



REPUBLIC OF THE PHILIPPINES  
Securities and Exchange Commission

**CERTIFICATE OF PERMIT TO OFFER SECURITIES FOR SALE**

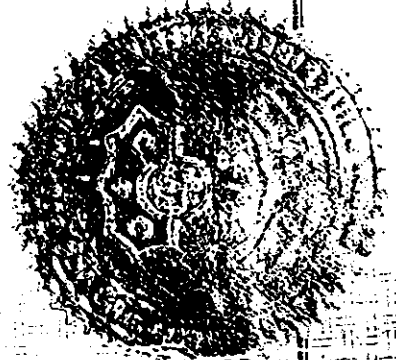
THE ISSUANCE OF THIS CERTIFICATE OF PERMIT IS PERMISSIVE ONLY AND DOES NOT  
CONSTITUTE A RECOMMENDATION OR ENDORSEMENT OF THE SECURITIES PERMITTED TO BE ISSUED

THIS IS TO CERTIFY that the securities of

**BDO LEASING AND FINANCE, INC.**

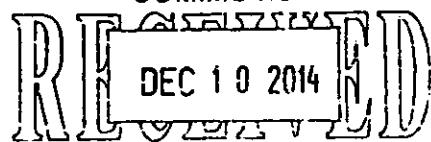
consisting of FIFTEEN BILLION PESOS (Php15,000,000,000.00) worth of Short-Term Commercial Papers under SEC MSRD No. 22, Series of 2014 have been registered and may now be offered for sale or sold to the public subject to full compliance with the provisions of the Securities Regulation Code and its Implementing Rules and Regulations, Revised Code of Corporate Governance and other applicable laws and orders as may be issued by the Commission.

Issued at Mandaluyong City, Philippines this 11<sup>th</sup> day of December Two Thousand and Fourteen.



VICENTE GRACIANO PEDIZMENIO, JR.

Director



MARKET REGULATION DEPT.  
BY: \_\_\_\_\_ TIME: \_\_\_\_\_

## BDO LEASING AND FINANCE, INC.

### FINAL PROSPECTUS

#### PHP 15.00 Billion SEC-REGISTERED SHORT-TERM COMMERCIAL PAPERS

##### EXCLUSIVE SELLING AGENT:

##### **BDO CAPITAL & INVESTMENT CORPORATION**

(BDO Capital and Investment Corporation is 100% owned by BDO Unibank  
BDO Leasing and Finance Inc is 87.43% owned by BDO Unibank, Inc and 12.11% owned by BDO Capital  
Both BDO Capital and BDO Leasing are subsidiaries of BDO Unibank, Inc)


The date of this Final Prospectus is 10 December 2014

**ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL  
INFORMATION CONTAINED HEREIN IS TRUE AND CURRENT.**

  
**ROBERTO E. LAPID**  
*President and Vice Chairman*

SUBSCRIBED AND SWORN to before me this **CASIN CITY** day of **DEC 10 2014**, 2014, affiant  
exhibiting before me her TIN No. 108-159-915.

Doc No. 383  
Page No. 78  
Book No. CL11  
Series No. 2014

  
**KIM BRIGUERA-DACARA**  
NOTARY PUBLIC UNTIL DEC. 31, 2014  
APPT. NO. 28 (2013-2014)

The ownership of BDO Capital and BDO Leasing and Finance Inc is an Equity Investment of BDO Capital

REG. NO. 945877 / 10-10-10 / 10-10-10

PTR NO. 952022 / 01-01-10 / 01-01-10

PASIG / SAN JUAN / LA LUNA / PATEROS

ARTS & CRAFTS, NO. 1001111 / 10-10-10

No dealer, salesperson or other person has been authorized to give any information or make any representation other than those contained in this Prospectus in connection with the offer contained herein and, if given or made, such information or representation must not be relied on as having been authorized by the Company or any of the Underwriters and Selling Agents.

**This Prospectus does not constitute an offer to sell or a solicitation of any offer to buy any security other than the Offered STCP, nor does it constitute an offer to sell or a solicitation of any offer to buy the Offered STCP by anyone in any jurisdiction in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation.**

Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstance, create any implication that the information herein is correct as of any time subsequent to the date hereof.

The information contained in this Prospectus has been supplied by the Company, which hereby accepts full responsibility for the accuracy of the information herein and confirms that, to the best of its knowledge and belief, there are no facts the omission or addition of which would make any statement in this Prospectus misleading. The Lead Selling Agent has exerted reasonable efforts to verify the information contained herein but it does not make any representation as to the accuracy or completeness of the materials contained herein.

**THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE, ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION.**

**Republic of the Philippines**  
**Department of Trade and Industry**  
**SECURITIES AND EXCHANGE COMMISSION**  
**SEC Building, EDSA, Mandaluyong, Metro Manila**

**REGISTRATION STATEMENT**  
(Twenty Third Renewal Application)  
Securities Regulation Code

**BDO LEASING AND FINANCE, INC.**

-----  
(Exact Name of Registrant as specified in the Articles of incorporation and Registered name, if any.)

BDO Leasing Centre, Corinthian Gardens, Ortigas Avenue, Quezon City 635-6416

Principal Office

Telephone Number

BDO CAPITAL & INVESTMENT CORPORATION

878-4550

20th Floor, South Tower, BDO Corporate Tower, 7899 Makati Avenue, Makati City, Metro Manila

(Name, Address and Telephone Number of Selling Agent to whom SEC and Legal Summons may be serviced)

Previous Authority to Issue Commercial Papers:

SEC-CFD Order No.

204

Expiry Date

December 12, 2014

Approved Debt Ceiling

P 15,000,000,000.00

Amount of CPs applied for Renewal

P 15,000,000,000.00

Filed by:

ROBERTO E. LAPID  
Name

Vice Chairman & President  
Position

635-5817  
Tel. No.

BDO Leasing Centre, Corinthian Gardens, Ortigas Avenue, Quezon City

Address

To be filled up by S.E.C. only:

FILING FEE : \_\_\_\_\_

UPLR FUND : \_\_\_\_\_

TOTAL : \_\_\_\_\_

Approved for payment.

\_\_\_\_\_  
(Print Name and Signature)

\_\_\_\_\_  
(Position)

\_\_\_\_\_  
(Date)

# SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 12-1

### REGISTRATION STATEMENT UNDER THE SECURITIES REGULATION CODE

1. SEC Identification Number 97869
2. BDO Leasing and Finance, Inc.  
Exact name of Registrant as specified in its charter  
Metro Manila, Philippines 320-000-486-050
3. Leasing and Financing 4. BIR Tax Identification  
Province, country or other jurisdiction of  
incorporation or organization
5. General character of business of registrant
6. Industry Classification Code: [REDACTED] (SEC Use Only)  
BDO Leasing Centre, Corinthian Gardens, Ortigas Avenue, Quezon City 1100  
7. Tel: (032) 635-6416 Fax: (032) 633-7736

Address, including postal code, telephone number, FAX number including area code of  
registrant's principal offices

Not Applicable

8. December 31, 2013  
If registrant is not resident in the Philippines, or its principal business is outside the Philippines,  
state name and address including postal code, telephone number and FAX number, including  
area code, and email address of resident agent in the Philippines.
9. Fiscal Year Ending Date (Month and Day): December 31, 2013

### COMPUTATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Proposed Maximum offering price per unit	Proposed Maximum aggregate offering price	Amount of registration fee
Short Term Commercial Papers	Php 10,000,000,000.00	Php 100,000,000.00	Php 10,000,000,000.00	Php 3,093,125.00

**BDO LEASING AND FINANCE, INC.**  
**( A subsidiary of BDO Unibank)**

**Total Short Term Commercial Paper License applied for is Php 10.00 Billion.**

**The Php 10.00 Billion will be discharged as follows:**

Payment for Maturing Obligation	Php 3,376,000,000.00
For Relending	Php 6,624,000,000.00

The Short-Term Commercial Paper is issued directly to the end-user.

Outstanding Obligations  
(as of October 31, 2014)

Short-Term CPs	12,785,600,000.00	2.300%-2.500%	11.03.2014-05.21.2015
Short-Term PNs	4,173,250,042.79	2.200%-3.000%	11.03.2014-01.22.2015
Long-Term PNs	714,875,000.00	3.250%	06.30.2016

**Selling Agent's Fees**

*In consideration for the commitment and undertaking and other services of the Selling Agent as provided herein, the Issuer shall pay selling commissions/fees equivalent to:*

Over and above normal trading margins for CPs sourced by the Selling Agent, one-thirty second of one percent (1/32% per annum), based on the full term and principal of each CP sold during a given month.

**Dividends Policy**

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

There are no restrictions that will limit the ability to pay dividends on common equity. The Company and its subsidiary, BDO Rental Inc has no established dividends policy as of the moment.

**Dividends**

On April 17, 2013, the BOD approved the declaration of cash dividends at P0.15 per share amounting to P324.4. The dividends were declared in favor of stockholders of record as of May 17, 2013 and were paid subsequently on June 13, 2013.

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

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

Local and Foreign Ownership as of September 30, 2014:

Foreign Shares :	1,253,938
Local Shares :	2,161,221,374
Total Shares :	2,162,475,312

The Company is a subsidiary of BDO Unibank. Its principal office is located at BDO Leasing Centre, Corinthian Gardens, Ortigas Avenue, Quezon City. Its telephone number is (632) 635-6416.

Unless otherwise stated, the information contained in this document have been supplied by the Company, which accepts full responsibility for the accuracy of the information and confirms, after having made all reasonable inquiries, that to the best of its knowledge and belief, there are no material facts, the omission of which would make any statement in this document misleading in any material respect. Neither the delivery of this document nor any sale made hereunder shall, under any circumstances, create any implication that the information contained herein is correct as of any time subsequent to the date hereof.

No dealer, salesman or other person has been authorized by the Company to issue any advertisement or to give any information or make any representation in connection with the sale of the Short-Term Commercial Papers other than those contained in this document and, if issued, given or made, such advertisement, information or representation must not be relied upon as having been authorized by the Company.

