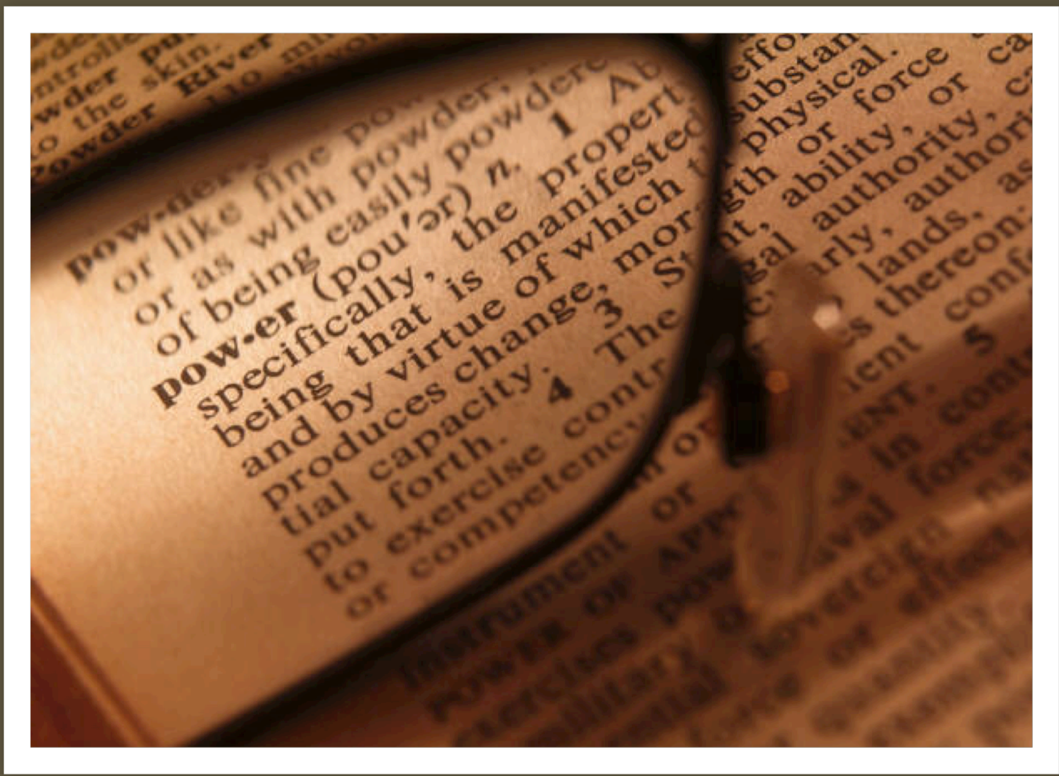
LBP LEASING CORPORATION

(A Land Bank Subsidiary)

2014 ANNUAL REPORT



15th Floor Sycip Law Centre
No. 105 Paseo de Roxas St., Makati City, 1226
Phone: 818-2200 Fax: 819-6176
E-Mail: info@lbpleasing.com Web: www.lbpleasing.com

Table of Contents

Corporate Profile

Vision

3

The pioneering government finance company providing financing solutions to capital asset requirements of programs and projects in support of the National Government Agenda, operating in all regions of the Country by 2018.

