

OPERATIONS AND FINANCIAL PERFORMANCE REPORT

BACKGROUND

On 2 March 2005, the company was established by the National Development Company (NDC) as NDC Maritime Equity Corporation (NMEC), to provide support to the full implementation of the Road RORO Terminal System (RRTS) through the acquisition of modern RORO vessels to be leased to qualified operators. Playing a key role in the government's Strong Republic Nautical Highway (SRNH) program, the company deploys safe and suitable vessels, either second hand or through local construction, for lease to qualified operators under financial or operating lease arrangements, to be deployed in missionary routes.

On September 2006, NMEC became NDC Maritime Leasing Corporation (NMLC) as a financing company, allowing it to engage in financial lease transactions.

On 12 June 2008, the company was acquired 100% by DBP and was renamed DBP Maritime Leasing Corporation to complement to DBP's traditional banking service and to allow the company to go into a wider scope of services but still with particular interest in the maritime field.

On 14 January 2010, to reflect the change in the scope of its business, it was renamed DBP Leasing Corporation (DLC), with the primary purpose of "engaging in the business of leasing in all aspects, and to arrange or underwrite or administer leases of all types of real or personal properties".

With the additional capital infusion from DBP, the company continued to utilize internally-generated funds and to secure borrowings for the acquisition of second-hand and brand new locally constructed RORO vessels to be leased under financial or operating lease arrangements to qualified operators during 2010.

OPERATIONS PERFORMANCE

Business Development

Project Studies

With the completion of the Route Assessment Studies covering the identified priority routes, Management undertook several Project Studies to establish a RORO linkage database and monitor relevant port projects in line with DLC's Priority Missionary Route listing; to estimate the market and demand for new/2nd hand vessels in line with national government efforts for the replacement and modernization of the domestic

fleet; and, to determine the current trends, players, competition and rates within its industry (leasing) and the potential business to be derived from the automotive and real estate industries.

BIMP-EAGA RORO Development

Looking beyond the needs of domestic shipping industry, DLC looked at the RORO needs of the Brunei Darussalam, Indonesia, Malaysia and the Philippines East Asian Growth Area (BIMP-EAGA). DLC tied-up with the Research Education and Institutional Development (REID), which is funded by the United States Agency for International Government (USAID) and The Asia Foundation (TAF), to conduct a feasibility study of servicing the RORO requirement for the route Saranggani, Mindanao - Sulawesi, Indonesia.

The study eventually revealed the sufficiency of the conventional shipping service in the Sarangani (Port of Glan), Philippines – Tahuna, Indonesia route and the preference of the business sectors for a RORO service between Davao and Manado, Indonesia. DLC continues to search for a qualified operator and a suitable vessel for the route.

Lease Program

Marketing Efforts

DLC embarked on an aggressive marketing program offering leasing as an alternative financing scheme in the acquisition of vessels. This is in tandem with MARINA's priority program on the replacement and modernization of the domestic fleet, with particular emphasis on the replacement of wooden hulled vessels, upgrading of tankers and deployment of RORO ships.

DLC and MARINA jointly conducted a consultation/dialogue in Cebu with existing domestic shipping operators (*both common and contract carriers*), local shipyards and interested entrepreneurs on the acquisition through lease financing of vessels, whether second hand or brand new and locally built-vessels.

Fifteen (15) entrepreneurs expressed interest in acquiring around eighteen (18) vessels of various types (RORO, general cargo, tanker, passenger-cargo and barge) in 2011, with fourteen (14) of the vessels being acquired through lease, equally distributed between financial and operating lease arrangements.

Vessel Acquisition/Leases

Four (4) second-hand vessels from Japan and South Korea were acquired by DLC in 2010 with a Total Project Cost of PHP 422 million. One (1) brand-new vessel was ordered at a cost of PHP 51 million. Three (3) of the acquired vessels were leased to three different lessees.

As of the end of 2011, DLC owned eleven (11) RORO vessels, of which nine (9) RORO vessels are under a financial lease; one (1) RORO vessel under an operating lease; and, one (1) ROO vessel under a ship management arrangement.

Quality Management System

In order to improve the efficiency and quality of service delivery, DLC entered into a Memorandum of Agreement with the Development Academy of the Philippines to undertake a project for the *“Development of Quality Management System certifiable to ISO 9001:2008 for the DBP Leasing Corporation (DLC)”*. The six (6) mandatory procedures and the service realization processes were prepared, approved and cascaded to DLC officials for implementation during the year.

