010**

Gross revenues for the 1st quarter 2011 amounted to 412.1 million, a decrease by 29.39% from P583.6 million from the same period last year. Interest, discounts and rent, which represent 90% of gross revenues, amounted to P369.6 million in 2011, lower by 30.9% from last year's P534.9 million. This was primarily due to the decline in rental income from BDO Rental, Inc., a subsidiary of BDO Leasing. Other income also went down to P42.5 million versus last year's P48.7 million due to net impact of decrease in recovery of charged off assets(from various sales in 2010), lower dividend income (due to sale of SMC preferred shares in April 2010) and increase in miscellaneous income from application of payments of accounts under remedial management.

Interest and financing charges for March 2011 amounted to P82.3 million, consisting of financing charges on borrowings of P78.0 million and interest expense on leased deposits of P4.3 million. Financing charges increased by P2.1 million versus March 2010's P80.2 million mainly due to the increase in Bills Payable level from P6.41 billion in March 2010 to P9.02 billion in March 2011 to fund business growth.

Provision for credit losses has different bases for the comparative years. 1st quarter 2011 of P42.5 million is based on resulting 3 months amortization of a total P170 million budgeted annual provision for general loan loss provisioning, accounts receivable and ROPA. 1st quarter 2010 of P50.0 million resulted from an upfront recognition for the P95 million annual provision budgeted to cover the resulting required specific provisioning for the period.

Occupancy and equipment related expenses for the 1st quarter of 2011 amounted to P110.4 million, a decrease of P169.8 million from P2010's P280.2 million. This is attributable to the decline in the depreciation on leased assets of BDO Rental, Inc from several maturing accounts during the 1st quarter of 2011.

Litigation/assets acquired expenses increased to P11.2 million in 2011 from 2010's P5.1 million primarily due to additional legal filing and docket fees resulted from management's mandate to recover more from delinquent accounts.

Other expenses showed a net decrease of 24.5% from P10.2 million in 2010 to P12.7 million in 2011.

The company registered a net income of P70.7 million for the 1st quarter ending March 2011 as compared to P69.6 million for the 1st quarter ending March 2010.

Total assets increased by P2.8 billion from March 2010's P13.4 billion to P16.2 billion as of March 2011, mainly due the the increase in net loans and other receivables by P3.2 billion from 2010's P9.9 billion to P13.1 billion this year. The Company's net lease portfolio went up by P1.1 billion while net non-lease portfolio also increased by P3.7 billion. The net decrease of P13.4 million in Available-for-sale Investments is attributable to the sale of P30.0 million worth of preferred shares of San Miguel Corporation and the accumulated loss due to monthly revaluation amounting P58.4M as of March 2011. Property, Plant and Equipment-net decreased to P800.9 million from P1.2 billion in 2010 as a result of the decreasing balance of the net leased assets of BDO Rental. Other Assets, including cash and cash equivalents, went up by P28.4 million from a total of P1.014 billion March 2010 to P1.043 billion for the same period in 2011. Increase in other assets is mainly due to net effect of the increase in non-current assets held-for-sale amounting P85.3 million and the decline in cash and cash equivalents amounting P59.4 million.

Bills Payable increased by P2.609 billion from P6.410 billion to P9.019 billion in 2011.

Accounts Payable and accrued expenses decreased by P40.5 million main due to a P59.9 million decrease in Income Tax Payable due to higher provisioning as of March 2010 as compared to March 2011.

Lease deposits increased from P2.335 billion in 2010 to P2.576 billion in 2011.

Stockholders' equity stood at P4.401 billion as of March 2011.

