

OPERATIONS AND FINANCIAL PERFORMANCE REPORT

COMPANY PROFILE

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 locally constructed, for lease to qualified operators under financial or operating lease arrangements, to be deployed in identified missionary routes.

On 27 July 2006, NMEC was christened as NDC Maritime Leasing Corporation (NMLC). It continued to encompass a broad spectrum of the shipping industry focused on implementing finance leasing- related activities for RORO services. On 15 September 2006, NMLC acquired its Certificate of Authority from SEC to operate as a financing company. It is on the same year that NMLC undertook the financial lease of three (3) RORO vessels.

On 12 June 2008, the Development Bank of the Philippines (DBP) acquired the NMLC to complement its traditional banking service and to allow the company to venture into a wider scope of business while maintaining its particular interest in the maritime field. The company was particularly in charge of facilitating the deployment of RORO vessels in the missionary routes for the Road RORO Terminal System (RRTS), a component of its Sustainable Logistics Development Program (SLDP).

Effective 11 May 2009, NMLC was renamed DPB Leasing Corporation simultaneously amending its primary purpose of engaging in the *"business of leasing in all its aspects, and to arrange or underwriter or administer leases of all types of real or personal properties and all kinds of equipment, machines, vehicles and facilities, especially maritime vessels for the carriage of passenger, freight, cargo, vehicles, goods and merchandise of every kind and description"*.

On 14 January 2010, to further reflect the change in the scope of its business, the company was renamed DBP Leasing Corporation.

With the additional capital infusion from DBP, the company continued to utilize internally-generated funds and secured borrowings to acquire second-hand and brand new locally constructed vessels for leased under financial or operating lease arrangements to qualified vessel operators.

The period 2008 to 2011 marked a significant milestone for the company, as it acquired twelve (12) vessels of which four (4) were acquired in 2011 namely: one (1) tug- and barge system (2 *vessels*), one (1) second-hand LCT RORO and one (1) brand new and locally constructed Pinoy RORO. In 2011, one (1) vessel was turned-over to its lessee upon the end of its contract on 5 December 2011. To date, there are fourteen (14) vessels in the inventory list of the company.

Furthermore, on other aspects of leasing, particularly in the real properties and motor vehicle, the company is now undergoing an extensive research and awareness campaign program to identified government and private entities to build confidence and reliability, for future business partnerships.

As of 31 December 2011, DLC has an Authorized Capitalization of **PHP1.5 Billion** with a Subscribed and Paid-up Capital of **PHP600 Million**. Total Assets amounted to **PHP1.15 Billion** of which **PHP608 Million** or 53% is in the form of Finance Lease Receivables and **PHP421 Million** in assets on operating lease.

OPERATIONS PERFORMANCE

LEASE PROGRAM

Marketing Efforts

DLC's diversified services commenced as early as 2010, with its mandate to *"engage in the business of leasing in all its aspects, to arrange or underwrite or administer leases of all types to include among others, real property, motor vehicles, industrial and mechanical equipment"*.

In 2011, the company executed its promotional activities in an intensive approach utilizing both print and electronic media as its medium of advertisement, apart from the traditional newsletter distribution that was meant to disseminate updates to clients and private or public partners.

To continuously provide a more effective service amidst the growing competition, it has developed a flyer cum questionnaire vastly spread to almost 200 ship operators from Luzon, Visayas and Mindanao. The initiative has created awareness and stirred curiosity that led to numerous queries; one-on-one client presentations, to better understand the growing needs of their businesses and to build a good client relationship.

DLC remained faithful to its advocacy of contributing to the modernization of the domestic shipping industry by consistently providing an alternative financing scheme for the acquisition of both second-hand and brand new vessels that are deployed for domestic shipping operations. This program is in tandem with the MARINA's priority to modernize the domestic fleet, with particular emphasis on the replacement of wooden hulled vessels, upgrading of tankers and deployment of RORO ships.

As part of the domestic modernization effort, a joint consultation/dialogue handled by DLC and MARINA was conducted in Manila with the participation of the domestic shipping operators (*both common and contract carriers*), local shipyards and ship builders to effectively plan on the proper implementation of replacing the wooden hull vessels with the fiber reinforced plastic vessels.

Vessel Acquisition/Leases

With DBP's capital infusion, a total of three (3) second-hand vessels from local and foreign (Korea) sources were acquired in 2011. These vessels had a Total Project Cost (TPC) amounting to PHP82 million and had been leased by qualified lessees.