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## GLOSSARY

In this Offering Prospectus, unless the context requires otherwise, the following expressions have the following meanings:

“Articles”	.....	The Articles of Incorporation of the Company
“BAP”	.....	The Bankers Association of the Philippines
“BDO”	.....	Banco De Oro Unibank, Inc., the parent company
“Board”	.....	Board of Directors of the Company
“BSP”	.....	Bangko Sentral ng Pilipinas, the Philippines’ central monetary authority
“PhilRatings	.....	PhilRatings
“Common Shares” or “Shares”	.....	The common shares of par value Php 1.00 each in the capital of the Company
“Company” or “BDOLFI” or or “BDO Leasing”	.....	BDO Leasing and Finance, Inc.
“Corporation Code	.....	The Corporation Code of the Philippines (Cabinet Bill No. 3)
“Directors”	.....	The directors of the Company holding office as of the date of this Offering Prospectus and as listed in the section of this Offering Prospectus headed “Directors and Senior Management”
“DOSRI”	.....	Directors, Officers, Stockholders and Related Interests
“FASB”	.....	The Financial Accounting Standards Board
“financing company”	.....	A company organized under the Financing Company Act (Republic Act No. 5980), and primarily engaged in the extension of lease and financing
“GDP”	.....	Gross Domestic Product
“GRT”	.....	Gross receipts tax
“Gross Income”	.....	Refers to the Company’s gross income or revenues
“Investors”	.....	Those person or entities who are invited to subscribe to or purchase the Offer Shares subject to and in accordance with the Offering
“Lead Underwriter”	.....	BDO Capital & Investment Corporation
“LTCPs”	.....	Long-term Commercial Papers
“Manual”	.....	The Manual of regulations for Banks and Other Financial Institutions
“market share”	.....	Unless otherwise stated, market share refers to the percentage contribution relative to the industry’s outstanding net leasing and financing receivables as estimated by the Philippine SEC
“NSO”	.....	National Statistics Office
“Philippine SEC”	.....	The Securities and Exchange Commission of the Philippines
“Philippine Stock Exchange” or	.....	Philippine Stock Exchange, Inc.
“PSE”	.....	
“RCIT”	.....	Regular Corporate Income Tax
“Republic Act No. 337” or the	.....	The law pertaining to the power of the Monetary Board of

“General Banking Act”	the BSP to regulate and supervise financial institutions in general
“Republic Act No. 5980”, as..... amended by RA No. 8556, or the “Financing Company Act”	The primary law regulating the organization and operation of financing companies
“Residual Value” .....	The estimated value of a leased equipment at the end of the lease period
“SBL” .....	Single Borrower’s Limit
“SMEs” .....	Small- and medium-sized enterprises with total assets ranging from P1.50 Million to P60.0 Million
“SFAS No. 23” .....	Accounting standard relating to deferred income tax accounting
“Shares” .....	Common shares of par value Php 1.00 each in the capital of the Company
“SRC” .....	Securities Regulation Code
“STCPs” .....	Short-term commercial papers
“universal banks” .....	Banking institutions with expanded commercial banking authorities
“VAT” .....	Value-Added Tax

## **SUMMARY INFORMATION**

### **THE COMPANY**

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

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

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

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

### **RISK OF INVESTING**

Investors should prudently assess all attendant risks, as well as other considerations associated with an investment in this Offer. Such risks include those arising from credit risk, market risk, liquidity risk and operational risk. These are discussed under “Risk Factors” on page 7.

## **SUMMARY FINANCIAL INFORMATION**

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The following selected information was derived from the audited financial statements as of December 31, 2013 and for the years ended December 31, 2012 and 2011. The audited financial statements were audited by Punongbayan & Araullo, in accordance with the Generally Accepted Accounting Principles in the Philippines. The information should be read in conjunction with, and is qualified in its entirety by reference to such financial statements and related notes thereto and “Management’s Discussion and Analysis or Plan of Operation”.

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
(A Subsidiary of Banco De Oro Unibank, Inc.)

**STATEMENTS OF COMPREHENSIVE INCOME**

For the years ended December 31, 2013 and 2012

(Amounts in Millions of Philippine Pesos, Except Per Share Data)

		<u>Group</u>		<u>Parent Company</u>	
		<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<b>REVENUES</b>					
Interest and discounts	Php	1,296.9	1,271.2	1,296.8	1,271.8
Rent		380.8	229.8	1.2	-
Service fees and other income		225.2	260.5	198.3	251.2
		<hr/>	<hr/>	<hr/>	<hr/>
		1,902.9	1,761.5	1,496.3	1,523.0
<b>OPERATING COSTS AND EXPENSES</b>					
Interest an Financing Charges		418.6	463.2	456.8	458.4
Occupancy and equipment related expenses		352.2	220.8	61.1	45.6
Employee Benefits		183.4	164.6	183.4	164.6
Impairment and credit losses		126.0	112.5	126.0	112.5
Tax and licenses		148.7	134.7	144.0	132.2
Litigation/assets acquired expenses		17.0	47.9	17.0	47.9
Others		91.2	90.9	88.9	90.6
		<hr/>	<hr/>	<hr/>	<hr/>
		1,337.1	1,234.6	1,020.6	1,051.8
<b>PROFIT BEFORE TAX</b>		<hr/>	<hr/>	<hr/>	<hr/>
		565.8	526.9	475.7	471.2
<b>TAX EXPENSE</b>		<hr/>	<hr/>	<hr/>	<hr/>
		145.5	116.2	118.2	99.4
<b>NET PROFIT</b>	Php	<hr/>	<hr/>	<hr/>	<hr/>
		420.3	410.7	357.5	371.8
<b>OTHER COMPREHENSIVE INCOME</b>		<hr/>	<hr/>	<hr/>	<hr/>
		86.3	(28.0)	86.3	(28.0)
<b>TOTAL COMPREHENSIVE INCOME</b>		<hr/>	<hr/>	<hr/>	<hr/>
		506.6	382.7	443.8	343.8
<b>EARNINGS PER SHARE</b>	Php	<hr/>	<hr/>	<hr/>	<hr/>
		0.19	0.19	0.17	0.17

**BDO LEASING AND FINANCE, INC. AND SUBSIDIARY**  
(A Subsidiary of Banco De Oro Unibank, Inc.)

**STATEMENTS OF FINANCIAL POSITION**  
For the years ended December 31, 2013 and 2012  
(Amounts in Millions of Philippine Pesos)

		<u>Group</u>		<u>Parent Company</u>	
		<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>					
Cash & cash equivalents	Php	138.0	69.4	129.1	63.5
Available-for-sale Financial Assets		2,093.5	2,022.0	2,093.5	2,022.0
Loans & Other Receivables – Net		20,975.0	17,245.0	20,971.2	17,242.3
Property and equipment – Net		1,424.2	643.7	7.5	11.0
Investment properties - Net		145.7	379.5	145.7	379.5
Other assets – Net		561.0	314.7	720.8	562.1
<b>TOTAL ASSETS</b>		<b>Php 25,337.4</b>	<b>20,674.3</b>	<b>24,067.8</b>	<b>20,280.4</b>
<b>LIABILITIES AND EQUITIES</b>					
Bills payable	Php	16,448.5	12,697.0	15,517.4	12,531.4
Accounts payable and other liabilities		258.1	112.6	196.5	99.6
Dividends Payable		-	-	-	-
Income Tax Payable		27.5	91.7	27.5	91.7
Deferred Tax Liability – Net		15.2	13.0	15.2	12.9
Lease deposits		3,817.1	3,171.2	3,774.6	3,127.6
<b>TOTAL LIABILITIES</b>		<b>20,566.4</b>	<b>16,085.5</b>	<b>19,531.2</b>	<b>15,863.2</b>
Capital stock		2,225.2	2,225.2	2,225.2	2,225.2
Additional paid-in capital		571.1	571.1	571.1	571.1
Treasury shares		(81.8)	(81.8)	(81.8)	(81.8)
Retained Earnings		1,986.2	1,890.3	1,751.8	1,718.7
Unrealized Fair Value Loss on AFS securities		112.2	41.1	112.2	41.1
Net Accumulated Actuarial Losses		(41.9)	(57.1)	(41.9)	57.1
<b>TOTAL EQUITY</b>		<b>4,771.0</b>	<b>4,588.8</b>	<b>4,536.6</b>	<b>4,417.2</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>Php</b>	<b>25,337.4</b>	<b>20,674.3</b>	<b>24,067.8</b>	<b>20,280.4</b>

## **GENERAL RISK WARNING**

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The price of securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. Past performance is not a guide to future performance. There is an extra risk of losing money when securities are bought from smaller companies. There may be a big difference between the buying price and the selling price of these securities.

An investor deals in a range of investments each of which may carry a different level of risk.

### **PRUDENCE REQUIRED**

This risk disclosure does not purport to disclose all the risks and other significant aspects of investing in these securities. An investor should undertake his or her own research and study on the trading of securities before commencing any trading activity. He/She may request information on the securities and issuer thereof from the Commission which are available to the public.

### **PROFESSIONAL ADVICE**

An investor should seek professional advice if he or she is uncertain of, or has not understood any aspect of the securities to invest in or the nature of risk involved in trading of securities specially those high risk securities.

## **RISK FACTORS**

### **Portfolio Concentration Risks**

As of December 31, 2013, 86.15% of the Company's leasing and financing portfolio consisted of exposure in firms in the following sectors: transportation and communication, manufacturing, trade, real estate, mining and quarrying and trade. The Company maintains a general policy of avoiding excessive exposure in any particular sector of the Philippine Economy. The Company actively seeks to increase its exposure in industry sectors which it believes possess attractive growth opportunities. Conversely, it actively seeks to reduce its exposure in industry sectors where growth potential is minimal. Although the Company's leasing and financing portfolio is composed of transactions with a wide variety of businesses, the results of operations and financial condition of the Company may be adversely affected by any downturn in these sectors as well as in the Philippine economy in general.

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

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

### **Risk Management**

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

In general risk management is handled by the Market and Liquidity Risk Management Unit. They are tasked to propose and recommend policies for market and liquidity risk management for approval by the Risk Management Committee and ensure that the market and liquidity risk taking activities are in alignment with the senior management's risk appetite. Also, they review and recommend the acceptable market risk and liquidity limits and validate pricing models and methodologies.

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

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

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

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

Company believes that the adverse impact of any interest rate increase would be limited. In addition, during periods of declining interest rates, the existence of a negative gap position favorably impacts the Company.