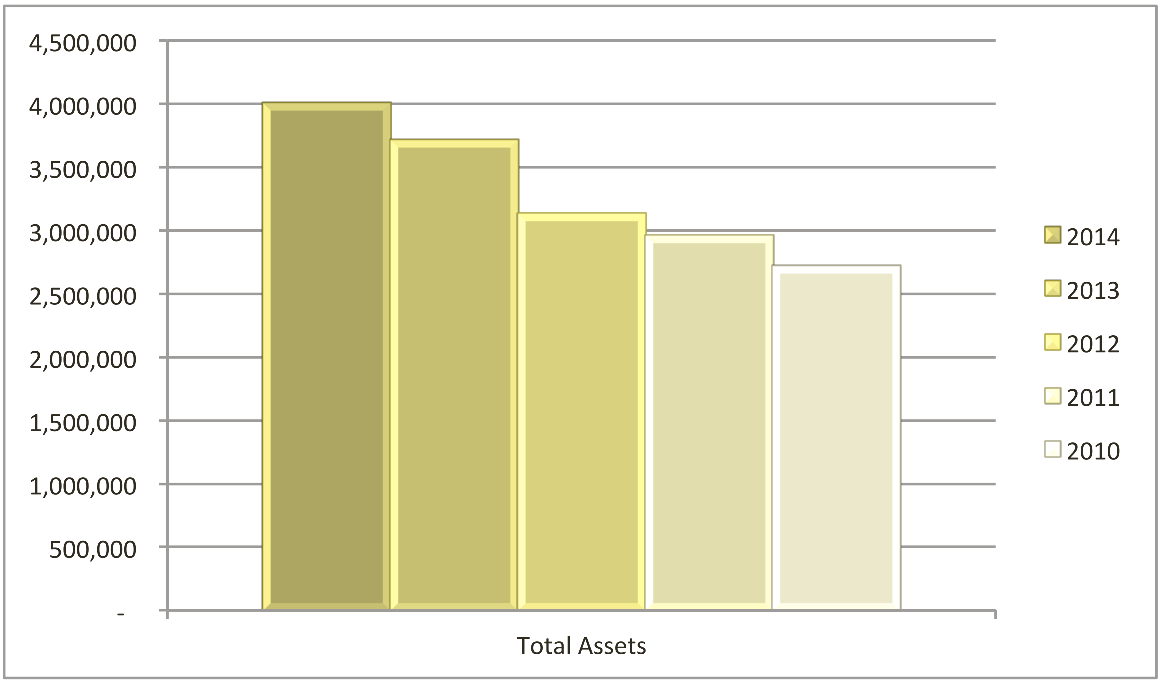
5

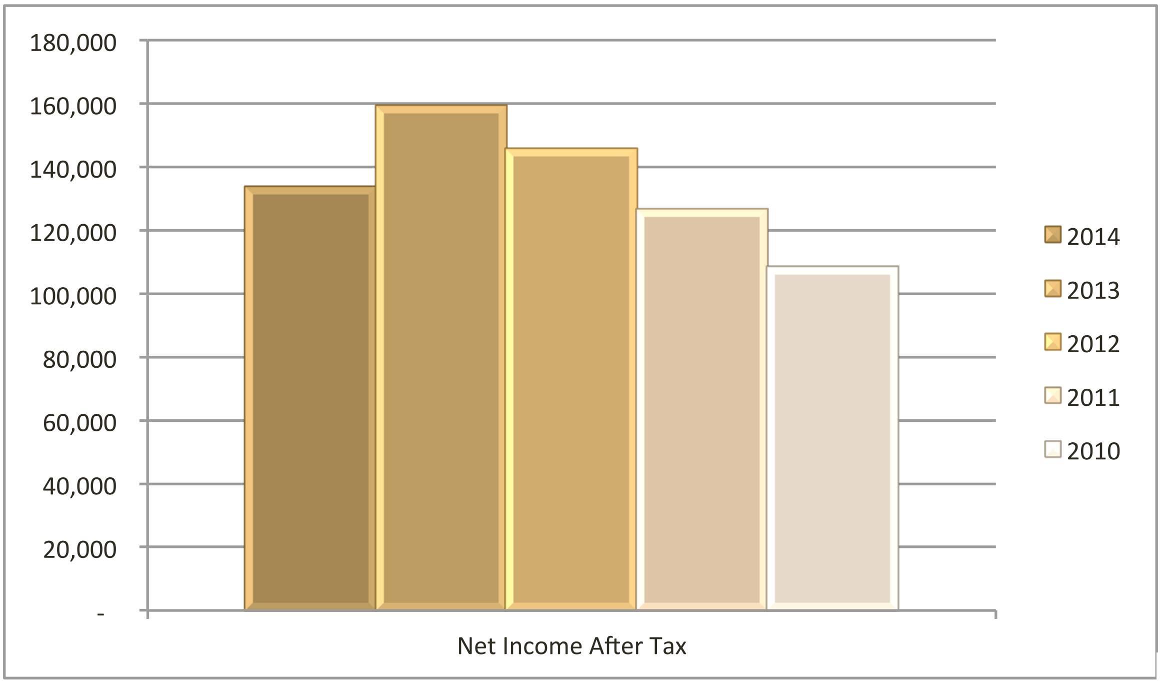
Mission

To provide innovative financial services that facilitate access to capital assets that will enhance service efficiency of government offices and increase productivity and expand capacity of private enterprises

FINANCIAL HIGHLIGHTS

	2014	2013	2012	2011	2010
Total Assets	4,006,972	3,712,324	3,132,332	2,958,700	2,716,244
Total Equity	1,338,259	1,276,683	1,212,079	1,130,095	1,057,843
Revenues	514,764	506,632	519,663	498,237	439,148
Expenses	330,050	303,477	333,633	340,082	298,589
Income Tax	51,001	44,421	40,739	31,521	32,173
Net Income After Tax	133,794	159,243	145,591	126,634	108,386





OPERATIONAL HIGHLIGHTS

Loans to Priority Sectors

Of the P3.732 billion Total Portfolio of LLC for year-end 2014, 75% are credit extended to priority sectors. The priority sectors of the Corporation include the bus/transport industry, government, healthcare industry, environment related projects (renewable energy), shipping industry and small and medium enterprises.

Support to Government Programs

In 2013, the Corporation launched a credit program for public transport re-fleeting which supports the government's livelihood program and environment protection efforts by replacing old high-carbon emitting vehicles with new "euro-compliant" vehicles that will substantially lessen carbon emissions. For the year 2014, the Corporation was able to process re-fleeting to some 48 borrowers involved in public transport.

Enhancement of Operational Policies and Procedures

For the year 2014, LBP Leasing Corporation completed the creation and updating of nine (9) of its operation manuals in preparation for the application for ISO 90001 Certification. Likewise, the new and revised operation manuals will help the employees of the Corporation in the effective and efficient discharge of their duties and responsibilities. Among the completed manuals are the following:

Credit Manual

The Credit Manual contains credit policies and procedures which provide guide in the lending activities of the Corporation. Revisions in the Credit Manual include updates to comply with latest regulatory issuances and enhancement of existing credit policies and processes to ensure exercise of prudence in the grant of credit to borrowers.

Risk Management Manual

The Risk Management Manual formalizes the risk management structure and activities of the Corporation. It underwent revisions in 2014 to firm up the existing risk management policies and principles and to set forth practices and procedures for the effective execution risk management activities in the organization.

Internal Audit Manual

The new Internal Audit Manual created during the year adopted the Risk-Based Internal Auditing (RBIA) approach. The RBIA approach provides assurance that the risk exposures of the Corporation are properly managed and controlled.

Treasury Manual

The Treasury Manual documents policies applicable to cash handling functions of the Treasury Unit of the Corporation. The Treasury Unit is primarily responsible for the sourcing of funds for the credit operations and establishment of relationship with creditors.

Accounting Manual

To streamline the recording of financial transactions and preparation of financial reports, LLC created the Accounting Manual in 2014. The contents of the manual complies with generally accepted accounting principles and procedures as prescribed by Philippine Accounting Standards (PAS), Philippine Financial Reporting Standards (PFRS) and issuances by Commission on audit (COA, Bureau of Internal Revenue (BIR), Securities and Exchange Commission (SEC) and Bangko Sentral ng Pilipinas (BSP).

Administrative Manual

The Administrative Policies and Procedures Manual incorporates the needed updates, revision and documentation of existing policies and guidelines as well as the adoption of new mandated policies related to administrative functions in the organization.

Legal Manual

The Legal Services Manual details the functions of the Legal Services Unit particularly the legal review of various legal documents, drafting of legal memoranda and pertinent legal forms and case handling for those accounts in litigation.

OPERATIONAL HIGHLIGHTS

Enhanced Customer Service

To provide the best possible customer service to its clients, the Corporation institutionalizes the provisions of the Anti-Red Tape Act, which prescribed the creation of Citizen's Charter which was made available to clients and the public assistance desk as well as the "No Noon Break Policy'. Feedback and Redress Mechanism was likewise provided for suggestions and complaints to further help the Corporation to improve its services.

.

Corporate Governance Manual

During the year, LLC also completed the revision of its Manual on Corporate Governance which incorporates new provisions to align the manual to new corporate governance standards and global best practices. The Manual on Corporate Governance institutionalizes the principles of good corporate governance in the entire organization.

Money Laundering and Terrorist Financing Prevention Program (MLPP) Manual

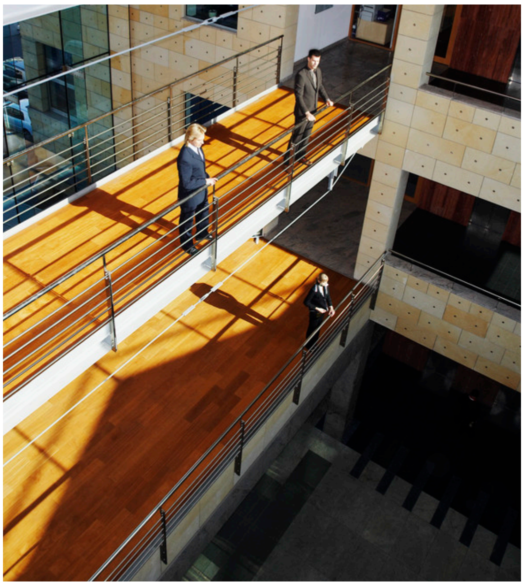
The Corporation incorporated revisions and amendments in its MLPP manual which includes policies and procedures to comply with the Anti-Money Laundering Act, issuances of the Bangko Sentral ng Pilipinas (BSP) and pertinent laws and regulations. Among the changes are the inclusions of Organizational Structure for AMLA Compliance, Customer Profiling and Identification and Internal Audit System and Program for AMLA Compliance.