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

| | March 2011 | March 2010 |
|---|---|---|
| Current Ratio | 0.49:1 | 0.60:1 |
| Quick asset ratio | 0.48:1 | 0.58:1 |
| Debt to Equity Ratio | 2.69:1 | 2.05:1 |
| Return on Equity | 6.43% | 6.32% |
| Net Profit Margin | 17.16% | 11.92% |

**2010 Compared to 2009**

Gross income for the year ended December 31, 2010 was ₱2.04 billion, a decrease of ₱0.17 million, or 7.77% from ₱2.21 billion in 2009. Interest, discounts, and rent for the year ended December 31, 2010 were ₱1.86 billion, a decrease of ₱0.13 million or 6.53% from ₱1.99 billion in 2009. This decrease was due to the decline in 2010 operating lease income of our subsidiary, BDO Rental, Inc. amounting to ₱830.9 million compared to ₱1.13 billion in 2009. The Company's leasing and financing portfolio as of December 31, 2010 was at ₱14.58 billion, a ₱3.19 billion increase, or 28.01% from ₱11.39 billion as of December 31, 2009 with both financing and leasing portfolio improving by 31.25% to ₱6.98 billion and 25.08% to P7.60 billion respectively.

Interest and financing charges for 2010 amounted to ₱330.9 million, consisting of financing charges on borrowings for ₱294.0 million and interest expense on lease deposits for ₱36.9 million. Increase of ₱49.54 million in financing charges is attributed to increase in Bills Payable which went up to ₱7.67 billion as of December, 2010 from

₱6.14 billion as of December 2009. Interest expense on leased deposits in 2010 amounted to P36.86 million or a decrease of ₱32.34 million from 2009's P69.24 million.

As of December, 2010, total allowance for impairment losses amounted to ₱234.4 million, an increase of ₱50.2 million from last year's ₱184.2 million. A total of ₱99.0 million provision for credit losses-loans & other receivables was set up during the year due to more conservative provisioning policies of the company. Total accounts written off in 2010 amounted to ₱32.7 million.

Taxes and licenses expenses were ₱112.8 million for the year ended December 31, 2010, an increase of ₱20.5 million, or 22.21% from ₱92.3 million for the year ended December 31, 2009. This was mainly from increase in Documentary Stamp Tax and Gross Receipts Tax expenses by ₱12.7 million and P0.9 million, respectively.

Salaries and employee benefits expense amounted to ₱134.1 in 2010 as compared to ₱133.9 million in 2009. Occupancy and equipment related expenses for the year ended December 31, 2010 amounted to ₱868.9 million, a decrease of ₱220.2 million, or 20.22% from December 2009's ₱1.09 billion, due to the decline in operating lease transactions of BDO Rental, Inc.

Litigation/assets acquired expenses increased by 19.33% or from ₱23.8 million in 2009 to ₱28.4 million in 2010.

Other expenses increased to ₱31.1 million in 2010 as compared to ₱25.8 million as in 2009.

The Company registered a net income of ₱308.7 million for the year ended December 31, 2010.

Total assets amounted to ₱15.3 billion, an increase of ₱2.28 billion from December, 2009's ₱13.01 billion. Available-for-sale financial assets of ₱1.52 billion pertains to the investments in San Miguel Corporation's (SMC) preferred shares purchased last December 2009. Leasing and financing portfolio increased by 27.96%. Property and Equipment-net amounted to ₱856.9 million as of 2010 or a decrease of ₱595.6 million over last year's ₱1.45 billion due to depreciation of leased assets and decline in operating lease transactions. Investment properties-net decreased to ₱701.3 million from 2009's ₱725.5 million primarily due to sale of foreclosed properties during the year.. Other assets stood at ₱180.9 million in 2010 primarily consisting of creditable withholding tax totaling ₱75.35 million.

Accounts Payable and accrued expenses increased by ₱208.0 million or 90.16% due to dividends payable balance amounting to ₱216.25 million for the cash dividend declaration in December 22, 2010.

Lease deposits, amounting ₱2.617 billion in 2010, increased by ₱315.8 million or 13.72% from last year's ₱2.301 billion. This was due to increase from finance lease transactions totaling ₱280.3 million.

Stockholders' equity increased by ₱230.7 million or 5.32%, primarily due to net income generated for the year less cash dividends declared and issued amounting ₱324.4 million.