### ***Credit Risk***

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

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

### ***Liquidity Risk***

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

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

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

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

## **TAXATION**

### **Relevant Tax Regulations**

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

- a. The regular corporate income tax (RCIT) of 30% (effective January 1, 2009) is imposed on taxable income net of applicable deductions
- b. Fringe benefits tax of 32% is imposed on the grossed-up value of the benefits given by employers to their managerial and supervisory employees (this is a final tax to be paid by the employer);
- c. Minimum corporate income tax (MCIT) of 2% based on gross income, as defined under the Tax Code, is required to be paid at the end of the year starting on the fourth year from the date of registration with the

Bureau of Internal Revenue (BIR) whenever the RCIT is lower than the MCIT. On October 19, 2007, the BIR issued Revenue Regulation (RR) No. 12-2007 which requires the quarterly computation and payment of the MCIT beginning on the income tax return for the fiscal quarter ending September 30, 2007. This amended certain provisions of RR No. 9-98 which specifically provides for the computation of the MCIT at end of each taxable year. Thus, in the computation of the tax due for the taxable quarter, if the computed quarterly MCIT is higher than the quarterly normal income tax, the tax due to be paid for such taxable quarter at the time of filing the quarterly corporate income tax return shall be the MCIT which is 2% of the gross income as of the end of the taxable quarter.

d. Net operating loss carryover (NOLCO) can be claimed as deduction against taxable income within three years after NOLCO is incurred;

e. Effective July 2008, Republic Act 9504 was approved giving corporate taxpayers an option to claim itemized deduction or optional standard deduction (ODS) equivalent to 40% of gross sales. Once the option to use OSD is made, it shall be irrevocable for the taxable year for which the option was made;

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

g. October 2012, the BIR prescribed the rules on deductibility of depreciation expenses as it relates to purchase of vehicles and other related thereto, and input taxes allowed thereto through RR No. 12-2012. Revenue Memorandum Circular No. 2-2013 was issued on December 28, 2012 clarifying certain provisions on the deductibility of depreciation expense as it relates to purchase of vehicles and other related thereto, and the Input Taxes allowed;

h. Effective November 2012, the BIR issued RR No. 14-2012 for proper tax treatment of interest income earnings on Financial Instrument and other related transaction. Subsequently, the BIR also issued RMO No. 27-2012 for the creation of alphanumeric tax code and RMO No. 84-2012 for the clarification on tax treatment of interest income earnings on loans that are not securitized, assigned or participated out; and

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

j. RR No. 9-2013 was issued May 10, 2013 amending certain provisions of RR No. 30-2002 relative to the payment of the amount offered as compromise settlement. Under Section 6 of the National Internal Revenue Code "The compromise offer shall be paid by the taxpayer upon filling of the application of compromise settlement. No application for compromise settlement shall be processed without the full settlement of the offered amount. In case of disapproval of the application for compromise settlement, the amount paid upon filing of the aforesaid application shall be deducted from the total outstanding liabilities.

k. Effective June 01, 2013, BIR issued RR No. 10-2013 amends further pertinent provisions of RR No. 2-98, as last amended by RR No. 30-2003, providing for the inclusion of Real Estate Service Practitioners (RESP's), (i.e. real estate consultants, real estate appraisers, and real estate brokers) who passed the licensure examination given by the Real Estate Service pursuant to RA 9646 "The Real Estate Service Act of the Philippines" among those professionals falling under Sec. 2.57.2 (A)(1) of RR No. 2-98, as amended subject to the 10% and 15% creditable (expanded) withholding tax and to amend Section 2.57.2 (G) of RR 14-2002 to include real estate practitioners who did not pass or did not take up licensure examinations given by the Real Estate Service. These regulations shall cover income payments to be paid or payable starting June 01, 2013 which are required to be remitted within the month of July 2013.

l. Beginning of the calendar year 2013, RR No. 11-2013 prescribes the filing/submission of hard copy of the Certificate of Compensation Payment / Tax Withheld (BIR Form 2316) covering employees who are qualified for substituted filing thereby amending RR No. 2-98 as last amended by RR No. 010-08. In cases covered by substituted filing, the employer shall furnish each employee with the original copy of BIR Form 2316 and file/submit to the BIR the duplicate copy not later than February 28 following the close of the calendar year.

m. RR No. 12-2013 issued last July 12, 2013 amends Section 2.58.5 of RR no. 2-98, as amended, Relative to the Requirements for deductibility of Certain Income Payments. No deduction will be allowed notwithstanding payments of withholding tax at the time of audit investigation or reinvestigation / reconsideration in cases where no withholding of tax was made in accordance with Secs. 57 and 58 of the Code.

n. On September 17, 2013, the BIR issued RR No. 17-2013, prescribes the guidelines on the preservation of Books of Accounts and other accounting records. Under Section 2 all taxpayers are required to preserve their books of accounts, including subsidiary books of accounts and other accounting records, for a period of ten (10) years reckoned from the day following the deadline from the date of the filing of the return, for taxable year when the last entry was made in the books of accounts.

o. RR No. 18-2013 which was issued November 28, 2013 amends certain sections of RR No. 12-99 relative to the due process requirement in the issuance of Deficiency Tax Assessment. RR 18-2013 introduced New Assessment Phase which removes requirement for issuance of informal conference, mandates issuance of FAN 15 days from receipt of reply to PAN and if Taxpayer fails to reply to PAN within 15 days, he is in default and FAN issued right away. In terms of protesting and administrative appeal it requires indication of which kind of protest whether reinvestigation or reconsideration otherwise void. Other changes imposed by RR 18-2013 is the imposition of 20% delinquency interest, in addition to the 20% deficiency interest.

### **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 No. 9010. The Company became subject to VAT based on their gross receipts, in lieu of the GRT under Sections 121 and 122 of the Tax Code, which was imposed on banks, non-banks financial intermediaries and finance companies in prior years.

On January 29, 2004, Republic Act No. 9238 reverted to the imposition of GRT on banks and financial institutions. This law is retroactive to January 1, 2004. The Company complied with the transitional guidelines provided by the BIR on the final disposition of the uncollected Output VAT as of December 31, 2004.

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

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

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

## MARKET INFORMATION FOR SECURITIES OTHER THAN COMMON EQUITY

STCPs has no established public trading market from which market information for STCPs can be obtained.

### USE OF PROCEEDS

The principal purpose for the which the net proceeds from the sale of the Php 15.00 Billion Short Term Commercial Papers ("STCP") Issue will be used as payment of maturing obligations and relending.

Computation of net proceeds for the sale of Php 15.00 Billion will use these formulas.

$$\text{Proceeds} = \text{Discount} + \text{Credit Withholding Tax}$$

$$\text{Discount} = \frac{(\text{Face Value} \times 360)}{((\text{Rate} \times \text{Term}) + 360)}$$

$$\text{Gross Interest} = \text{Face Value} - \text{Discount}$$

$$\text{CWT} = \text{Gross Interest} \times 20\%$$

Net Proceeds for Short Term Commercial Papers sold will vary depending on the following factors :

1. Face Value
2. Term
3. Agreed upon yield or rate. Rates given to clients vary from 2.250% – 2.500%

Total Short Term Commercial Paper License applied for is Php 15.00 Billion.

The order of priority for the use of proceeds are as follows.

1. Retire the following debt.

<u>Lenders</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Dates</u>
(as of October 31, 2014)			
BDO	2,196,000,000.00	2.500%-2.750%	11.03.2014-11.04.2015
Landbank	711,000,000.00	3.000%	11.03.2014-01.22.2015
Metrobank	217,000,000.00	3.000%	11.06.2014-12.03.2014
Security Bank	<u>252,000,000.00</u>	3.000%	11.26.2014-12.02.2014
	3,376,000,000.00		

As of October 31,2014, BDOLF has outstanding loans with BDO Unibank Inc amounting to Php2.196 Billion with tenors ranging from 1 day to 7 days. The loans were availed to fill the temporary cash shortfall of BDOLF and will be paid as soon as funds from the investors of the short-term commercial papers come in.

Outstanding Obligations (as of October 31,2014)

<u>Maturity Within 6 Months</u>	Amount	Rate	Maturity Date
Short-term Commercial Paper	12,479,600,000.00	2.300%-2.500%	11.03.2014-04.20.2015
Short-Term PN	4,173,250,042.79	2.200%-3.000%	11.03.2014-01.22.2015
Long-Term PN	-	-	-
<u>Maturity 6Months to 1Year</u>	Amount	Rate	Maturity Date
Short-term Commercial Paper	306,000,000.00	2.500%	05.21.2015
Short-Term PN	-	-	-
Long-Term PN	-	-	-
<u>Maturity Over 1 Year</u>	Amount	Rate	Maturity Date
Short-term Commercial Paper	-	-	-
Short-Term PN	-	-	-
Long-Term PN	714,875,000.00	3.250%	06.30.2016
<u>Past due</u>	Amount	Rate	Maturity Date
Short-term Commercial Paper	-	-	-
Short-Term PN	-	-	-
Long-Term PN	-	-	-

No material amount of proceeds is to be used to acquire assets or finance the acquisition of other businesses.

No proceeds are to be used to reimburse any officer, director, employee or shareholder for service rendered, assets previously transferred, money loaned or advance or otherwise.

In the event of any deviation/adjustment in the planned use of proceeds, the Company shall inform its stockholders and SEC at least thirty (30) days prior to its implementation.

### DETERMINATION OF THE OFFERING PRICE

The Maturity Value is One Hundred Percent of the face value.

The Offering Price is determined at the time of issuance of the STCPs. The interest rates are based on prevailing market rates at the time of issue.

### OFFERING PERIOD

The offering period will commence upon approval of the SEC of the STCPs and will end upon the expiry of the license of the STCPs.

## PLAN OF DISTRIBUTION

BDOLF has appointed BDO Capital & Investment Corporation as its Exclusive Selling Agent.

Amount to be Underwritten: **Ten Billion Pesos Only**  
**(Php 10,000,000,000.00)**

BDO Capital & Investment Corporation, the sole underwriter of its STCPs, is a wholly-owned subsidiary of Banco de Oro and is an affiliate of the Company.

BDO Capital, licensed by the Commission to engage in underwriting or distribution of securities to the public and as selling agent, shall sell the short term commercial papers of BDO Leasing and Finance, Inc. only to end-users, i.e. institutions who by the very nature of their functions do not sell nor trade debt instruments in the secondary market. This shall automatically exclude investment houses, securities dealers and brokers.

The distribution and sale of the commercial papers and the compliance by BDO Leasing with this agreement will not conflict with or constitute a breach of any agreement, contract or other instrument, its Articles of Incorporation, By-Laws or any resolution of the Board of Directors of the Issuer or any right of the stockholders of the Issuer.