One (1) brand-new vessel ordered in 2010 at cost of PHP51 million, has been delivered and immediately leased under a 15- year term agreement to the qualified ship operator from Luzon. This is the first locally constructed Roll-on-Roll-off (RORO) vessel financed by the company, that demonstrates the capability of the local shipbuilding industry. The vessel known as "Pinoy RORO I"

was a realization of an elusive dream to build vessels and establish a standard design that can be deployed in the domestic trade which is aligned with the Executive Order No. 588 entitled *“Strengthening the Philippine Ship Building and Ship Repair Sector and Instituting Measures to Promote its Growth and Development”*.

One (1) lease application for a second-hand cargo vessel with TPC of PHP151 Million was approved and negotiation for the acquisition of the same has been ongoing.

As of 31 December 2011, six (6) lease applications were under evaluation for various types of vessels with TPC’s ranging from PHP68 Million to PHP132 Million, both local construction and second-hand, including one (1) of DLC’s existing RORO vessel presently under bareboat charter agreement. There were also four (4) prospective applicants who signified interest to avail of the DLC’s lease financing program.

Year-end record shows that, DLC owned a total of fourteen (14) vessels, of which eight (8) vessels are under financial lease, four (4) under bareboat charter arrangement and two (2) under ship management.

Non Traditional Acquisition/ Leases

As of 31 December 2011, the DLC Board has already approved two applications for the non-traditional leases; one (1) real property and one (1) under the heavy equipment category, to which further negotiations on the lease terms and conditions and document verification of the requirements are respectively undertaken by the DLC management vis-à-vis the applicants before proceeding to the acquisition stage.

There are two (2) prospective applicants interested to avail of the financial lease package for the specialized production of equipment. DLC conducted a presentation to further educate them on the services offered specifically on the advantages of their business engagement with DLC under the existing lease financial scheme program.

BUSINESS DEVELOPMENT

Project Studies

With the expansion in the scope and coverage of leasing, to complement and align with DBP’s development financing activities, DLC has now ventured on providing financial assistance on the acquisition of the non-traditional assets through the lease financial scheme.

As it started to engage business with the National Government Agencies and other private companies, it has aggressively conducted studies to benchmark on the systems and processes applied by other financial institutions to enhance its current business operations while maintaining credibility and good customer relationship. To date, DLC has developed procedures and identified

list of documents that would validate the capacity and credibility of the institutions for purpose of lease evaluation. The formulated policies and procedures has now been approved and recommended for implementation.

Furthermore, the company also explored possibilities on engaging partnerships with other private institutions to include financing of the electric tricycle project, acquisition of medical and printing equipment, huge machineries such as tractors and trailers and service vehicles.

CORPORATE GOVERNANCE

Manual Development

In line with the DBP's directive to intensify the transparency of information towards a more effective delivery of services and improve profitability, DLC had completed numerous manuals to ensure that standard procedure is obtained and accurately implemented in all business dealings of the company. The following manuals has already been completed and disseminated for proper execution:

1. Risk Management Manual (*with Business Disaster Recovery*)
2. Accounting Manual
3. Corporate Governance Manual

The following manuals are now on its final stage for completion in 2012:

1. Manual of Operation
2. Human Resources Manual

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Highlights

In pursuit of DBP's vision for countryside development of which DLC aligned its advocacy towards "*bridging island, building community*", as it provided business opportunities for vessel operators willing to venture in the underdeveloped or missionary routes, the CSR program continued to touch the lives of the people in Balanacan, home to 723 households composed of mostly fishermen and farmers.

The successful establishment of Balanacan Multi-Sectoral Credit Cooperative (BMCC) in 2010 facilitated a gradual transformation in the community with the implementation of various livelihood related activities that enhanced their skills and knowledge towards independence and responsiveness. Below are some of the significant growth achieved:

- Ninety (90) members of the BMCC have access to micro-credit to finance their various economic activities. As a result almost 60% availed of the credit facilities which freed them from the clutches of the usurious 5/6 lenders operating in the area exploiting most local

families, whose income were insufficient to finance their daily necessities.