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

| | December 2010 | December 2009 |
|---|---|---|
| Current Ratio | 0.86:1 | 0.50:1 |
| Quick asset ratio | 0.85:1 | 0.49:1 |
| Debt to Equity Ratio | 2.35:1 | 2.00:1 |
| Return on Equity | 6.76% | 6.92% |
| Net Profit Margin | 15.14% | 13.58% |

Increase in current and quick asset ratios can be attributed to the ₱4.4 billion increase in net loans & receivables financed that are expected to be collected within one year. Increase in current financial liabilities account for the 2.35:1 debt to equity ratio in 2010 as compared to 2.00:1 in 2009. Return on equity declined from 6.92% in 2009 to 6.76% in 2010 due to the other comprehensive income earned in 2010 amounting ₱246.4 million for the unrealized fair value gain on the investment in San Miguel Preference Share. Slight increase in the net profit margin is due to the increase in net income from ₱300.0 million in 2009 to ₱308.7 million in 2010.

**2009 Compared to 2008**

Gross income for the year ended December 31, 2009 was ₱2.21 billion, an increase of ₱841.2 million, or 61.47% from ₱1.37 billion in 2008. Interest, discounts, and rent for the year ended December 31, 2009 were ₱1.99 billion, an increase of ₱721.9 million or 56.89% from ₱1.27 billion in 2008. This increase was due to higher 2009 operating lease income from our subsidiary, BDO Rental, Inc. amounting to ₱1.13 billion compared to ₱256.4 million in 2008 as well as increase in financing income amounting to ₱1.99 billion from ₱1.27 billion the previous year. Operating Lease income rose to 57% of 2009's total financing income from 20% in 2008. The Company's leasing and financing portfolio as of December 31, 2009 was at ₱11.39 billion, a ₱2.50 billion or 28.07% increase from ₱8.89 billion as of December 31, 2008, with both financing and leasing portfolio improving by 66.82% to ₱6.08 billion and 1.20% to ₱5.31 billion respectively.

Interest and financing charges for 2009 amounted to ₱281.37 million, consisting of financing charges on borrowings for ₱212.13 million and interest expense on leased deposits for ₱69.24 million. Decrease in financing charges by ₱3.09 million is attributed to lower cost of borrowing in spite of the increment in Bills Payable which went up to ₱6.14 billion as of December, 2009 from ₱3.67 billion as of December 2008. Interest expense accrued on leased deposits in 2009 amounted to ₱69.24 million or an increase of ₱16.39 million from 2008's ₱52.85 million . This is attributed to higher fair value gains on initial recognition of leased deposits in 2009 amounting to ₱65.28 million as compared to 2008's ₱9.58 million.

As of December, 2009, total allowance for impairment losses amounted to ₱184.3 million which is an increase of ₱51.4 million from last year's ₱132.9 million. A total of ₱94.52 million provision for credit losses was set up during the year due to more conservative provisioning policies of the company. Total accounts written off in 2009 amounted to ₱43.69 million.

Taxes and licenses expenses were ₱92.3 million for the year ended December 31, 2009, an increase of ₱11.6 million, or 14.37% from ₱92.3 million for the year ended December 31, 2008. This was due to higher loan activity and revenues as evidenced by increase in Documentary Stamp Tax and Gross Receipts Tax expenses by ₱7.5 million and ₱3.0 million, respectively.

Salaries and employee benefits expense amounted to ₱133.9 in 2009 as compared to ₱114.3 million in 2008. Occupancy and equipment related expenses for the year ended December 31, 2009 were ₱1.09 billion, an increase of ₱865.9 million, or 391.46% from December 2008's ₱221.2 million due to adjustments in the recognition in depreciation expenses on leased assets of BDO Rental, Inc.

Litigation/assets acquired expenses decreased by 2.76% or from ₱26.60 million in 2008 to ₱23.85 million in 2009.

Other expenses increased to ₱35.0 million in 2009 as compared to ₱29.5 million as in 2008.

The Company registered a net income of ₱300.03 million for the year ended December 31, 2009.

Total assets increased by ₱2.64 billion from December, 2008's ₱10.41 billion. Available-for-sale financial assets of ₱1.30 billion pertains to the investments in San Miguel Corporation's (SMC) preferred shares purchased last December 2009. Leasing and financing portfolio increased by 28.07%. Property and Equipment-net amounted to ₱1.45 billion as of 2009 or a decrease of ₱197.2 million over last year's ₱1.65 million due to depreciation of leased assets. Investment properties-net increased to ₱767.0 million from 2008's ₱751.63 million primarily due to foreclosed properties during the year.. Other assets stood at ₱156.6 million in 2009 primarily consisting of creditable withholding tax totaling ₱47.89 million.