In consideration for the commitment and undertaking and other services of the Selling Agent as provided herein, the Issuer shall pay selling commissions/fees equivalent to:

Over and above normal trading margins for CPs sourced by the Selling Agent, one-thirty second of one percent (1/32% per annum), based on the full term and principal of each CP sold during a given month.

The Issuer shall be answerable for and/or reimburse the Selling Agent, upon billing, the cost of documentary stamp taxes, legal and notarial fees incurred by the Selling Agent arising from or in connection with this Agreement, the offering and distribution of the CPs.

Selling Agents Commitment and Undertaking on the CP Issue - On the basis of the representations, warranties, and covenants of the Issuer, the Selling Agent hereby agrees with the Issuer as follows:

- a) Selling Agent's Commitment - The Selling Agent's Commitment and undertaking to sell the commercial paper issue of the Issuer shall be up to PESOS: **TWENTY FIVE BILLION ONLY** (Php 25,000,000,000.00) .
- b) Term - The Selling Agent's commitment, unless a cease and desist order is issued by the SEC, shall be conterminous with the validity period of the Issuer's authority to issue CP.
- c) Termination or Cancellation - Notice of termination or cancellation of the agreement whether unilaterally or mutually agreed upon by the contracting parties should be made with SEC.
- d) Conditions To Selling Agent's Commitment - The Selling Agent's Commitment is premised on: i) the accuracy of the Issuer's representations and warranties herein; and ii) the performance by the Issuer of its obligations herein.
- e) Selling Agent's Fees - The maximum estimate amount for the year of Selling Agent fees is Php 4,687,500.00.

The responsibilities of the Selling Agent as follows:

**A. Reportorial requirements in the prescribed form:**

1. Quarterly reports on CP transactions accompanied by interim quarterly financial statements to be submitted within thirty (30) calendar days following the end of the reference quarter.

**B. Notify the SEC and BSP on the following matters:**

1. When the Issuer is unable to provide the information necessary to meet reportorial requirements, the Selling Agent shall, not later than two (2) working days prior to due date, make notice of such fact to the Commission.
2. When the Issuer fails to pay in full any CP upon demand at stated maturity date, the Selling Agent shall, on the next working day, notify the SEC and the SEC will issue a cease and desist order enjoining the Issuer and the Selling Agent to stop the further sale of CPs.
3. If appointed as an exclusive selling agent, the Selling Agent shall undertake to sell the entire commercial paper issue on a firm basis. (A firm line, however, may be established to the extent of the Issuer's approved money market line with the Selling Agent, if such exists.)

**C. Conditions in the additional issuance of BDOLF P10.000 Billion STCP Authority by the Bangko Sentral ng Pilipinas.**

1. BDOLFI shall limit its borrowings, including the issuance/sale of its SEC registered short-term and long-term commercial papers (CPs) to nineteen (19) or less lenders/purchasers at all times.
2. BDOLFI shall sell its short-term commercial papers (STCPs) only to end-users, i.e., institutions who by the very nature of their functions do not sell nor trade debt instruments in the secondary market. This shall automatically exclude investment houses, securities dealers and brokers.
3. BDOLFI shall submit to BSP-DTBNBFI a quarterly report of all buyers of BDOLFI's short-term and long-term commercial papers including a list of its borrowings/lenders in the prescribed format **THIRTY (30) CALENDAR DAYS** from end of reference month.
4. BDOLFI shall inform in writing its selling agent and all STCP buyers that (a) BDOLFI is a non-bank financial institution not authorized to engage in quasi-banking functions and therefore, not allowed to borrow from more than 19 at all times; and (b) they shall not sell BDOLFI's commercial papers in the secondary market without the prior consent of BDOLFI except when the sale is made to an existing creditor of BDOLFI. The selling agent and STCP buyers shall affix their conforme in the letter advise.

5. BDOLFI shall not hire the services of a paying agent. Liquidation of the STCP once matured will be made by BDOLFI to the CP buyer.
6. BDOLFI's failure to comply with the foregoing conditions shall cause BSP to recommend to SEC the suspension of its CP authority.

#### **UNDERWRITERS REPRESENTATIVE ON THE BOARD OF DIRECTORS**

There is no arrangement whereby the underwriter has the right to designate or nominate a member/s of the board of directors of the Registrant.

#### **INTERESTS OF NAMED EXPERTS AND COUNSELS**

The audited financial statements of the Company as of and for the years ended December 31, 2013 and 2012, together with notes thereto, were audited by Punongbayan & Araullo, independent public accountants, as indicated in their reports which are included herein.

#### **Direct or Indirect Interest in Registrant**

The above-named experts and counsels will not receive a direct or indirect interest in the registrant nor was such expert and counsels are a promoter, underwriter, voting trustee, director, officer or employee of the registrant.

## DESCRIPTION OF REGISTRANT'S SECURITIES

- |           |                                   |          |   |
|-----------|-----------------------------------|----------|---|
| <b>A.</b> | <b>Amount</b>                     | <b>:</b> | Php 10.000 Billion  |
| <b>B.</b> | <b>Expiry Date of License:</b>    |          | Three hundred sixty five (365) from the date of approval by the Securities and Exchange Commission  |
| <b>C.</b> | <b>Interest Rate</b>              | <b>:</b> | Prevailing money market rates   |
| <b>D.</b> | <b>Minimum Purchase</b>           | <b>:</b> | The minimum maturity value of each registered commercial instrument shall not be lower than THREE HUNDRED THOUSAND PESOS (Php300,000.00)  |
| <b>E.</b> | <b>Manner of Purchase</b>         | <b>:</b> | The above mentioned commercial papers will be available for sale from the selling agent, subject to the minimum purchase amount with interest rate and maturity terms based on prevailing market conditions.  |
| <b>F.</b> | <b>Delivery of CP</b>             | <b>:</b> | Delivery of the commercial paper will be made upon full payment of any purchase from the selling agent.   |
| <b>G.</b> | <b>Taxation</b>                   | <b>:</b> | The purchase of the above commercial papers will be subject to taxation rules and regulations of the Bureau of Internal Revenues pertaining to such purchase.   |
| <b>H.</b> | <b>Liabilities</b>                | <b>:</b> | BDOLF as Commercial Paper Issuer is liable and responsible for any obligations arising from the sale of its commercial papers as provided for under pertinent sections of the Negotiable Instruments Law and the Securities Regulation Code. In addition, the Issuer is jointly responsible with the Selling Agent for complying with all reportorial requirements of the SEC and the Central Bank in connection with the commercial paper issue. |
| <b>I.</b> | <b>Rights of Debt holders</b>     | <b>:</b> | Debt holders shall not sell BDOLFI's commercial papers in the secondary market without prior consent of BDOLFI except when the sale is made to an existing creditor of BDOLFI. The selling agent and STCP buyers shall affix their conforme in the letter advise.   |
| <b>J.</b> | <b>Debt Securities</b>            | <b>:</b> | There are no debt securities to be disclosed. Also, there is no trustee(s) designated by the indenture.   |
| <b>K.</b> | <b>Credit Ratings</b>             | <b>:</b> | BDOLFI's STCP has a rating of PRS 2 , as presently assigned by Philratings. Philratings sighted that BDOLF continues to be in a favorable position in a competitive market.   |
| <b>L.</b> | <b>Interest of Named Experts:</b> |          | No experts or counsels will receive a direct or indirect interest in the registrant or was such expert and counsels are a promoter, underwriter, voting trustee, director, officer or employee of the registrant.   |

## INFORMATION WITH RESPECT TO THE REGISTRANT

### 1. Business of Issuer

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

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

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

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

### 2. Business Development

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As part of the Company’s business development, BDO Rental, Inc. was incorporated on March 10, 2005. It is a wholly-owned subsidiary of BDO Leasing and Finance, Inc. There was no sales, revenues nor net income contributed by foreign sales in the last 3 years.

### 3. Principal Products/Services

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

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

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

#### Leasing Products:

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

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

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

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

#### Financing Products:

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

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

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

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

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

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

As of December 31, 2013, the Company's leasing and financing products contributed 54.25% and 33.09% to its gross revenues, respectively, vis-a-vis 2013 projected ratios of forty three percent (43%) and forty three percent (43%), respectively.

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

There were no publicly announced new products or services.

#### **Sales Contracts**

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

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

### **Government Approval**

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

### **Market Position**

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

### **Marketing of Products/Services**

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

The company has a wholly-owned subsidiary, BDO Rental, Inc. is licensed by the SEC to engage in renting and leasing of equipment.

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

### **Competition**

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

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

The Company competes with other financing 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 Company are Orix Metro Leasing & Finance Corporation, BPI Leasing Corporation, LBP Leasing Corporation, Japan PNB Leasing & Finance Corporation, UCPB Leasing and Finance Corporation, First Malayan Leasing and Finance, Allied Leasing and Toyota Financial. The

market strengths of our competitors are their competitive pricing of interest rates and fast turn around time. However, the company believes it can effectively compete with other companies by its wide branch network, wherein each branch offers the same leasing and financing product lines as the head office.

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

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

### **Patents, Trademarks, Copyrights, Licenses etc.**

As of September 30, 2014, the Company has no existing or expiring patents, trademarks, copyrights, licenses, franchises, concessions, and royalty agreements.

### **Employees**

As of September 30, 2014, the Company had 177 employees – 19 senior officers, 75 junior officers and 83 rank & file employees. Of the total personnel, Executive Office is composed of two (2) employees; one hundred twelve (112) under the Marketing group; fifty eight (58) under the Operations group (Comptrollership and Operations, Risk Management, HR & Admin, Special Project and IT); three (3) under Treasury; and two (2) under the Company's subsidiary, BDO Rental. In 2014, the Company anticipates thirty three (33) additional employees. The Company believes that it has maintained good relationship with its employees. Rank & file employees receive benefits similar to those granted to the rank & file employees of BDO, under the terms of a Collective Bargaining Agreement (CBA) between the BDO Unibank and NUBE-BDO, a legitimate labor organization duly registered with the Department of Labor and Employment. The CBA expires on October 31, 2015. Coverage of the CBA includes wage increases, allowances, bonuses, loans and other benefits.

### **Related Party Transactions**

In the ordinary course of business, the Company and BDO Rental (for purposes of this section, the "Group") enters into transactions with the Parent Company and other affiliates. Under the Group's policy, these transactions are made substantially on the same terms as with other individuals and businesses of comparable risks.