Oversight and Monitoring of Lessees

Cognizant of the International Maritime Organization (IMO) findings that, 85% to 90% of maritime incidents are attributed to human error, DLC engaged the services of local experts/consultants to conduct the Operational Readiness Evaluation (ORE) of all its leased vessels. This is DLC’s way of ensuring an effective monitoring system, of the leased vessels to avoid unnecessary maritime incidents caused by human errors and to provide corrective actions on the deficiencies of crews.

In 2010, seven (7) DLC acquired vessels already passed the ORE and Safety Audits on board conducted by the consultants.

Corporate Social Responsibility (CSR)

To encourage shipping operators to deploy RORO vessels in missionary routes, DLC embarked on a program to stimulate viability in these routes, by spurring social and economic development and sustainability in identified RORO Missionary Communities, through its Corporate Social Responsibility Program (CSR). This project provides business opportunities for vessel operators while building communities in the countryside.

In collaboration with the Technology Research Center (TRC), DLC also conducted a series of skills training and livelihood workshop in Balanacan, Marinduque. These included courses on fish processing participated by forty –seven (47) cooperative members, coconut processing with forty –two (42) attendees and how to make fruit juices and puree with forty-one (41) attendees. After the trainings some of the participants already engaged in their own small businesses with financial assistance from the cooperative.

CSR also promoted fish trading in the pilot area, to ensure that catch fish are sold at market price and has introduced the leasing of tricycle to transport their products in a cost-effective manner. Since there was no available clean drinking water in some communities, DLC also conducted a study on how to provide supply of potable water to these communities.

HUMAN RESOURCES

Seminars/Trainings Conducted

To address the need for a more efficient delivery of services to its clients, DLC sent its employees to the following trainings in 2010:

1. Philippine Government e-Procurement Services (PHILGEPS) Training (Phase 1)
2. Common Errors and Issues in the implementation of IFRS for Small and Medium Enterprises (SMEs)
3. 3rd National Human Resource Summit
4. Best Practices for Financial Controllers
5. Anti Money Laundering Seminar

Hiring/Manpower Complement

No additional personnel were hired during the year and DLC continued to rely on consultants to provide critical and necessary technical and legal services for its operations.

As of December 31, 2010 DLC had a manpower complement eighteen (18) personnel including four (4) officers.

FINANCIAL PERFORMANCE

Capital Profile

Additional cash infusion in the amount of PHP 200 Million in the form of Deposit for Future Subscriptions was made by the DBP in March 2009. This completed the payment of DBP of its subscribed PHP 6 Million shares of common stocks.

	2005	2006	2007	2008	2009	2010
Authorized	100,000,000	100,000,000	100,000,000	1,500,000,000	1,500,000,000	1,500,000,000
Paid-Up	21,500,000	100,000,000	100,000,000	100,000,000	100,000,000	600,000,000
Subscribed	21,250,000	100,000,000	100,000,000	100,000,000	100,000,000	600,000,000
Deposit for Future Subscription	-	-	-	300,000,000	200,000,000	500,000,000

Results of Operations

Actual 2010 compared with Actual 2009

In 2010, Total Income from Operations amounted to PHP 53.48 Million which is 26% or PHP10 Million more than last year's PHP 42.7 Million. Total Expenses of PHP 29.22 Million is P7.6 Million or 35% more than the P21.6 Million of last year. DLC ended the year with PHP 16 Million in Net Income. This is 79% of last year's PHP 20.6 Million.

	Audited 2005 ¹	Audited 2006 ¹	Audited 2007 ¹	Audited 2008	Audited 2009	Unaudited 2010
Total Income	31,330	10,029,975	43,355,585	41,518,253	42,709,828	53,484,561
Total Expenses	6,901,607	15,403,700	17,550,387	21,052,355	21,550,730	29,221,181
Net Income (Loss) from Operations	(6,870,287)	(5,373,725)	25,805,198	20,465,898	21,159,098	16,347,597
Financial Expenses	1,650	20,965,562	35,189,084	15,382,884	353,420	7,127,050
Net Income (Loss) Before Tax	(6,871,937)	(26,339,287)	(9,383,886)	5,097,818	20,805,563	17,137,356
Provision for Income Tax	-	-	-	600,192	158,782	789,759
Net Income (Loss) After Tax	-	-	-	4,497,627	20,646,781	16,347,597

Actual 2010 compared with Budget 2010

Compared with the budget, the revenue of PHP 53.48 Million is only 50% of the PHP 107 Million target gross income. The actual expense of PHP29 Million is only 34% of the estimated PHP 85.5 Million expenses. The Net Income after tax of PHP 16.35 Million is 90% of the projected net income of PHP 18.13 Million on account of the PHP 6.9 Million in interest expenses versus the PHP 40 Million forecasted figure.