Whistleblowing Policy

On December 2014, the Board of Directors approved the Whistleblowing Policy. The policy promotes good governance at all levels of the organization in accordance to the Code of Conduct of the Corporation and similar applicable issuances. The policy on whistle blowing provides implementing guidelines to encourage the employees with credible information to blow the whistle against graft and corrupt practices and other reportable conditions by providing protection and assistance to employees who voluntarily disclose their knowledge or give evidence about graft and corrupt practices.

Guidelines Prohibiting Solicitation and Acceptance of Gifts and Donations

The Guidelines Prohibiting Solicitation and Acceptance of Gifts and Donations approved in June 2013 was revised during the year to incorporate suggestions and comments prescribed by the Governance Commission for GOCCs (GCG) and LLC's Corporate Governance Committee. The guidelines aim to ensure observance of the highest standards of ethical conduct and professionalism among LLC officers and employees.



CORPORATE GOVERNANCE

LBP Leasing Corporation is committed to maintain a strong corporate governance culture across the organization by strictly adhering to good governance practices. The Board of Directors and Management, employees and shareholders, believe that corporate governance is a necessary component to improve economic prosperity of the Corporation and to enhance long-term shareholder value.

GOVERNANCE STRUCTURE

BOARD OF DIRECTORS

Composition

The BOD shall be composed of eleven (11) directors as provided in the Articles of Incorporation and By-Laws of the Corporation, at least two (2) of whom should be Independent Directors.

Independence of Directors

All directors exercise due diligence and independent judgment and make decisions objectively in the best interest of the Corporation.

The Chairman and the President/CEO are separate and distinct from each other to achieve a balance of authority, clear accountability and capacity for independent decision-making by the Board. The Chairman's primary responsibility is for leading the Board and ensuring its effectiveness and adherence to good governance while the President/CEO is responsible for the supervision and direction of the day-to-day business affairs of the Corporation.

Appointment of Directors

Being a wholly-owned subsidiary of Land Bank of the Philippines, the members of the Board of Directors of LBP Leasing Corporation are all Appointive Directors and "shall be appointed by the President of the Philippines from a shortlist prepared by the GCG."

The term of office of each Appointive Director shall be for one (1) year, unless sooner removed for cause, however, each Appointive Director shall continue to hold office until the successor is appointed and qualified.

Responsibilities

The primary function of the BOD is to provide effective leadership and direction to enhance the long-term value of the Corporation to its shareholders and other stakeholders. The Board has the overall responsibility for reviewing the strategic plans and performance objectives, financial plans and annual budget, key operational initiatives, financial performance reviews and corporate governance practices.

The principal duties of the BOD include the following among others:

- *Determine the Corporation's purpose, its vision and mission and strategies to carry out its objectives;*
- *Establish the Corporation's business plans and strategies and monitor on a regular basis the implementation of these corporate strategies, policies, and business plans.*
- *Adopt a system of internal checks and balances within the BOD and/or its Committees. A review of the effectiveness of such system should be conducted to ensure the integrity of the decision-making and reporting process at all times;*
- *Identify key risk areas and key performance indicators and monitor these factors with due diligence;*
- *Install a process of selection to ensure a mix of competent officers and adopt an effective succession planning program for Management;*
- *Ensure that the Corporation complies with all relevant laws, regulations and codes of best business practices;*
- *Identify the Corporation's major and other stakeholders and formulate a clear policy on communicating or relating with them through an effective investor relations program;*
- *Properly discharge Board functions by meeting regularly. Independent views during Board meetings shall be given due consideration and all such meetings shall be duly minuted;*
- *Ensure that adequate procedure, systems and practices that protect the Corporation's assets and reputation are in place and are maintained.*

Meetings and Attendance

The BOD holds regular monthly meeting in addition to special meetings as needed. In 2014, there were twelve (12) BOD meetings conducted to evaluate and approve various matters related to the LLC's operation.

Officers and employees who can provide additional insights into the matters to be discussed will be present during the scheduled Board and Board Committee meetings.

Management also furnishes monthly reports to the Board which provide sufficient information as to the results of operations and other matters for information and action of the Board.

Name of Director	Position	No. of Meetings Attended (Total of 12 Meetings Held)
1. Gilda E. Pico	Chairperson	12
2. Silvestre Manuel C. Punsalan	Vice-Chairman	12
3. Manuel H. Lopez	Director/President/CEO	12
4. Domingo I. Diaz	Director	11
5. Cecilia C. Borromeo	Director	11
6. Julio D. Climaco, Jr	Director	12
7. Edward John T.Reyes	Director	11
8. Andres C. Sarmiento	Director	12
9. Haron P. Alonto	Independent Director	10
10. Roger V. Arienda	Independent Director	9
11. Francisco C. Rola	Independent Director	9
12. Alvin G. Dans*	Independent Director	1
13. Rodrigo B. Supeña**	Independent Director	2

**Mr. Alvin G. Dans replaces Mr. Roger V. Arienda when he was appointed as Director of LLC on October 2014*

***Mr. Rodrigo B. Supeña replaces Mr. Francisco C. Rola when he was appointed as Director of LLC on October 2014*

Self-Assessment

The Board has implemented a process for assessing the effectiveness of the Board as a whole and the contribution by each individual director to the effectiveness of the Board on an annual basis.

The members of the Board conduct an annual self-rating to measure the performance of the Board and Management by accomplishing the Board Self-Assessment Questionnaire. The Chairman of the Board shall provide parameters for the assessment of the President and CEO.

The Board performance criteria are ad follows:

- *Performance of Individual Directors*
- *Fullfillment of Board's Key responsibilities;*
- *Quality of Board – Management Relationship*
- *Effectiveness of Board Processes and Meetings*
- *Board Structure*

Likewise, by virtue of GCG MC No. 21014-03 the Board also performs the Performance Evaluation for Directors wherein they perform Self-Appraisal and Peer Appraisal as well as appraisal of the Chairman. GCG generates the rating forms submitted and Provides the Board Chairperson with the rating for each Director.

Access to Information

Management recognizes the importance of ensuring the flow of complete, adequate and timely information to the directors on an on-going basis to enable them to make informed decisions to discharge their duties and responsibilities.

To allow directors sufficient time to prepare for the meetings, the Board materials are distributed at least three (3) working days in advance of the meeting. Any additional matter or information requested by the directors is promptly furnished.