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

The summary of the Group's significant transactions with its related parties in 2013, 2012 and 2011 are as follows:

Related Party Category	Notes	Amount of Transaction		
		2013	2012	2011
Ultimate Parent Company (BDO)				
Interest income on savings and demand deposits	(a)	P 0.2	P 0.3	P 0.8
Interest expense on bills payable	(b)	148.5	98.3	86.7
Rent expense	(d)	10.7	11.0	11.5
Management fees	(e)	2.4	2.4	-
Subsidiary (BDO Rental)				
Interest income on loans	(b)	-	0.7	0.7
Service fees	(c)	5.3	8.4	9.9
Rent income	(d)	0.4	0.4	0.4
Management fees	(e)	0.4	0.4	0.8
Affiliate (BDO Capital)				
Professional fees	(f)	2.2	2.8	
Key management personnel				
Short-term benefits	(g)	61.7	57.7	44.7
Post-employment benefits	(g)	-	17.0	13.2
Advances to officer	(g)	0.9	1.7	-

<u>Related Party Category</u>	<u>Notes</u>	<u>Outstanding Balance</u>	
		<u>2013</u>	<u>2012</u>
<b>Parent Company</b>			
<b>(BDO)</b>			
Savings and demand deposits	(a)	P 119.2	P 52.7
Bills payable	(b)	6,119.8	6,731.7
<b>Key management personnel</b>			
Advances employees	(h)	2.2	1.6
<b>Retirement benefit fund</b>			
Loans to officers and employees	(h)	3.4	3.4
Loans to members and beneficiaries	(h)	2.4	2.4
Shares of stock	(i)	0.9	0.9

- The Group maintains savings and demand deposit accounts with BDO. As of December 31, 2013 and 2012, savings and demand deposit accounts maintained with BDO are included under Cash and Cash Equivalents account in the statements of financial position. Interest income earned on

deposits in 2013, 2012 and 2011 is included under Interest and Discounts as part of Revenues in the statements of comprehensive income.

- The Group obtains short-term, unsecured bills payable from BDO. The amount outstanding from borrowings as of December 31, 2013 and 2012 is presented under Bills Payable account in the statements of financial position. Interest expense incurred on these bills payable in 2013, 2012 and 2011 is included under Interest and financing charges account as part of Operating Costs and Expenses account in the statements of comprehensive income. Also, the Company grants short-term, unsecured loans to BDO Rental. There is no outstanding balance arising from this transaction as of December 31, 2013 and 2012. Total interest income earned by the Company on these loans in 2013, 2012 and 2011 is included under Interest and Discounts as part of Revenues in the statements of comprehensive income.
- On January 4, 2010, the Company and BDO Rental entered into a Service Agreement whereby BDO Rental will handle the collection of certain factored receivables of the Company, for a fee as agreed by the Company and the sellers of the factored receivables. Under the Service Agreement, BDO Rental shall perform the monitoring of the payment due dates of the factored receivables, remit to the Company all collections made and send monthly statement of accounts to customers. The related expense charged to the Company based on the Service Agreement is included under Other Operating Costs and Expenses in the Company's statements of comprehensive income. There are no outstanding inter company payable and receivable from this transaction as of December 31, 2013 and 2012.
- 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 Company and BDO. Related rent expense incurred in 2013, 2012 and 2011 is presented as part of Occupancy and equipment-related expenses under Operating Costs and Expenses account in the statements of comprehensive income. On the other hand, the Company charges BDO Rental for the spaces that the latter occupies in the head office premises. Rent charged to BDO Rental in 2012 and 2011 is presented as part of Other Income in the statements of comprehensive income. There are no outstanding receivable and payable on these transactions as of the end of 2013 and 2012.
- In 2013, the Parent Company entered into a service level agreement with BDO wherein BDO will charge the Company for certain management services that the former provides to the latter. Management fees paid by the Company to BDO is shown as part of Other Operating Costs and Expenses in the 2012 statement of comprehensive income. Also, the Company charges BDO Rental for the management services it renders to BDO Rental. This is presented as part of Other Income in the 2012 statement of comprehensive income of the Company. There are no outstanding receivable and payable on these transactions as of the end of 2013 and 2012.
- The Parent Company engaged the services of BDO Capital and Investment Corporation ("**BDO Capital**"), a wholly owned subsidiary of BDO for underwriting services related to the Company's issuance of bills payable in 2012. Professional fees paid by the Company to BDO Capital related to this transaction is included as part of Other Operating Costs and Expenses in the 2012 statement of comprehensive income. There is no outstanding payable related on this transaction as of the end of 2012.
- Compensation of key management personnel (covering officer positions starting from Assistant Vice President and up) is included as part of Employee Benefits under Operating Costs and

Expenses in the statements of comprehensive income of the Group and the Company. Short-term employee benefits include salaries, paid annual leave and paid sick leave, profit sharing and bonuses, and non-monetary benefits. The Group also incurred post-employment benefit expense related to key management personnel included as part of Employee Benefits under Operating Costs and Expenses. The Group also granted cash advances to an officer.

- The Group maintains a retirement benefit fund with BDO covering all regular full-time employees. In the normal course of business, the retirement benefit fund grants salary and housing loans to certain officers and employees of the Company, and members and beneficiaries of the fund who are also officers of the Company. The housing loans are secured by the mortgage on the property and bear interest at 9% per annum and have terms ranging from 13 to 20 years. The salary loans on the other hand, are unsecured and bear interest ranging from 9% to 10% per annum and have terms ranging from 18 months to 3 years.
- The retirement fund holds 442,750 shares of stocks of the Company as an investment, which has a market value of P2.00 per share as of December 31, 2013 and 2012.

### **Intellectual Property**

As of September 30, 2014, the Company has no existing or expiring patents, trademarks, copyrights, licenses, franchises, concessions, and royalty agreements.

### **Governmental Regulation**

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

### **Research and Development**

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

## **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 2013 and 2012, the consolidated rent expense amounted to ₱15.7 million and ₱16.2 million, respectively. Cagayan de Oro, Dagupan, San Pablo, Cavite, Davao , Iloilo, Pampanga and Cebu branches lease their premises from the Parent Company.

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

#### **Cagayan:**

- Operates at the 2<sup>nd</sup> Floor, BDO CDO-Lapasan Branch, Lapasan Highway, Cagayan de Oro City for a period of five years and will expire on January 8, 2019. Gross monthly rental amounts to ₱18,435 with no escalation clause.

#### **Dagupan:**

- Operates at the 2<sup>nd</sup> Floor BDO Fernandez- Dagupan Branch Bldg., A.B. Fernandez Ave., Dagupan City for a period of five years and will expire on December 31, 2018. Gross monthly rental amounts to ₱23,000 with no escalation clause.

#### **San Pablo:**

- Operates at the 3<sup>rd</sup> Floor, BDO Bldg., Rizal Street corner P. Alcantara St., San Pablo City, Laguna for a period of five years and will expire on September 30, 2017. Monthly rental amounts to ₱37,686.00 with no escalation clause.

#### **Iloilo:**

- Operates at the 2<sup>nd</sup> Floor, BDO Corporate Center, BDO Valeria Branch, Valeria St., Iloilo City for a period of five years and will expire on November 2018. Monthly rental amounts to ₱11,500 with no escalation clause.

#### **Davao:**

- Operates at the 4th Flr., BDO Davao- Claveria, No. 30 C.M. Recto Ave., Poblacion, Davao City for a period of five years and will expire on May 31, 2018. Gross monthly rental amounts to ₱14,313 with no escalation clause.

#### **Cavite:**

- Operates at the 2<sup>nd</sup> Flr., BDO Imus Building., Anabu I, Imus Cavite City for a period of five years and will expire on December 14, 2018 . Monthly rental amounts ₱ 11,289 with no escalation clause.

#### **Cebu:**

- Operates at the Mezzanine Floor, BDO Cebu – Gorordo Branch Bldg., Gorordo Ave. Lahug, Cebu City for a period of five years and will expire on May 31, 2019. Gross monthly rental amounts to ₱46,122.00 with no escalation clause.

#### **Pampanga:**

- Operates at the 3rd Flr., BDO Angeles- Balibago Branch Bldg., Ramon tang Ave., Diamond Subdivision, Balibago, Angeles City for a period of 5 years and will expire on December 14, 2018. Gross monthly rental amounts to ₱22,800 with no escalation clause.

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 – P22.4 million; Makati – 0.3 million Cebu – P1.6 million; Davao – P0.6 million; Dagupan – P1.4 million; San Pablo – P0.7 million; Cagayan – P1.0 million; Iloilo – P0.9 million; Cavite – P0.7 million; Pampanga – P1.0 million.

There is no property the registrant intends to acquire in the next twelve (12) months.

### **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, its subsidiaries 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.

### **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, 2013 was 62,693,718 shares or a total value of P81,776,628.

#### **Market Information**

**Debt Securities:** Php 10.000 Billion short term commercial paper

**Equity Securities:** Refer to Market Information.

#### **1) Trading Market**

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

#### **2) Stock Prices**

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

2014	High	Low
1 <sup>st</sup> Quarter	P2.24	P2.00
2 <sup>nd</sup> Quarter	P2.28	P1.97
July	P2.20	P2.10
August	P2.20	P2.10
September	P2.30	P2.05
2013	High	Low
1 <sup>st</sup> Quarter	P2.01	P2.00
2 <sup>nd</sup> Quarter	P2.02	P2.00
3 <sup>rd</sup> Quarter	P1.90	P1.87
4 <sup>th</sup> Quarter	P2.00	P2.00
2012	High	Low
1 <sup>st</sup> Quarter	P1.65	P1.64
2 <sup>nd</sup> Quarter	P1.78	P1.78
3 <sup>rd</sup> Quarter	P2.03	P1.99
4 <sup>th</sup> Quarter	P2.00	P2.00
2011	High	Low
1 <sup>st</sup> Quarter	P1.90	P1.90
2 <sup>nd</sup> Quarter	P1.60	P1.61
3 <sup>rd</sup> Quarter	P1.61	P1.42
4 <sup>th</sup> Quarter	P1.65	P1.60

As of September 30, 2014 and December 31, 2013, the closing price of the Company's share were at P 2.20. and P 2.00, respectively.

Total number of stockholders as of September 30, 2014 was one thousand one hundred sixty nine (1,169) and as of December 31, 2013 was one thousand one hundred seventy four (1,174). Common shares outstanding as of June 30, 2014 and September 30, 2013 totaled 2,162,475,312.

### 3) Price Information on the Latest Practicable date

The Company's shares were last traded on November 28, 2014 at P2.15 per share.

