

The Company had a net income of P341.65 million for the year ended December 31, 2007. Gross profit margin for the year ended December 31, 2007 was 73.82% compared to last year's figure of 77.23%, while net operating margin decreased to 34.10% as compared to last year's 43.72%, both were due to the 29.90% or P69.37 million increase in interest and financing charges.

Total assets increased by P88.03 million from December 2006's P9.36 billion. Leasing and financing portfolio showed a 0.83% decrease while allowance for probable losses also showed a 5.04% decrease. This was due to write-offs during the year. Unearned income increased by P2.80 million or 0.23%. Investment properties – net showed a P32.90 million or 4.89% increase. Property and equipment-net as of December 31, 2007 amounted to P310.08 million, a 24.53% increase from December 31, 2006's P248.99 million due to an P84.10 million increase in equipment under lease of BDO Rental, Inc. Other assets-net showed an P18.31 million, or 27.37% decrease. This was the result of decrease in repossessed chattels and other equipment.

Accounts payable and accrued expenses decreased by P21.27 million due to unreleased checks credited back to accounts payable in 2006.

Lease deposits increased by P1.92 million or 0.12% from last year's figure of P1.55 billion.

Stockholders' equity showed an 8.99% increase over December 31, 2006's figure of P3.80 billion.

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

	December 2007	December 2006
Current Ratio	1.29 : 1	1.56 : 1
Quick Assets Ratio	1.29 : 1	1.56 : 1
Debt to Equity Ratio	1.28 : 1	1.46 : 1
Return on Equity Ratio	8.25%	8.39%
Net Profit Margin	27.51%	30.23%

#### 2006 Compared to 2005

Gross income for the year ended December 31, 2006 was P1.05 billion, a decrease of P33.42 million, or 3.07% from P1.09 billion in 2005. Interest, discounts, and service fees for the year ended December 31, 2006 were P1.02 billion, a decrease of P38.2 million or 3.62% from P1.06 billion in 2005. Others increased by 15.27% due to a more active approach in penalizing late payments due to Marketing consideration. The Company's leasing portfolio showed a 27.56% increase from P4.17 billion as of December 31, 2005 to P5.32 billion as of December 31, 2006. The Company's financing portfolio showed a 5.50% increase from P4.15 billion as of December 31, 2005 to P4.38 billion as of December 31, 2006. The Company's leasing and financing portfolio as of December 31, 2006 was P9.71 billion, a P1.38 billion increase, or 16.55% from P8.33 billion as of December 31, 2005.

Interest and financing charges for the year ended December 31, 2006 were P231.99 million, a decrease of P46.70 million, or 16.76% from P278.69 million for the year ended December 31, 2005. This decrease was due to the average decrease in the cost of funds. Bills payable level as of December 2006 increased to P3.68 billion or a 25.92% increase from December 2005's level of P2.92 billion due to additional borrowings to fund new loans booked.

Provision for impairment and credit losses for the year ended December 31, 2006 was P29.76 million, an increase of P18.61 million, or 166.93% from P11.15 million for the year ended December 31, 2005. The increase was due to the increase in loan portfolio, coupled with a prudent and conservative presentation of portfolio collectivity.

Taxes and licenses expenses were P75.80 million for the year ended December 31, 2006, a decrease of P8.40 million, or 9.97% from P84.20 million for the year ended December 31, 2005. This was because operating leases, booked under our subsidiary, BDO Rental, Inc. were subjected to VAT instead of Gross Receipts Tax.

Employee benefits increased by P21.11 million or 17.70% from December 2005's figure of P119.28 million due to the increase in salaries during the year. Occupancy and equipment related expenses for the year ended December 31, 2006 were P52.99 million, an increase of P3.83 million, or 7.78% from December 2005's figure of P49.17 million due to the increase in rental of branches.

Litigation/assets acquired expenses for the year ended December 31, 2006 were P21.48 million, an increase of P3.44 million, or 19.09% from last year's figure of P18.04 million because of lower billings that came in during the year.