Management's proposals to the Board for approval provide background information such as facts, resources needed, risk analysis and mitigation strategies, financial impact, regulatory implications, conclusions and recommendations.

Officers and employees who can provide additional insights into the matters to be discussed will be present during the scheduled Board and Board Committee meetings.

Management also furnishes monthly reports to the Board which provide sufficient information as to the results of operations and other matters for information and action of the Board.

Remuneration of the Board

Each director shall receive per diems, allowances, and incentives in accordance with the guidelines promulgated by the GCG.

BOARD COMMITTEES

To aid in complying with the principles of good corporate governance, the Board constituted four (4) Board Committees – the Executive Committee, Audit Committee, Corporate Governance Committee and Risk Management Committee.

Executive Committee

Composition

Members

Chairperson	:	*Silvestre Manuel C. Punsalan*
Members	:	*Manuel H. Lopez*
		Domingo I. Diaz
		Cecilia C. Borromeo
		Haron P. Alonto

Committee Role

The Executive Committee shall possess and may exercise all the powers on specific matters within the competence of the BOD particularly in the management and direction of the affairs of the Corporation and as may be delegated by the majority of the BOD subject to the limitations provided by the Corporation Code. In accordance with the CASA, the ExCom evaluates, approves or recommends to the Board credit proposals, credit policies for Board consideration, disposal of acquired assets and procurement and disposal of Corporate Assets.

Meetings and Attendance for the Year

The Committee met thirteen (13) times during the year 2014, of which attendance from all members is as follows:

Name of Director	*No. of Meetings Attended*
Silvestre Manuel C. Punsalan	*12*
Manuel H. Lopez	*13*
Domingo I. Diaz	*13*
Cecilia C. Borromeo	*11*
Haron P. Alonto	*11*

Audit Committee

Composition

Chairperson : Francisco C. Rola
Members : Andres C. Sarmiento
Silvestre Manuel C. Punsalan

Committee Role

The Audit Committee's role in behalf of the BOD is to oversee all material aspects of the company's reporting, control and audit functions, except those specifically related to the responsibilities of another standing committee of the Board. The audit committee's role includes a particular focus on the qualitative aspects of financial reporting to shareholders and or company processes for the management of business and for compliance with significant applicable legal, ethical, and regulatory requirements.

The role also includes coordination with other board committees and maintenance of strong, positive working relationships with management, external and internal auditors, counsel and other committee advisors.

Meetings and Attendance for the Year

The Committee met five (5) times during the year 2014, of which attendance from all members is as follows:

Name of Director	*No. of Meetings Attended*
Francisco C. Rola	*4*
Andres C. Sarmiento	*5*
Silvestre Manuel C. Punsalan	*5*

Corporate Governance Committee

Composition

Chairperson : Haron P. Alonto
Members : Manuel H. Lopez
Julio D. Climaco, Jr
Cecilia C. Borromeo
Roger V. Arienda

Committee Role

The Corporate Governance Committee shall assist the Board of Directors in fulfilling its corporate governance responsibilities and ensure the Board's effectiveness and its observance of corporate governance principles and guidelines.

The Committee shall also establish a formal and transparent procedure for developing a policy on remuneration of officers to ensure that their compensation is consistent with the Corporation's culture, strategy and business environment in which it operates, provided that the Corporation shall be covered by the Compensation and Position Classification System (CPCS) for GOCCs under R.A. 10149 as approved by the President of the Philippines.

Meetings and Attendance for the Year

The Committee met four (4) times during the year 2014, of which attendance from all members is as follows:

Name of Director	*No. of Meetings Attended*
Haron P. Alonto	*3*
Manuel H. Lopez	*4*
Julio D. Climaco, Jr	*4*
Cecilia C. Borromeo	*4*
Roger V. Arienda	*3*

Risk Management Committee

Composition

Chairperson : Julio D. Climaco, Jr
Members : Edward John T.Reyes
Francisco C. Rola

Committee Role

The Risk Management Committee shall be primarily responsible for the development and oversight of the risk management programs of the Corporation. The Committee shall monitor the risk environment for the Corporation and provide direction for the activities to mitigate to an acceptable level the risks that may be adversely affect the Corporation's ability to achieve its goals.

Meetings and Attendance for the Year

The Committee met three (3) times during the year 2014, of which attendance from all members is as follows:

Name of Director	*No. of Meetings Attended*
Julio D. Climaco, Jr	*3*
Edward John T.Reyes	*3*
Francisco C. Rola	*2*

Internal Audit

The Internal Audit Unit under the direct supervision of the Audit Committee is tasked to provide independent assessment and reasonable assurance of the adequacy and effectiveness of the Corporation's system of internal controls, risk management and governance processes. It has implemented a risk-based approach in auditing major areas of operations. The Internal audit considers the risks identified and assessed from the risk management system in its annual audit plan.

The Internal Auditor reports directly to the Audit Committee who is responsible for the appointment and removal of the Internal Auditor. The scope of authority and responsibility of the internal audit function is defined the Internal Audit Charter which was approved by the Audit Committee.

External Audit

The Commission on Audit (COA) is the external auditor of LLC. The Philippine Constitution mandates that COA shall be the external auditor of all government institutions.

The COA assigns a team of COA auditors which shall have the power, authority and duty to conduct a comprehensive audit (financial, compliance and performance) of the Corporation's operations. The Corporation ensures that other non-audit work shall not be in conflict with the functions of the external auditor in accordance with COA rules and regulations.

Risk Management System

The Risk Management Unit is the one responsible for developing guidelines and policies for effective risk management of the Corporation. It is also responsible for identifying the key risk exposures, assessing and measuring the extent of risk exposures of the Corporation in the conduct of business on an enterprise wide basis. It performs independent monitoring and objective assessment of decisions to accept particular risks whether these are consistent with board approve policies on risk tolerance and the effectiveness of the corresponding risk mitigation measures.

The Corporation maintains a risk register which identifies the material risks and the internal controls in place to manage and mitigate the risks. The risk register is reviewed annually by the Risk Management Committee.

The Risk Officer reports directly to the Risk Management Committee.

Compliance and Anti-Money Laundering

The Compliance Unit of the Corporation is responsible in ensuring compliance with existing laws, rules and regulations issued by BSP, SEC and other regulatory agencies. It also ensures timely submission of reports, issues advisories on new regulations or amendments, initiates policy pronouncements and implementation, provides training to employees and reports on significant compliance issues to the Management and the Board.

The Compliance Unit also handles compliance with Anti-Money Laundering Act (AMLA) and its implementing rules and regulations.

Whistleblowing Policy

The Whistleblowing policy of the Corporation enables employees to report in good faith irregularities, misconduct or raise serious concerns internally with high-level of confidentiality and immunity so that appropriate remedial action could be taken. The guidelines also provide the rights of the whistleblower, protection of the whistleblowers, remedies and sanctions on the violation on the protection of confidentiality, retaliatory actions and false, misleading and malicious reports. It also emphasizes the oversight role of the Board particularly the Corporate Governance Committee in ensuring that the corporate governance principles are adhered to by employees.