### 4) Dividends Policy

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

There are no restrictions that will limit the ability to pay dividends on common equity. The Company and its subsidiary, BDO Rental Inc, has no established dividends policy as of the moment.

## 5) Dividends

On April 17, 2013, the BOD approved the declaration of cash dividends at P0.15 per share amounting to P324.4. The dividends were declared in favor of stockholders of record as of May 17, 2013 and were paid subsequently on June 13, 2013.

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

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

### Holders

The Company's common stockholders, with their respective shareholdings, as of June 30, 2014 and December 31, 2013 are as follows:

<u>Name</u>	<u>No. of Shares Held</u>	<u>% to Total</u>
Banco de Oro Unibank, Inc. (Parent Company)	1,840,115,176	85.093003%
Various Stockholders	<u>322,360,136</u>	<u>14.906997%</u>
	<u>2,162,475,312</u>	<u>100.000000%</u>

The top twenty (20) stockholders of the Company as of September 30, 2014 are as follows:

<i>Name of Stockholders</i>	<i>Securities</i>	<i>Shares Held</i>	<i>Total Outstanding</i>
Banco De Oro Unibank, Inc.	Common	1,840,115,176.00	85.093003%
PCD Nominee Corp (Filipino)	Common	231,481,963.00	10.704490%
Samuel Uy Chua	Common	21,000,000.00	0.971109%
Equitable Computer Services, Inc. A/C Equitable	Common	12,320,000.00	0.569717%
Panfilo Castro Jr.	Common	6,140,000.00	0.283934%
Felly G. Castro	Common	5,100,480.00	0.235863%
Marylen Castro Mateo	Common	3,795,000.00	0.175493%
Jesselen Castro Versoza	Common	3,795,000.00	0.175493%
Samuel Uy Chua	Common	3,011,150.00	0.139246%
Constantino Chua	Common	2,497,200.00	0.115479%
Equitable Computer Services Inc.	Common	2,070,200.00	0.095733%
PCD Nominee Corporation (Foreign)	Common	1,253,938.00	0.057986%
Victor Barranda	Common	1,157,475.00	0.053525%
Mercury Group of Companies	Common	1,089,165.00	0.050367%
Constantino Chua &/or Willington Chua &/or George W. Chua	Common	1,020,000.00	0.047168%
Nardo R. Leviste	Common	759,000.00	0.035099%
Yok Bing S. Pua	Common	721,050.00	0.033344%
Oscar M. Lopez	Common	683,100.00	0.031589%
Willington/Constantino Chua/ George W. Chua Chua	Common	584,430.00	0.027026%

<i>Name of Stockholders</i>	<i>Securities</i>	<i>Shares Held</i>	<i>Total Outstanding</i>
Willington Chua	Common	508,530.00	0.023516%

The top twenty (20) stockholders of the Company as of December 31, 2013 are as follows:

<i>Name of Stockholders</i>	<i>Securities</i>	<i>Shares Held</i>	<i>Total Outstanding</i>
Banco De Oro Unibank, Inc.	Common	1,840,116,632	85.093070%
PCD Nominee Corp (Filipino)	Common	230,937,752	10.679324%
Samuel Uy Chua	Common	21,000,000	0.971109%
Equitable Computer Services, Inc. A/C Equitable	Common	12,320,000	0.569717%
Panfilo Castro Jr.	Common	6,140,000	0.283934%
Felly G. Castro	Common	5,100,480	0.235863%
Marylen Castro Mateo	Common	3,795,000	0.175493%
Jesselen Castro Versoza	Common	3,795,000	0.175493%
Samuel Uy Chua	Common	3,011,150	0.139246%
Constantino Chua	Common	2,497,200	0.115479%
Equitable Computer Services Inc.	Common	2,070,200	0.095733%
PCD Nominee Corporation (Foreign)	Common	1,547,978	0.071584%
Victor Barranda	Common	1,157,475	0.053525%
Mercury Group of Companies	Common	1,089,165	0.050367%
Constantino Chua &/or Willington Chua &/or George W. Chua	Common	1,020,000	0.047168%
Nardo R. Leviste	Common	759,000	0.035099%
Yok Bing S. Pua	Common	721,050	0.033344%
Oscar M. Lopez	Common	683,100	0.031589%
Willington/Constantino Chua/ George W. Chua Chua	Common	584,430	0.027026%

#### 7) Recent Sales of Unregistered Securities

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

## **Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **September 2014 Compared to September 2013**

The company registered a 22% increase in net income to P377.8 million for the 9-months ending September 2014 as compared to P309.8 million for the same period in 2013.

Gross revenues for the period amounted P1.7 billion, an increase of 21% from P1.4 billion last year. This was due to the increase in operating lease bookings as well as the hike in volumes from financial leases. Overall, Loans & Other Receivable grew by 26% from last year.

Interest and financing charges for year-to-date September 2014 amounted to P338.3 million, mainly from financing charges on borrowings of P335.9 million. Increase was due to higher levels of Bills Payable, which funded the portfolio growth. The increase in bills payable resulted in higher taxes & licenses of P136.3 million, attributable to related documentary stamp taxes.

Provision for Impairment & Credit Losses stood at P75.0M, equal to last year's provision.

Occupancy and equipment related expenses as of September 2014 amounted to P377.8 million, an increase of P127.9 million or 51% from last year. The increase is related to costs from the acquisition of assets under operating leases.

Litigation/assets acquired expenses decreased by P11.7 million in 2014 owing to lower maintenance expenses on acquired assets.

Other expenses showed an increase of 25% from P19.0 million in 2013 to P23.7 million in 2014, consistent with the larger volume of new bookings year-on-year.

Total assets increased 24% year-on-year to P28.3 billion from P22.8 billion, due to the increase in net loans and other receivables. The Company's net lease portfolio went up by 19% or P2.1 billion while net non-lease portfolio increased by 37% or P2.8 billion. Property, Plant and Equipment-net increased by 49% or P574.8 million from P1.2 billion in 2013 as a result of increase in net leased assets of BDORI.

Cash & cash equivalents went down to P229.3 million from P317.3 million in 2013 due to the purchase of additional Available for Sale investment.

Investment properties-net went down to P126.8million in September from P362.2 million for the same period last year, brought about by disposal of acquired assets as well as an accounting reclassification of some assets to Non Current Assets Held for Sale. Available-for-sale investments, went up by 11% from P2.1 billion in September 2013 to P2.3 billion for the same period in 2014 due to purchase of corporate bonds. Other Assets increased by 37% to P640.2 million mainly due to reclassification of some accounts as described above.

Bills Payable increased by 33% to P19.02 billion in September 2014 primarily to finance business growth and the increasing volume of BLF's portfolio.

Accounts Payable, accrued expenses and other liabilities increased by P149.3 million year-on-year due to check payments pending collection by suppliers/dealers.

Lease deposits went up from P3.6 billion in September 2013 to P4.2 billion in September 2014, consistent with growth in volumes.

Stockholders' equity stood at P4.8 billion as of September 2014

The Company's five (5) key performance indicators are seen below (in comparison with other leading Leasing Corporations namely Orix, BPI Leasing and Toyota Financial Services)

	BDOLF			ORIX	BPI	TFS
	Sep-14	Sep-13	Dec-13	Sep-13	Dec-13	Mar-14
<b>Current Ratio</b>	<b>0.41:1</b>	<b>0.50:1</b>	<b>0.43:1</b>	<b>0.78:1</b>	<b>0.12:1</b>	<b>0.32:1</b>
<b>Quick Asset Ratio</b>	<b>0.38:1</b>	<b>0.47:1</b>	<b>0.40:1</b>	<b>0.76:1</b>	<b>0.04:1</b>	<b>0.32:1</b>
<b>Debt to Equity Ratio</b>	<b>4.91:1</b>	<b>3.88:1</b>	<b>4.31:1</b>	<b>5.26:1</b>	<b>4.35:1</b>	<b>10.07:1</b>
<b>Net Profit Margin</b>	<b>22.49%</b>	<b>22.27%</b>	<b>22.09%</b>	<b>20.30%</b>	<b>9.40%</b>	<b>20.00%</b>
<b>Return on Equity</b>	<b>10.63%</b>	<b>9.01%</b>	<b>8.98%</b>	<b>21.40%</b>	<b>9.20%</b>	<b>16.00%</b>

Formulas used:

Current ratio	=	Current Assets over Current Liabilities
Quick assets ratio	=	Quick assets over Current Liabilities
Debt to equity	=	Total Liabilities over Total Stockholders' Equity
Net profit margin	=	Net income over Gross Revenues
Return on ave. equity	=	Annualized Net income over Ave. Stockholders' Equity

As of December 31, 2013, the Company raised gross proceeds of approximately P2,436,700,000 from the STCP. After deducting the discounted interest (net of withholding tax), the net proceeds from the STCP amounted to P2,429,346,396. The net proceeds will be used by the Company to further solidify the Company's capital adequacy and financial strength, among others, specifically as follows: (1) Re-lending; (2) Payment of Maturing Obligations; and (3) Rollover of Existing STCP Placements.

**Actual Proceeds as at Dec 31, 2013**

Gross Proceeds	2,436,700,000.00
Net Proceeds	2,429,346,395.18

**Expenditures**

Rollover	1,312,983,654.31	
Relending	376,362,740.87	
PN Payment	740,000,000.00	Balance - Dec 31, 2013 <b>12,563,300,000.00</b>

These balances are supported by an Auditor's Note.

**Related Party Transactions**

*(Amounts in Millions of Philippine Pesos)*

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.

The Group's and Parent Company's related parties include BDO Unibank and affiliates as described below.