	January –December 2010		Percent of Realization
	Actual	Budget	
Income from Operations			
Lease Income	46,981.54	101,833.01	46.14%
Service/Processing Fee	652.23	3,247.50	20.08%
Miscellaneous Income	2,545.67	1,926.17	132.16%
Total Income	50,179.44	107,006.68	46.89%
Expenses			
Administrative Expenses			
Salaries and Other Allowances	12,866.52	17,542.33	73.35%
Other Administrative Expenses	9,754.62	23,737.07	41.09%
Sub-total	22,627.14	41,279.40	54.80%
Expenses Directly Related to Vessels			
Interest Expense on Borrowings	6,902.47	39,957.72	17.27%
Documentary Stamp Tax	3,000.00	2,300.00	130.43%
Depreciation-Vessel for Lease	3,529.75	0	
Gross Receipt Tax (GRT)	70.30	1,968.92	3.57%
Sub-total	13,502.52	44,226.64	30.53%
Total Expenses	36,123.66	85,506.44	42.25%
Income from Operations	14,055.78	21,500.64	65.37%
Add: Interest Income from Deposits	3,305.12	0.00	
Foreign Exchange [Loss] Gain	1.03	0.00	
	3,306.15	0.00	
Less: Bank Charges	224.57	0.00	
Net Income before Income Tax	17,137.36	21,500.64	79%
Income Tax	789.76	3,370.64	23.43%
NET INCOME	16,347.60	18,130.00	90.17%

Financial Position

Total Assets as amounted to PHP 1,127,081,978 by end of 2010, PHP 685 Million or 60% are finance lease receivables from four (4) major shipping partners on eight (8) vessels. A total liability of PHP 527.7 Million is only 46.8% of the total assets, PHP 57.8 Million of which are current. The current liability is only 31% of the total current assets of PHP 184 Million. Retained earnings improved from negative PHP 17 Million at the start of 2009 to a negative PHP 608,591 by the end of 2010. Stockholders equity stood at PHP 599.4 Million as of December 31, 2010.

	2005	2006	2007	2008	2009	2010
Net Worth	14,628,063	66,788,776	57,404,890	361,902,517	582,717,985	599,391,409
Current Assets	12,781,112	144,251,999	159,218,283	152,731,123	295,942,088	184,172,520
Current Liabilities	1,110,130	90,317,887	62,254,197	1,355,983	47,610,181	57,784,029

Balance Sheet, December 31, 2010 (With comparative figures for 2009) (In Philippine Peso)

	2010	2009	Increase (Decrease)
ASSETS			
Current Assets	184,172,520	295,942,088	(111,769,568)
Non-current Assets	942,909,458	552,024,920	390,884,538
TOTAL ASSETS	1,127,081,978	847,967,009	279,114,969
LIABILITIES & STOCKHOLDERS EQUITY			
Current Liabilities	57,784,029	47,610,181	10,173,848
Non-current Liabilities	469,906,539	217,638,841	252,267,698
Total Liabilities	527,690,568	265,249,023	259,441,545
Stockholders' Equity	599,391,409	582,717,985	16,673,424
TOTAL LIABILITIES & STOCKHOLDERS EQUITY	1,127,081,978	847,967,009	279,114,969

Statement of Income, for the Year Ended December 31, 2010
(With comparative figures for 2009)
(In Philippine Peso)

	2010	2009	Increase (Decrease)
INCOME			
Lease Income	46,981,541	35,637,896	11,343,645
Interest Income	3,305,124	6,194,116	(2,888,992)
Other Income	2,545,666	164,557	2,381,109
Processing Fee	652,228	713,258	(61,030)
TOTAL INCOME	53,484,561	42,709,828	10,774,733
EXPENSES			
Personnel Expenses	12,866,516	11,285,141	1,581,375
Maintenance and Other Operating Expenses	16,354,665	10,265,588	6,089,077
TOTAL EXPENSES	29,221,181	21,550,729	7,670,452
INCOME FROM OPERATIONS	24,263,379	21,159,098	3,104,281
FINANCIAL INCOME			
Foreign Exchange Gain	1,026		1,026
FINANCIAL EXPENSES			
Bank Charges	224,574	352,420	(127,846)
Interest Expense	6,902,475	-	6,902,475
Documentary Stamp Tax	-	-	
Foreign Exchange Loss	-	1,115	1,115
TOTAL FINANCIAL EXPENSES	7,127,050	353,536	6,773,514
NET INCOME BEFORE TAX	17,137,356	20,805,562	(3,668,206)
Provision for Income Tax	789,759	158,781	630,978
NET INCOME	16,347,597	20,646,781	(4,299,184)