Code of Ethics and Conduct

The Corporation institutionalizes the highest ethical standards through the strict implementation of the provisions of RS 6713, An Act Establishing a Code of Conduct and Ethical Standards for Public Officials and Employees. Board and Officers and Employees of LBP Leasing Corporation are among the Public Officials defined in the aforementioned law.

In addition, the Corporation also adopts a Code of Conduct and Employees Discipline to ensure the maintenance of administrative discipline among its officers and employees based on the principle that discipline is fundamental to its success as an organization and as a business concern.

Stakeholders' Interest

LBP Leasing Corporation has put in place various practices for the protection, fair treatment and dealings with all stakeholders.

Customers

LLC is committed to providing the needs of its client's by providing quality service and relevant products and services that adds value to the client's business. The Corporation actively implements the Anti-Red Tape Act which prescribed the creation of Citizen's Charter which was made available to clients and the public assistance desk as well as the "No Noon Break Policy'. Because the Corporation operates policies of continuous improvement, it adopts a system to address complaints and suggestions by clients.

Employees

LLC continues to promote betterment of it its officers and employees by sending them to various training and development programs covering negotiations with clients, management development, compliance, leadership and governance.

The Corporation also provides healthcare benefits to its employees and conducts regular fellowship activities to continue to nurture positive relationship among its Directors, officers and employees.

Community and Environment

Recognizing the need to continue to contribute to community and the environment, the Corporation actively supports the projects of Land Bank Country side Development Foundation, Inc., a 100% owned subsidiary of Land Bank engaged in programs complementary to the LBP's commitment to advance countryside development especially among farmers and fisher folk, agrarian reform beneficiaries, Countryside Financial Institutions, small and medium enterprises and Overseas Filipino Workers.

LLC provided financial assistance of P2.0 million in 2014 for their Sustainable Integrated Organic and Natural Mini Farm Program also known as the Bangon Mini-Farm Program, a special program implemented in areas devastated by Typhoon Yolanda particularly areas in Samar and Leyte. The Program uses a systems approach consisting of a series of Training – Technology Transfer – Execution workshops in farming using natural, organic and microbial technology.

The Corporation also encouraged its employees to actively participate in the annual clean-up program of Manila Bay S.U.N.S.E.T. Partnership Program Inc., to promote and implement sustainable and supplementary efforts to improve the environmental quality of Manila Bay. This activity develops environmental awareness as well as reinforces commitment to corporate social responsibility

THE BOARD OF DIRECTORS

GILDA E. PICO
Chairman

Mrs. Gilda E. Pico, incumbent President of Land Bank of the Philippines, has been a member of the Board of the Corporation since October 1996. She was elected and has been serving as Board Chairperson since August 2005.

In addition to her current role as Chairman of the Board, Mrs. Pico is also the President and CEO behind one of the country's leading banks – the Land Bank of the Philippines. She is the first woman President and CEO of LANDBANK and the first Landbanker in career position to be appointed as head of the Bank. She is regarded as one of the pillars of LANDBANK, having contributed significantly in making it the country's premier financial institution in the countryside today.

She joined LANDBANK in 1981 as assistant vice president and gradually moved up to key positions until her appointment as full-fledged President and CEO in 2006. Since she assumed office, LANDBANK has remained among the country's top 5 universal banks with its unique role of promoting countryside development. She is focused on expanding the Bank's credit outreach to its priority sectors, primarily farmers and fisherfolk, microenterprises and SMEs, rural banks and agriculture. Mrs. Pico also introduced major systems innovations and strategic partnerships that led to the Bank's support to the Government's centerpiece development programs and platforms for inclusive growth

In 2014, Mrs. Pico was named one of the country's Outstanding Entrepreneurs at the Asia Pacific Entrepreneurship Awards, a coveted award that honors outstanding business leaders in the region. She was also conferred with the 2015 "Outstanding CEO" Award by the Association of Development Financing Institutions in Asia and the Pacific, an award that recognizes Chief Executive Officers for their leadership, vision and achievement particularly in development banking.

Concurrently, Mrs. Pico is also the Chairperson of LBP Resources and Development Corporation, another subsidiary of LBP.

Ms. Pico, a Certified Public Accountant, graduated Magna cum laude with a degree in Bachelor of Science in Commerce from the College of Holy Spirit. She finished her Masters in Business Administration at the University of the East.

SILVESTRE MANUEL C. PUNSALAN JR.
Vice Chairman

Mr. Silvestre Manuel C. Punsalan Jr., 76 years old, has been a member of the Board since August 2001. He was elected as Vice Chairman of the Board of the Corporation in May 2003. He is also the Chairman of the Executive Committee.

Mr. Punsalan was Deputy Executive Director of the Presidential Management Staff (PMS) from 1977 to 1982. He was a Financial Adviser for MMDA's Office of the Chairman from 2001 to 2004. Prior to his MMDA post, he was a consultant for the DPWH Office of the Secretary.

Mr. Punsalan graduated with distinction from the Ateneo University where he obtained his Bachelor of Arts Degree Major in Economics and his Master in Business Administration.

MANUEL H. LOPEZ
President and CEO

Mr. Manuel H. Lopez, 60 years of age, joined the Corporation in 1996 as General Manager. He was appointed as President and CEO in May 2003 simultaneously with his appointment as a Director in the Board.

Prior to joining LBP Leasing Corporation, Mr. Lopez held various executive positions at the Technology Resource Center (TRC) from 1986. He was the Deputy Director General Designate of TRC from 1993 to 1994. Before joining TRC, Mr. Lopez worked in banks abroad and in the Philippines. Mr. Lopez is currently a Director of the SycipLaw Centre Condominium Corporation.

Mr. Lopez graduated from De La Salle University with degrees in BSBA Management and BSC Accounting. He also holds a degree in Masters in Business Administration from the University of the Philippines. He is a Certified Public Accountant.

DOMINGO I. DIAZ
Director

MR. Domingo I. Diaz, 67 years old**,** has been a Member of the Board of Land Bank of the Philippines (LBP) since October 2010. He concurrently sits as a Member of the Board of LBP Leasing and Finance Corporation where he was appointed in October 2010.

Prior to joining the public sector, Mr. Diaz worked in various capacities in companies in the Philippines and abroad. He was Principal and President of Diaz and Company and was President of American Consumer Laboratories Corp., both based in the U.S.A. He was Vice President of Ayala Corp. (Phil.) before he assumed the post of Managing Director of Ayala International PTE Ltd. In Singapore. Mr. Diaz was the Founding Director of Island Development Bank in Brunei and was also Managing Director of Sealion Hotels Ltd. In Singapore. Mr. Diaz was also a Director of various Ayala International Subsidiaries. He worked with Mobil Oil Phils. before joining Ayala International.