The summary of the Group's significant transactions with its related parties in June 30, 2014, December 31, 2013 and June 30, 2013 are as follows:

<u>Related Party Category</u>	<u>Note</u>	<u>Amount of Transaction</u>		
		September 30, 2014	December 31, 2013	September 30, 2013
<b>Ultimate Parent Company (BDO Unibank)</b>				
Interest expense on Bills Payable	(b)	66.7	148.5	124.0
Rent Expense	(d)	8.1	10.7	8.1
Management fees	(e)	1.8	2.4	1.8
<b>Subsidiary (BDO Rental)</b>				
Service fees	(c)	4.6	5.3	3.9
Rent Income	(d)	0.3	0.4	0.3
Management fees	(e)	0.3	0.4	0.3
<b>Affiliate (BDO Capital)</b>				
Service and charges fees	(f)	1.8	2.2	1.7

<u>Related Party Category</u>	<u>Note</u>	<u>Outstanding Balance</u>		September 30, 2013
		September 30, 2014	December 31, 2013	
<b>Parent Company (BDO Unibank)</b>				
Bills Payable	(b)	4,236.2	6,119.8	2,402.2
<b>Key Management Personnel</b>				
Advances employees	(h)	1.7	3.4	1.4

- A) The Group maintains savings and demand deposit accounts with BDO Unibank. As of September 30, 2014, December 31, 2013 and September 30, 2013, savings and demand deposit accounts maintained with BDO Unibank are included under Cash and Cash Equivalents account in the statements of financial position. Interest income earned on deposits in September 30, 2014, December 31, 2013 and September 30, 2013, is included under Interest and Discounts as part of Revenues in the statements of comprehensive income.
- B) The Group obtains short-term borrowings from BDO Unibank. The amount outstanding from borrowings as of June 30, 2014, December 31, 2013 and June 30, 2013 is presented under Bills Payable account in the statements of financial position. Interest expense incurred on these bills payable in September 30, 2014, December 31, 2013 and September 30, 2013, is included under Interest and financing charges account as part of Operating Costs and Expenses account in the statements of comprehensive income.

- C) On January 4, 2010, the Parent Company and BDO Rental entered into a Service Agreement whereby BDO Rental will handle the collection of certain factored receivables of the Parent Company, for a fee as agreed by the Parent Company and the sellers of the factored receivables. Under the Service Agreement, BDO Rental shall perform the monitoring of the payment due dates of the factored receivables, remit to the Parent Company all collections made and send monthly statement of accounts to customers. The related expense charged to the Parent Company based on the Service Agreement is included under Other Operating Costs and Expenses in the Parent Company's statements of comprehensive income. There is outstanding intercompany payable and receivable from this transaction as of September 30, 2014, December 31, 2013 and September 30, 2013,.
- D) The Parent Company leases its head office premises and certain branch offices from BDO Unibank for terms ranging from one to five years, renewable for such period and under such terms and conditions as may be agreed upon between the Parent Company and BDO Unibank. Related rent expense incurred in September 30, 2014, December 31, 2013 and September 30, 2013, is presented as part of Occupancy and equipment-related expenses under Operating Costs and Expenses account in the statements of comprehensive income. On the other hand, the Parent Company charges BDO Rental for the spaces that the latter occupies in the head office premises. Rent charged to BDO Rental in 2014 and 2013 is presented as part of Other Income in the statements of comprehensive income. There are no outstanding receivable and payable on these transactions as of the end of September 30, 2014, December 31, 2013 and September 30, 2013,.
- E) In 2012, the Parent Company entered into a service level agreement with BDO Unibank wherein BDO Unibank will charge the Parent Company for certain management services that the former provides to the latter. Management fees paid by the Parent Company to BDO Unibank is shown as part of Other Operating Costs and Expenses in the 2012 statement of comprehensive income. Also, the Parent Company charges BDO Rental for the management services it renders to BDO Rental. This is presented as part of Other Income in the 2013 statement of comprehensive income of the Parent Company. There are no outstanding receivable and payable on these transactions as of the end of September 30, 2014, December 31, 2013 and September 30, 2013,.
- F) The Parent Company engaged the services of BDO Capital and Investment Corporation (BDO Capital), a wholly owned subsidiary of BDO Unibank for underwriting services related to the Parent Company's issuance of bills payable in 2013. Professional fees paid by the Parent Company to BDO Capital related to this transaction is included as part of Other Operating Costs and Expenses in the September 2014 and 2013 statement of comprehensive income. There is no outstanding payable related on this transaction as of the end of September 30, 2014, December 31, 2013 and September 30, 2013.
- G) The Group also granted cash advances to an officer in 2013 and 2014

### **Commitments and Contingencies**

In the ordinary course of business, the company may incur contingent liabilities and commitments such as guarantees and pending litigation arising from normal business transactions which are not shown in the accompanying financial statements. Management does not anticipate significant losses from these commitments and contingencies that would adversely affect the company's operations.

## **Economic Events**

Management is continuously evaluating the current business climate and the impact of the economic events on the present operations of the company. As the need arises, the company will recognize related effects in the ensuing financial statements.

## **Risk Factors**

We assessed the financial risk exposure of the company and subsidiaries particularly on currency, interest, credit, market and liquidity risks. There were no changes that would materially affect the financial condition and results of operation of the company.

Risk Management of the company's credit risks, market risks, liquidity risks, and operational risks is an essential part of the 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 for risk, including risk policies and risk Philosophy of the Company.

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

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

## **Material Commitments for Capital Expenditures**

There were no material commitments for capital expenditures.

## **Projections**

Total Assets is projected to grow to P30.0 billion or 18% in 2014 with Net Loans and Other Receivables increasing from P20.8 billion in 2013 to P25.2 billion in 2014 or up to 21%. Total Revenue is estimated at P2.2 billion by year-end 2014 while Interest and Financing Charges and Operating Lease-related Depreciation total P549.2 million and P376.2 million, respectively.

Projected Net income is P440 million, an increase of 5% versus the P420.3 million Audited 2013 Performance.

Funding will be mainly sourced from STCP, bank lines and collections. The Company secured an approval in 2013 for P15 Billion worth of STCP.

## **INFORMATION ON INDEPENDENT ACCOUNTANT**

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

#### **(1) External Audit Fees and Services**

##### **(a) Audit and Audit-Related Fees**

The aggregate fees paid by the Company	(P000's)	
	<b><u>2013</u></b>	<b><u>2012</u></b>
Audit fee	P 888	P 610

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

(b) Tax fees

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

(c) All other fees

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

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

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

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 also no material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationship of the company with unconsolidated entities or other persons created during the reporting period.

There is also no material commitments for capital expenditure. No known trends events or uncertainties that have or had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations were noted.

No significant elements of income or loss that did not arise from registrant's continuing operations were identified.

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

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

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

General Management and overall direction of the Company is being provided by the Board. The following are the eleven (11) members of the Board as of September 2014.

<b>Name</b>	<b>Position</b>	<b>Citizenship</b>	<b>Age</b>
Teresita T. Sy	Chairperson	Filipino	63
Roberto E Lapid	Vice Chairman & President	Filipino	57
Antonio N Cotoco	Director	Filipino	65
Luis S Reyes Jr	Director	Filipino	56
Nestor V Tan	Director	Filipino	56
Exequiel P Villacorta Jr	Director	Filipino	68
Walter C Wassmer	Director	Filipino	68
Jeci A Lapus	Director	Filipino	61
Jesse H T Andres	Independent Director	Filipino	49
Ma Leonora V de Jesus	Independent Director	Filipino	63
Jesus G Tirona	Independent Director	Filipino	73
Gerard M Aguirre	First Vice President	Filipino	58
Peter Blair S Agustin	Vice President and Chief Risk and Compliance Officer	Filipino	44

### **TERESITA T. SY**

CHAIRPERSON

63 YEARS OLD, FILIPINO

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

### **ROBERTO E. LAPID**

VICE-CHAIRMAN & PRESIDENT

57 YEARS OLD, FILIPINO

Mr. Roberto E. Lapid was appointed as the Vice Chairman of the Company on December 1, 2010 and President last April 23, 2014. He is concurrently the Vice chairman and President of BDO Rental. He was formerly the President of Equitable Exchange, Inc. and Vice Chairman/Director of EBC Investments, Inc. (now BDO Strategic Holdings Inc.). He holds a Bachelor's degree in Business Administration from the University of the Philippines.

**JESSE H.T. ANDRES**

INDEPENDENT DIRECTOR

49 YEARS OLD, FILIPINO

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

**ANTONIO N. COTOCO**

DIRECTOR

65 YEARS OLD, FILIPINO

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

**MA. LEONORA V. DE JESUS**

INDEPENDENT DIRECTOR

63 YEARS OLD, FILIPINO

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

**LUIS S. REYES JR.**

DIRECTOR

56 YEARS OLD, FILIPINO

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

**NESTOR V. TAN**

DIRECTOR

56 YEARS OLD, FILIPINO

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

**JESUS G. TIRONA**

INDEPENDENT DIRECTOR

73 YEARS OLD, FILIPINO

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

**EXEQUIEL P. VILLACORTA, JR.**

DIRECTOR

68 YEARS OLD, FILIPINO

Mr. Exequiel P. Villacorta, Jr. was elected Director of the Company on May 24, 2006. He was previously director of Equitable PCI Bank, Inc. from 2005 to 2006, and EBC Insurance Brokerage, Inc., and Maxicare Healthcare Corporation. He was formerly the Chairman of EBC Strategic Holdings Corporation, EBC

Investments, Inc. (now BDO Strategic Holdings Inc.), Jardine Equitable Finance Corporation, Strategic Property Holdings, Inc., PCIB Properties, Inc., Equitable Data Center, Inc. and PCI Automation Center, Inc. He was previously President and CEO of Banco De Oro Universal Bank and TA Bank of the Philippines, and was Vice President of Private Development Corporation of the Philippines (PDCP). He was Senior Adviser and BSP Controller of Equitable PCI Bank, Inc. and PBCom; and Adviser to the Board of PCI Capital Corporation.

**WALTER C. WASSMER**

DIRECTOR

56 YEARS OLD, FILIPINO

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

**JECI A. LAPUS**

DIRECTOR

61 YEARS OLD, FILIPINO

Mr Jeci A . Lapus was Director of the Company on April 23, 2014. Prior to being director, he was and Adviser to the Board for BDO Leasing and Finance Co. from 2007 to 2014 and was an Independent Director of PCI Leasing and Finance, Inc. from 2005-2007. He was also part of the House of Representatives from 2007-2013 and held previous high ranking positions in the Philippine National Oil Co and National Agri Business Corp.

**Independent Directors**

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

**Executive Officers:**

The Board of Directors is assisted in its task by the following, which make up the senior management of the Company. The following are the executive officers of BDO Leasing and Finance, Inc. as of December 31, 2013.

**ROBERTO E. LAPID**

VICE-CHAIRMAN & PRESIDENT

57 YEARS OLD, FILIPINO

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

**GERARD M. AGUIRRE**

FIRST VICE-PRESIDENT

58 YEARS OLD, FILIPINO

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

**PETER BLAIR S. AGUSTIN**

VICE-PRESIDENT &amp; CHIEF RISK AND COMPLIANCE OFFICER

44 YEARS OLD, FILIPINO

Mr. Peter Blair Agustin is currently the Vice President and Chief Risk Officer of BDO Leasing and Finance Inc.,. Before moving to BDOLFI, he held various management positions in BDO Unibank, Asiatrust Bank and Philippine Bank of Communications. He graduated from the University of Mindanao with a degree in Economics and went on to finish his MBA in the Ateneo Graduate School of Business.