- Sixty (60) members have availed of the cooperative loans to finance their livelihood activities and to venture into small businesses which include among others; sari-sari stores, chicken and hog raising, production of home-made delicacies like jams and other native snacks sold at the port area and local schools. The loans availed increased household incomes and helped families to provide their basic needs.
- Assisted the LGU of Balanacan in applying for a loan at the DBP Lucena Branch to facilitate the water project that would supply potable water in the community. This aims to resolve the problem of the existing water system in the barangay which only supplies water to local households two (2) hours per day strictly for washing and bathing and unsafe for drinking.
- Helped the local fishermen's organization, the BMCC Aquaculture and Disaster Risk Reduction Group (BMCCARDRRG) finance the cost of inspection, survey, and relocation of boundaries by DENR and BFAR of an 8.4 hectares abandoned and undeveloped fishpond and aquasilvi (mangrove) areas with expired lease, for purpose of rehabilitation and development of the area by the BMCC into a crab, bangus, and sea cucumber farm.
- Organized a venue to further enhance knowledge, exposure and experience on Coco Fiber production and Fish Farming of the BMCC officials and members through a field visit of the Coco Fiber Plants located in Naga and Sorsogon, Bicol and the National Institute of Fisheries Technology Center in Tanay, Rizal.

HUMAN RESOURCES

Seminars/Trainings Conducted

To address the needs and to effectively serve the demands of its growing clients and business partners, DLC continues to provide several developmental trainings that enhance their skills to efficiently perform their jobs.

DLC sent its employees to the following training programs:

1. Public –Private Partnership , *28 January 2011*
2. Seminar on Maritime Laws and Regulations , *23-24, June 2011*
3. Integrated IFRS for SMEs, *15-16, July 2011*
4. Seminar on Tax updates-Income Tax, VAT, Withholding Tax, BIR Administrative Requirements and Updates on Special Incentives Laws, *14 September 2011*
5. Integrity Summit: Cultivating a Culture of Integrity, *14 September 2011*
6. Mentoring Course on Leasing Real Properties, *24 September, 1,8,22,28, October 2011*
7. 1st Philippine Maritime Conference and Exhibition, *14-15 November 2011*

Hiring/Manpower Complement

A total of five (5) employees were hired during the first quarter of the year: *one (1) Vice President for Finance* as replacement to the officer who resigned; *one (1) Legal Officer, one (1) Marketing and Corporate Communications Officer, one (1) Executive Assistant and one (1) Finance Assistant.*

DLC maintains its pool of consultants for technical research and public relations or media related activities.

Three (3) rank and file employees resigned and moved on to further their career paths.

As of 31 December 2011, DLC has a total of nineteen (19) personnel including five (5) officers.

FINANCIAL HIGHLIGHTS

A. Comparative Profit & Loss Statements(P'000)

<i>In Thousand Pesos</i>	ACTUAL Yr 2011	Actual 2011 vs. Actual 2010	ACTUAL Yr 2010	Actual 2011 vs. Budget2011	BUDGET Yr 2011
Total Lease Income	67,010	142%	46,982	68%	99,058
Misc. Income	8,995	138%	6,503	168%	5,345
TOTAL INCOME	76,005	142%	53,485	73%	104,403
Vessel Related Expenses	40,441	346%	11,691	88%	45,638
Admin. Expenses	23,790	98%	24,332	70%	33,900
TOTAL EXPENSES	64,231	178%	36,023	81%	79,538
OPERATING INCOME	11,774	67%	17,462	47%	24,865
Prov. for Income Tax	3,301	282%	1,168	44%	7,460
NET INCOME	8,473	52%	16,294	49%	17,405

1. Total Income

The total actual income of PHP76 million is PHP22.5 million or 42% more than the PHP53.5 million reported for the year 2010; however, the figure is only 73% of the PHP104 million target for the year.

2. Operating Expenses

The total expenses of PHP64 million is PHP28 million higher than last year's PHP36 million mainly due to the recognition in the books of the major vessel-related expenses, on account of operating leases, namely, the PHP19.7 Million in depreciation, PHP10.9 million in interest, PHP6.4 million in insurance and PHP3.3 in repairs & maintenance.

3. Net Income

The company's Net Income of PHP8.5 million is 49% only of the PHP17.4 million budget and is 52% of last year's actual net income of PHP16.29 million, attributed to deferred project implementation and delays in vessel acquisitions and the lost income projected from the surrender of some vessels, now on operating leases or bareboat charter arrangements.

B. Financial Position

1. The total assets of DLC stood at PHP1.15 billion as of December 31, 2011. The Current Assets amounting to PHP180 million is three times more than the current liabilities of P64.6 million. The total finance lease receivables is PHP608 million and the assets on operating leases is valued at PHP421 million.
2. The total liabilities of PHP543 million is PHP64.6 million or 11% current and PHP478.6 million or 89% long-term in nature.
3. The Stockholders' Equity is PHP607.6 million as of the end of the year 2011.