Mr. Diaz graduated from the Ateneo de Manila University with a degree in AB Economics. He earned his Master in Business Administration degree from the Amos Tuck School Darmouth College in the U.S.A.

RODRIGO B. SUPEŇA
Director

Mr. Rodrigo B. Supeňa, 75 years old, was first appointed to the Board of the Corporation in 1998. He served as Director until 2011. In September 2014, Mr. Supeňa was again appointed as a Member of the Board of LBP Leasing Corporation.

Mr. Supeňa was a Senior Vice President of the Landbank of the Philippines from 1997-2005. From 2008 up to the present, he is also serving as Independent Director of Country Builders Bank in Taguig City. He is also an Independent Director, since 2009, of Mabuhay Holdings and IRC Properties. Prior to joining Landbank, Mr. Supeňa held various responsible positions from 1963 to 1997 at the Bank of Philippine Islands where he was President of BPI Agribank (1986-1994) and Vice President at BPI Head Office (1994-1997).

Mr. Supeňa graduated Cum Laude from the Laguna College in 1960 with a BS Commerce degree. He also obtained his Master in Business Administration degree from the Ateneo Graduate School of Business in 1981.

CECILIA C. BORROMEO
Director

Mrs. Cecilia C. Borromeo has been a Member of the Board of the Corporation since October 1996. She is concurrently the Executive Vice President of the Land Bank of the Philippines (LBP) heading the Agricultural and Development Lending Sector.

Before joining LBP in 1989, Mrs. Borromeo held various responsible positions in the public sector such as the Department of Trade and Industry; the Human Settlements Development Corporation; the KKK National Secretariat; and the Ministry of Human Settlements.

Currently, Mrs. Borromeo is also a Director of the Cabanatuan Electric Corporation.

Mrs. Borromeo graduated from the University of the Philippines with a BS Agribusiness degree. She earned her Master in Business Administration Degree from the De La Salle Business School and completed her Advanced Bank Management course from the Asian Institute of Management.

JULIO D. CLIMACO, JR.
Director

Mr. Julio D Climaco, Jr., 58 years old, has been a Member of the Board since October 1996. He is an Executive Vice President of the Land Bank of the Philippines (LBP) heading the Corporate Services Sector. Mr. Climaco joined LBP in 1993. He is also currently a Board Director of the Producers Savings Bank Corp. and an Alternate Director to the Board of the National Food Authority.

Prior to joining LBP, Mr. Climaco worked at the Center for Research and Communication and at The Hongkong and Shanghai Banking Corp. He was also a Managing Consultant at JOAQUIN Cunanan & Co./Price Waterhouse.

Mr. Climaco holds a degree in Management of Financial Institutions from the De La Salle University. He also earned units in Master in Applied Business Economics from the University of Asia and the Pacific, formerly Center for Research and Communication (Manila).

EDWARD JOHN T.REYES
Director

Mr. Edward John T. Reyes, 57 years old**,** was appointed to the Board in May 2011. He is a Senior Vice President of Land Bank of the Philippines (LBP) heading the Corporate Banking Group. Mr. Reyes joined LBP in 1994 and has held various executive positions in the Bank. He is also concurrently a Board Director of the GM Bank of Luzon, Inc.

Before joining LBP, Mr. Reyes worked at the Development Bank of the Philippines (DBP) from 1988 to 1994 where he held various executive positions. Mr. Reyes graduated from the University of the Philippines in Diliman with a degree in BS Civil Engineering. He also earned units in MS Civil Engineering from UP.

ANDRES C. SARMIENTO
Director

Mr. Andres C, Sarmiento, 63 years of age, was appointed to the Board in May 2011. He is also an Executive Vice President of the Land Bank of the Philippines (LBP) heading the Operations Sector. Mr. Sarmiento is also concurrently a Board Director of the Land Bank Countryside Development Foundation, Inc. and the Small Business Corporation. He also sits as a Member of the Board of the Food Terminal, Inc.

Mr. Sarmiento started working at LBP in 1975 and has held various executive positions in the Bank. Prior to joining LBP, he was Staff Auditor at Sycip, Gorres and Velayo and Co. from 1972 to 1973.

Mr. Sarmiento earned his degree in BSBA major in Accounting from the Philippine School of Business Administration. He is a Certified Public Accountant.

ALVIN G. DANS
Director

Atty. Alvin G. Dans, 64 years of age, was appointed to the LBP Leasing Corporation Board in September 2015 and took his oath of office in October 2015.

Three (3) years after his passing the bar in 1977, he was elected Mayor of his hometown, Isabela City. He was one of the youngest municipal mayors as he won the mayoralty race at the age of 28. He served for two terms from 1980 to 1986. He was also elected as Governor of the Province of Basilan; as Congressman of the Lone District of Basilan from 1987 to 1992; and was appointed Undersecretary of the DILG. He eventually became the Postmaster General of the Philippine Post Office.

He was a recipient of Outstanding Lyceum of the Philippines University Alumni Award in 2012 in the field of public service.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENT

LBP LEASING CORPORATION
(A LAND BANK SUBSIDIARY)

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **LBP LEASING CORPORATION** is responsible for the preparation and fair presentation of the financial statements for the year ended December 31, 2014, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

The Commission on Audit, the independent auditors, has examined the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

Signature: Gilda E. Pico
GILDA E. PICO
Chairman of the Board

Signature: ______________
MANUEL H. LOPEZ
President/CEO

Signature: ______________
MA. LOURDES G. GONZAGA
VP/Chief Financial Officer

Signed this 16th day of June 2015

15/F SycipLaw Center, No. 105 Paseo de Roxas, Makati City 1226, Philippines
Trunkline No.: 818-2200 • Fax No.: 819-6176 • Website: www.lbpleasing.com

Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City
CORPORATE GOVERNMENT SECTOR
CLUSTER 1 – BANKING AND CREDIT

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
LBP Leasing Corporation
15th Floor, SSHG Law Center
105 Paseo de Roxas
Legaspi Village, Makati City

We have audited the accompanying financial statements of **LBP Leasing Corporation** (a wholly-owned subsidiary of Land Bank of the Philippines), which comprise the statement of financial position as at December 31, 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Public Sector Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements present fairly, in all material respects, the financial position of **LBP Leasing Corporation** as at December 31, 2014 and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

Emphasis of Matter

We draw attention to Notes 22.2, 22.3 and 32 to the Financial Statements which disclosed that a cash dividend to the National Government amounting to P72.299 million was declared for CY 2014 and approved on February 25, 2015 under Board Resolution No. 15-022, and an appropriation from Retained Earnings of P600.00 million for LLC's business expansion was approved by the Board on April 29, 2015 under Resolution No. 15-058. Thus, the Unappropriated Retained Earnings was reduced to P71.672 million as of April 30, 2015. These are non-adjusting events in the accompanying LLC's financial statements.