Accounts Payable and accrued expenses amounting ₱230.7 million increased by ₱38.5 million or 20.03% due to increased income tax payable in 2009 amounting to ₱73.5 million compared to 2008's ₱8.9 million.

Lease deposits increased to ₱2.30 billion or 13.65% from last year's ₱2.03 billion, ₱45.3 million of the increase was contributed by BDO Rental, Inc.

Stockholders' equity decreased to ₱4.33 billion from last years ₱4.47 billion primarily due to net income generated for the year amounting ₱300.0 million less cash dividends declared and issued amounting ₱432.5 million.

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

| | December 2009 | December 2008 |
|---|---|---|
| Current Ratio | 0.50:1 | 0.98:1 |
| Quick asset ratio | 0.49:1 | 0.98:1 |
| Debt to Equity Ratio | 2.00:1 | 1.32:1 |
| Return on Equity | 6.92% | 8.18% |
| Net Profit Margin | 13.58% | 26.71% |

Decrease in current and quick asset ratios can be attributed to the ₱2.44 billion increase in financial liabilities classified under current liabilities or liabilities expected to be settled within one year. This also accounts for the 2.00:1 debt to equity ratio in 2009 as compared to 1:32:1 in 2008. Reduced net profit margin is due to decrease in net income from ₱365.6 million in 2008 to ₱300.0 million in 2009. The lower net income is a result of the adjustments in depreciation expense and more conservative provisioning policies. Without these adjustments, net income in 2009 would have been at par with that of 2008.

**Policy on Revenue Recognition – Other Income**

All other income/gains such as rental income, gain on disposal of property, etc., which do not fall under service and non-service revenues are included under this classification.

**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 Externals 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 ₱17.8 billion or 16.43% in 2011 with Net Loans and Other Receivables increasing from ₱11.9 billion in 2010 to ₱14.5 billion in 2011 or up to 21.35%. Total Revenue is estimated at ₱1.6 billion by year-end 2011 while Interest and Financing Charges and Operating Lease-related Depreciation total ₱352 million and ₱194 million, respectively.

Projected Net income is ₱345 million, an increase of 11.65% versus the ₱309 million Audited 2010 Performance.

Branches will continue to provide the means for the Company's presence in the market and are continuously streamlining processes to further improve profitability. They are expected to contribute at least 28.5% in total revenues.

Funding will be mainly sourced from the short-term commercial papers (STCP), bank lines and collections. The Company secured an approval in 2010 for P12 Billion worth of STCP.

**Financial Statements**

The financial statements of the Company included in the 2010 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 | **2010** | **2009** |
| Audit fee | ₱ 502 | ₱ 422 |

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 of Directors for approval. It reports to the Board of Directors audit-related matters requiring the Board's action.

**Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

In 2010 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.

## CORPORATE GOVERNANCE

The Company has adopted a Manual of Corporate Governance, which was filed with and duly approved by the Commission. Pursuant to the Manual, the Company established an evaluation system to measure or determine the level of performance of the Board of Directors and top level management. The rating form, which is duly approved by the Board of the Company, is accomplished on an annual basis.

The Company requires its directors and senior officers to attend seminars conducted by reputable service providers and conduct its own training and seminars to fully comply with the adopted leading practices on good governance.

There has been no deviation from the Company's Manual of Corporate Governance.

The Company will continue to send its directors and senior officers to attend training programs and seminars to further improve the corporate governance of the Company.

**UNDERTAKING TO PROVIDE ANNUAL REPORT**

**The Registrant undertakes to provide without charge each stockholder with a copy of its Annual Report upon written request to the Registrant addressed to the:**

**OFFICE OF THE CORPORATE SECRETARY**
**14TH FLOOR, NORTH TOWER**
**BDO CORPORATE CENTER**
**7899 MAKATI AVENUE**
**MAKATI CITY 0726 PHILIPPINES**