Miscellaneous expenses of P41.26 million increased by 22.23% from December 31, 2005's figure of P33.76 million due to the increase in advertising cost as the company celebrated its 25<sup>th</sup> year anniversary.

The Company had a net income of P318.92 million for the year ended December 31, 2006. Gross profit margin for the year ended December 31, 2006 was 77.23% an increase of 3.60% compared to last year's figure of 73.63%, while net operating margin decreased to 43.72% as compared to last year's 45.40%, both were due to the 16.76% or P46.70 million decrease in interest and financing charges.

Total assets increased by P1.33 million from December, 2005's P8.03 billion. Leasing and financing portfolio showed a 16.55% increase while allowance for probable losses also showed a 5.82% increase. This was due to provisions during the year. Unearned income decreased by P49.13 million or 4.26%. Investment properties – net showed an P18.36 million or 2.80 % increase. Property and equipment-net as of December 31, 2006 amounted to P248.99 million, a 112.00% increase from December 31, 2005's P117.45 million due to P117.84 million equipment under lease of BDO Rental, Inc. Other assets-net showed a P26.18 million, or 28.13% decrease. This was the result of decrease in miscellaneous assets and prepaid expenses, as well as the provision for impairment losses of BDO Rental Inc. amounting to P13.78 million.

Accounts payable and accrued expenses decreased by P20.51 million due to unreleased checks credited back to accounts payable in 2005.

Lease Deposits increased by P213.79 million or 16.05% from last year's figure of P1.33 billion. This was due to the increase in leases booked for the yeas 2006.

Stockholders' equity showed a 9.16% increase over December 31, 2005's figure of P3.48 billion.

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

	December 2006	December 2005
Current Ratio	1.56 : 1	1.57 : 1
Quick Assets Ratio	1.56 : 1	1.54 : 1
Debt to Equity Ratio	1.46 : 1	1.31 : 1
Return on Equity Ratio	8.39%	10.07%
Net Profit Margin	30.23%	32.21%

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

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

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

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

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

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

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

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

#### **Internal and 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, insurance companies, trust departments and corporate 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

Loan portfolio is projected at P10.82 billion.

The loan portfolio is projected to grow by 20% notwithstanding the company's adherence to the strict lending guidelines and policies of the BDO Unibank Group.

Total financing income is targeted at P2.09 billion. Miscellaneous income is at P68 million. Total operating expense is projected to have a significant net increase due to projected marked increase in depreciation expense on leased assets.

Delinquency rates (past due 31 days and over) will be at a maximum of 10%.

Projected net income is P370 million, a slight increase over audited net income figure of 366 million in 2008.

Branches will continue to provide the means for the Company's presence in the market and are continuously streamlining costs and procedures to maintain profitability. They are expected to contribute at least 40% to the income of the company.

Funding requirements will be mainly sourced from collections, existing lines and maximum utilization of our STCPs amounting to P4 billion.

We plan to continuously upgrade our computer hardware and software to enhance our existing computer requirements. For the year, the projected CAPEX would amount to P4.2 million.

## Financial Statements

The financial statements of the Company included in the 2008 Annual Report to Stockholders are incorporated herein by reference.

## INFORMATION ON INDEPENDENT ACCOUNTANT

### Information on Independent Accountant and Other Related Matters

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

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

	(P000's)	
The aggregate fees paid by the Company	<u>2008</u>	<u>2007</u>
Audit fee	P 646	P 430

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 deliberate on their audit report prior to endorsement to the Board of Directors for approval. It reports to the Board of Directors audit-related matters requiring the Board's action.

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

In 2008, the auditing firm of Punongbayan & Araullo, CPAs (P&A) has been appointed as the Company's Independent Public Accountant. There was no event in the past where P&A and the Company had any disagreement with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope and procedures.

#### **CORPORATE GOVERNANCE**

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

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

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

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

**UNDERTAKING TO PROVIDE ANNUAL REPORT**

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

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