Our opinion is not modified in respect of this matter.

COMMISSION ON AUDIT

cdmarquez

CORA D. MARQUEZ
Supervising Auditor

16 June 2015

STATEMENT OF FINANCIAL CONDITION

LBP LEASING CORPORATION
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENT OF FINANCIAL POSITION
December 31, 2014
(In Philippine Peso)

	Note	2014	2013
ASSETS			
Current assets			
Cash and cash equivalents	6	42,720,257	23,046,533
Loans and receivables	8	1,181,258,903	1,146,997,873
Other assets	13	16,797,022	10,296,528
		1,240,776,182	**1,180,340,934**
Non-current assets			
Loans and receivables	8	2,279,139,588	2,406,292,424
Investment property	9	6,758,382	7,254,304
Equipment and other property for lease	10	383,766,537	14,523,678
Property and equipment	11	32,310,606	33,118,050
Non-current assets held for sale	12	3,299,865	6,253,885
Other assets	13	1,842,799	1,824,335
Deferred tax asset	14 & 28	59,078,677	62,716,409
		2,766,196,454	**2,531,983,085**
TOTAL ASSETS		**4,006,972,636**	**3,712,324,019**
LIABILITIES AND EQUITY			
LIABILITIES			
Current liabilities			
Bills payable	16	1,006,400,000	1,509,377,778
Deposit on lease contracts	17	130,443,866	104,808,151
Accrued taxes and other expenses	18	54,573,867	63,142,756
Other liabilities	19	55,956,005	29,420,098
		1,247,373,738	**1,706,748,783**
Non-current liabilities			
Bills payable	16	1,314,109,423	594,967,885
Deposit on lease contracts	17	107,230,456	133,924,452
		1,421,339,879	**728,892,337**
		2,668,713,617	**2,435,641,120**
Equity			
Capital stock	22.1	599,523,450	599,523,450
Retained earnings	22.3	743,970,605	682,475,596
Accumulated other comprehensive gains/losses	22.4	(5,235,036)	(5,316,147)
		1,338,259,019	**1,276,682,899**
TOTAL LIABILITIES AND EQUITY		**4,006,972,636**	**3,712,324,019**

LBP LEASING CORPORATION
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2014
(In Philippine Peso)

	Note	2014	2013
INTEREST INCOME	8		
Leases		342,188,754	344,227,553
Loans		120,249,966	108,903,501
Deposits in banks		213,389	144,987
Others		82,952	120,022
		462,735,061	453,396,063
INTEREST EXPENSE			
Borrowed funds	16	72,613,073	74,287,512
NET INTEREST INCOME		390,121,988	379,108,551
OTHER INCOME			
Operating leases	23	44,553,018	45,907,500
Other income	24	7,476,066	7,329,057
		52,029,084	53,236,557
DIRECT EXPENSES			
Security, messengerial, janitorial and contractual services	23	129,080,169	128,720,899
Provision for impairment losses	15	14,000,000	13,000,000
Compensation and fringe benefits - Marketing operations	25	12,435,911	10,522,221
Documentary stamp used	26	13,589,568	8,291,564
Insurance		7,907,621	6,322,285
Repairs and maintenance		4,902,345	5,269,425
Transfer mortgage and registration fees		5,660,146	1,030,973
Depreciation-equipment and other property for lease	10	5,038,052	958,876
		192,613,812	174,116,243
		249,537,260	258,228,865
GENERAL AND ADMINISTRATIVE EXPENSES			
Taxes and licenses	26	24,140,477	21,303,040
Compensation and fringe benefits	25	16,827,162	17,148,713
Depreciation/amortization	11 & 13	5,453,166	3,010,115
Litigation/assets acquired expenses		3,194,015	1,366,242
Insurance		451,294	432,108
Other expenses	27	14,757,234	11,813,160
		64,823,348	55,073,378
NET INCOME BEFORE INCOME TAX		184,713,912	203,155,487
Provision for income tax	28	51,001,268	44,421,500
NET INCOME		**133,712,644**	**158,733,987**
OTHER COMPREHENSIVE INCOME			
Remeasurement gain on retirement plan	22.4	**81,111**	**508,853**
TOTAL COMPREHENSIVE INCOME		**133,793,755**	**159,242,840**

STATEMENT OF CASH FLOW

LBP LEASING CORPORATION
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENT OF CASH FLOWS
For the year ended December 31, 2014
(In Philippine Peso)

	Note	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		505,885,697	454,416,255
Other income received		6,657,442	7,045,680
Net cash paid to clients		(275,292,280)	(589,969,448)
Cash paid to settle expenses		(267,259,030)	(246,487,913)
Interest paid		(72,646,749)	(73,548,196)
Income taxes paid		(21,266,789)	(15,608,239)
Net cash used in operating activities		**(123,921,709)**	**(464,151,861)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Net acquisitions/disposal of property and equipment		(415,219)	(173,851)
Net cash used in investing activities		**(415,219)**	**(173,851)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings under line of credit agreement		2,365,800,000	2,224,300,000
Payment of long term debt		(2,149,636,239)	(1,686,839,017)
Cash dividends paid	22.2	(72,153,109)	(94,682,747)
Net cash provided by financing activities		**144,010,652**	**442,778,236**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		19,673,724	(21,547,476)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		23,046,533	44,594,009
CASH AND CASH EQUIVALENTS AT END OF YEAR	6	**42,720,257**	**23,046,533**

STATEMENT OF CHANGES IN EQUITY

LBP LEASING CORPORATION
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2014
(In Philippine Peso)

	Issued Capital	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Gains/(Losses)	Total
	(Note 22.1)		(Note 22.3)	(Note 22.4)	
Balance, 31 December 2012	**485,552,550**	**113,970,900**	**618,380,481**	**(5,825,000)**	**1,212,078,931**
Cash dividend to National Government			(94,682,747)		(94,682,747)
Prior period adjustment			43,875		43,875
Comprehensive income for the year			158,733,987	508,853	159,242,840
Balance, 31 December 2013	**485,552,550**	**113,970,900**	**682,475,596**	**(5,316,147)**	**1,276,682,899**
Cash dividend to National Government			(72,153,109)		(72,153,109)
Prior period adjustment			(64,526)		(64,526)
Comprehensive income for the year			133,712,644	81,111	133,793,755
Balance, 31 December 2014	**485,552,550**	**113,970,900**	**743,970,605**	**(5,235,036)**	**1,338,259,019**

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

1.1 Incorporation and Operations

The LBP Leasing Corporation (LLC or "*the Corporation*") was registered with the Securities and Exchange Commission (SEC) on March 17, 1983 under SEC Registration No. 111115. It was granted by the SEC a license to operate as a finance company on March 18, 1983. The principal activities of LLC are as follows:

a. To engage in direct leasing or financial leasing and to arrange or underwrite and administer leases of all kinds of equipment, machines, vehicles, facilities, appliances and all types of personal and real property;

b. To engage in the business of financing merchandise particularly but not limited to appliance, automobile, and truck retail sales, agricultural machinery and equipment and to engage in the business of commercial, agricultural and industrial financing, factoring and/or leasing, in all other various forms, within and without the Republic of the Philippines;

c. To extend credit facilities for and otherwise assist in the establishment, operation, development, expansion and/or reorganization of industrial, commercial, agricultural and other productive or profitable enterprises; and

d. To make loans with or without such security, as the Board of Directors may think fit within the limits allowed by law.