**Significant Employee**

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

**Family Relationships**

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

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

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

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

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

The Company is not aware of any conviction by final judgment in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, or any of its director or executive officer occurring within the past five (5) years up to February 28, 2014.

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

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

**ITEM 10. EXECUTIVE COMPENSATION**

**Summary Compensation Table**

**Named Group**

<i>Name and Principal Position (CEO &amp; Executive Officers)</i>	<i>Year</i>	<i>Salary</i>	<i>Bonuses</i>
<i>The President and four most highly compensated executive officers</i>			
<u>2012:</u> <i>Georgiana A. Gamboa (President)</i> <i>Gerard M. Aguirre (First Vice President)</i> <i>Renato G. Oñate (First Vice President)</i> <i>Rosalisa K. Alindahao (Vice President)</i> <i>Jennifer F. So (Vice President)</i>			
<u>2013:</u> <i>Georgiana A. Gamboa (President)</i> <i>Gerard M. Aguirre (First Vice President)</i> <i>Renato G. Oñate (First Vice President)</i> <i>Rosalisa K. Alindahao (Vice President)</i> <i>Jennifer F. So (Vice President)</i>			
<i>TOTAL SALARY</i>	<b>2012</b>	Php 16,240,532	Php 8,266,781
	<b>2013</b>	17,864,585	9,141,000
	<b>2014*</b>	19,048,837	10,055,100

*Estimate amount for 2014*

**Unnamed Group**

	<i>Year</i>	<i>Salary</i>	<i>Bonus</i>
Directors and all other Officers as a group	<b>2012</b>	Php 72,665,954	Php 18,846,511
Unnamed	<b>2013</b>	79,932,549	19,355,430
	<b>2014*</b>	85,062,110	21,290,973

#### A. Compensation of Directors

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

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

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

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

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

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

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

(1) September 30, 2014 the Company is 85% owned by the Parent Company and the remaining 15% is owned by various stockholders with only one stockholder having a 5% holding of the outstanding capital stock as of said date.

Title of Class	Name, address of record owner and relationship with issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	Number of Shares Held	Percentage
Common	BDO Unibank Inc.* ( <i>Philippine Commercial International Bank; Banco De Oro Unibank, Inc.</i> ) BDO Corporate Center, 7899 Makati Avenue, Makati City  <b>BDO Unibank, Inc. is the parent company of the Company.</b>		Filipino	1,840,115,176.00	85.09%
Common	PCD Nominee Corp G/F Makati Stock Exchange Building, 6767 Ayala Ave., Makati City  PCD Nominee has no relationship with the issuer except as stockholder	No stockholder owns more than 5% of the company's voting securities	Filipino  Foreign	231,481,963  1,253,938	10.70%  0.05%

***Security Ownership of Management as of September 30, 2014.***

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

***Directors:***

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

***Officers :***

<b>Title of Class</b>	<b>Name of Beneficial Owner</b>	<b>Amount and nature of beneficial ownership</b>	<b>Citizenship</b>	<b>Percent of Class</b>
Common	<b>Teresita T. Sy</b> Chairperson	100 (R)	Filipino	0.0000046%
Common	<b>Roberto E. Lapid</b> Vice Chairman & President	100 (R)	Filipino	0.0000046%
Common	<b>Rosario C. Crisostomo</b> Vice President	106, 260 (R)	Filipino	0.0049138%
	<b>Total</b>	106, 460		0.004923%

## ITEM 12. CERTAIN RELATIONSHIPS AND RELATED 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.
- The Group's and Parent Company's related parties include BDO Unibank and affiliates as described below.
- The summary of the Group's significant transactions with its related parties in September 30, 2014, December 31, 2013 and September 30, 2013 are as follows:

<u>Related Party Category</u>	<u>Note</u>	<u>Amount of Transaction</u>		
		September 30, 2014	December 31, 2013	September 30, 2013
<b>Ultimate Parent Company (BDO Unibank)</b>				
Interest expense on Bills Payable	(b)	66.7	148.5	124.0
Rent Expense	(d)	8.1	10.7	8.1
Management fees	(e)	1.8	2.4	1.8
<b>Subsidiary (BDO Rental)</b>				
Service fees	(c)	4.6	5.3	3.9
Rent Income	(d)	0.3	0.4	0.3
Management fees	(e)	0.3	0.4	0.3
<b>Affiliate (BDO Capital)</b>				
Service and charges fees	(f)	1.8	2.2	1.7

<u>Related Party Category</u>	Note	<u>Outstanding Balance</u>		September 30, 2013
		September 30, 2014	December 31, 2013	
Parent Company (BDO Unibank)				
Bills Payable	(b)	4,236.2	6,119.8	2,402.2

### Key Management Personnel

Advances employees	(h)	1.7	3.4	1.4
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A. The Group maintains savings and demand deposit accounts with BDO Unibank. As of September 30, 2014, December 31, 2013 and September 30, 2013, savings and demand deposit accounts maintained with BDO Unibank are included under Cash and Cash Equivalents account in the statements of financial

position. Interest income earned on deposits in September 30, 2014, December 31, 2013 and September 30, 2013, is included under Interest and Discounts as part of Revenues in the statements of comprehensive income.

B. The Group obtains short-term borrowings from BDO Unibank. The amount outstanding from borrowings as of June 30, 2014, December 31, 2013 and June 30, 2013 is presented under Bills Payable account in the statements of financial position. Interest expense incurred on these bills payable in September 30, 2014, December 31, 2013 and September 30, 2013, is included under Interest and financing charges account as part of Operating Costs and Expenses account in the statements of comprehensive income.

C. On January 4, 2010, the Parent Company and BDO Rental entered into a Service Agreement whereby BDO Rental will handle the collection of certain factored receivables of the Parent Company, for a fee as agreed by the Parent Company and the sellers of the factored receivables. Under the Service Agreement, BDO Rental shall perform the monitoring of the payment due dates of the factored receivables, remit to the Parent Company all collections made and send monthly statement of accounts to customers. The related expense charged to the Parent Company based on the Service Agreement is included under Other Operating Costs and Expenses in the Parent Company's statements of comprehensive income. There is outstanding intercompany payable and receivable from this transaction as of September 30, 2014, December 31, 2013 and September 30, 2013,.

D. The Parent Company leases its head office premises and certain branch offices from BDO Unibank for terms ranging from one to five years, renewable for such period and under such terms and conditions as may be agreed upon between the Parent Company and BDO Unibank. Related rent expense incurred in September 30, 2014, December 31, 2013 and September 30, 2013, is presented as part of Occupancy and equipment-related expenses under Operating Costs and Expenses account in the statements of comprehensive income. On the other hand, the Parent Company charges BDO Rental for the spaces that the latter occupies in the head office premises. Rent charged to BDO Rental in 2014 and 2013 is presented as part of Other Income in the statements of comprehensive income. There are no outstanding receivable and payable on these transactions as of the end of September 30, 2014, December 31, 2013 and September 30, 2013,.

E. In 2012, the Parent Company entered into a service level agreement with BDO Unibank wherein BDO Unibank will charge the Parent Company for certain management services that the former provides to the latter. Management fees paid by the Parent Company to BDO Unibank is shown as part of Other Operating Costs and Expenses in the 2012 statement of comprehensive income. Also, the Parent Company charges BDO Rental for the management services it renders to BDO Rental. This is presented as part of Other Income in the 2013 statement of comprehensive income of the Parent Company. There are no outstanding receivable and payable on these transactions as of the end of September 30, 2014, December 31, 2013 and September 30, 2013,.

F. The Parent Company engaged the services of BDO Capital and Investment Corporation (BDO Capital), a wholly owned subsidiary of BDO Unibank for underwriting services related to the Parent Company's issuance of bills payable in 2013. Professional fees paid by the Parent Company to BDO Capital related to this transaction is included as part of Other Operating Costs and Expenses in the September 2014 and 2013 statement of comprehensive income. There is no outstanding payable related on this transaction as of the end of September 30, 2014, December 31, 2013 and September 30, 2013.

G. The Group also granted cash advances to an officer in 2013 and 2014.

H. The Group maintains a retirement benefit fund with BDO covering all regular full-time employees. In the normal course of business, the retirement benefit fund grants salary and housing loans to certain officers and employees of the Company, and members and beneficiaries of the fund who are also officers of the Company. The housing loans are secured by the mortgage on the property and bear interest at 9% per annum and have terms ranging from 13 to 20 years. The salary loans on the other hand, are unsecured and bear interest ranging from 9% to 10% per annum and have terms ranging from 18 months to 3 years.

I. The retirement fund holds 442,750 shares of stocks of the Company as an investment, which has a market value of P2.00 per share as of December 31, 2013 and 2012.

2.) The Company, to finance its lending requirements, borrows funds from BDO at prevailing market rates. The Company's credit line with BDO stood at P7.00 billion for the year December 31, 2013 and P7.00 billion for the year ended December 31, 2012 and P3.40 billion for December 31, 2011.

3.) The Company and its two (2) branches maintain current and savings accounts with the Parent Company. Current accounts are non-interest earning while savings accounts earned interest of 0.50% per annum.

The Company entered into a Service Level Agreement with BDO, pursuant to which BDO shall provide the Company with the following information technology (IT) services: Business Continuity Center and telecommunications infrastructure maintenance (including email and network connectivity of BDO Leasing - Head Office and its branches/marketing desks with BDO), internet connectivity, transmission line security and authentication (firewall encryption/decryption facilities, etc.), training of the Company's IT personnel; IT voice and data network design, planning, project management and project implementation assistance; server administration and maintenance; system/application development and maintenance; IT product evaluation and vendor selection. In consideration of said services, the Company pays BDO P200,000 monthly.

4.) Loans to officers NIL as of December 31, 2013.

## 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.

## OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

<u>Particular</u>	<u>Amount</u>
PhilRatings	2,200,000.00
SEC Fees	3,093,125.00
Selling Agent Fees	3,125,000.00 (maximum estimate amount for the year)
Publication	50,000.00
Printing	40,000.00
Binding	3,000.00
<b>Total</b>	<b>8,511,125.00</b>