The Corporation is a wholly-owned subsidiary of Land Bank of the Philippines (LBP). LLC's place of business is at 15th Floor SyCip Law Center, No. 105 Paseo De Roxas, Makati City.

1.2 Authorization for issuance of Financial Statements

The financial statements of LBP Leasing Corporation for the year ended December 31, 2014 were authorized for issue in accordance with a resolution of the Board of Directors on 29 April 2015 under Board Resolution No.15-054.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Financial Statements Preparation

a. *Statement of Compliance with Philippine Financial Reporting Standards*

The financial statements of the Corporation have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRSs are based on International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Financial Reporting Standards Council (FRSC).

These financial statements are the Corporation's separate financial statements and the exemptions from consolidation of subsidiaries' financial statements have been used. LBP issues consolidated financial statements that also comply with PFRS and which are available for public use in the Philippines.

b. *Basis of Measurement*

The financial statements have been prepared on a historical cost basis, except for investment properties and available-for-sale (AFS) financial assets that have been measured at fair value.

c. *Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Corporation presents all items of income and expenses in a single statement of comprehensive income.

The Corporation presents its statement of financial position broadly in order of liquidity. Analysis regarding recoveries (asset) or settlement (liability) within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 20 to the financial statements.

d. *Functional and Presentation Currency*

These financial statements are presented in Philippine peso, the Corporation's functional and presentation currency, and all values are rounded to the nearest peso except when otherwise indicated.

Items included in the financial statements of the Corporation are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the entity operates.

2.2 Adoption of New Interpretations, Revisions and Amendments to PFRS

Effective in 2014 that are relevant to the Corporation

PAS 32, Financial Instruments: Offsetting Financial Assets and Financial Liabilities (Amendments). These amendments clarify the meaning of "currently has a legal enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing houses systems which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Corporation's financial position or performance.

PAS 36, Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets. These amendments remove unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amount for assets or cash generating units for which impairment loss has been recognized or reversed during the period. The amendments affect disclosures only and have no impact on the Corporation's financial position or performance.

2010-2012 Annual Improvements to PFRSs

In the 2010-2012 annual improvements cycle, there are seven amendments to six standards, which included an amendment to PFRS 13 Fair Value Measurement. The amendment to PFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to PFRS 13 has no impact on the Corporation.

a. Standards effective 2015 onwards

Standards issued but not yet effective up to the date of issuance of the Corporation's financial statements are listed below. This listing is composed of standards and interpretations issued, which the Corporation reasonably expects to be applicable at a future date. The Corporation intends to adopt these standards, if applicable, when they become effective.

PFRS 9 Financial Instruments: Classification and Measurement

PFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39, Financial Instruments: Recognition and Measurement. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principals and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of fair value change in respect to liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Corporation's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities. PFRS 9 is effective for annual periods beginning on or after January 1, 2015.

2.3 Cash on Hand and in Banks

Cash on hand and in banks include cash on hand, savings and current deposit accounts and short-term placements with original maturities of three months or less from date of placements and that are subject to insignificant risk of changes in value.

2.4 Financial Instruments – Initial Recognition and Subsequent Measurement

(a) *Date of recognition*

The Corporation recognized a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial instruments that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date.

(b) *Initial recognition of financial instruments*

All financial instruments are initially recognized at fair value. Except for those financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial assets and liabilities includes transaction costs. The Corporation classifies its financial instruments in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) investments, and loans and receivables. Financial liabilities are classified into financial liabilities at FVPL and other financial liabilities recognized at amortized cost. The classification depends on the purpose for which the financial instruments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every statement of financial position date.

As of December 31, 2014 and 2013, the Corporation has no financial assets and financial liabilities at FVPL and HTM investments.

(c) *Determination of fair value*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Corporation has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Corporation measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis.

If there is no quoted price in an active market, then the Corporation uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Corporation determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

The Corporation recognizes transfers between levels of the fair value hierarchy as of the end of the reporting during which the change has occurred.

(d) *Day 1' difference*

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Corporation recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of comprehensive income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Corporation determines the appropriate method of recognizing the 'Day 1' difference amount.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS or at FVPL. Loans and receivables also include the aggregate rental on finance lease transactions. Unearned income on finance lease transactions is shown as deduction from "Loans and receivables" in the statement of financial position.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate (EIR). The amortization is included under "Interest Income Leases and Loans" in the statement of comprehensive income. The losses arising from impairment of such loans and receivables are recognized in "Provision for impairment losses' in the statement of comprehensive income.

Available-for-sale Financial Assets

AFS investments are those which are designated as such or do not qualify to be classified as designated as financial assets at FVPL, HTM investment or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS investments are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded net of tax from reported income and are reported as "Changes in fair values of AFS investments" in other comprehensive income (OCI) of the statement of comprehensive income.

Dividends earned on holding other equity investments are recognized in the statement of comprehensive income as “Miscellaneous Income” when the right of payment has been established.

Losses arising from impairment of such investments are recognized as “Provision for Impairment Losses” in the statement of comprehensive income.

Financial Liabilities

Issued financial instruments or their components, which are not designated at FVPL, are classified as financial liabilities under ‘Bills payable’ and other appropriate accounts titles for such borrowed funds in the statement of financial position, where the substance of the contractual arrangements results in the Corporation having an obligation either to deliver cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, bills payable and other similar financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are integral part of the EIR.

(e) *Derecognition of a Financial Assets and Liabilities*

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

- the rights to receive cash flows from the asset has expired;
- the Corporation retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Corporation has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset or (b) has neither transferred nor retained the risks and rewards of the asset, but has transferred control of the asset.

Where the Corporation has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Corporation’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying value of the asset and the maximum amount of consideration that the Corporation could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing financial liability are substantially modified, such an exchange or modification is treated as a derecognition of the original financial liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

(f) Impairment of Financial Assets

The Corporation assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of assets is deemed to be impaired if, and only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganizations and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables

For loans and receivables carried at amortized cost, the Corporation first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Corporation determines that no objective evidence of impairment exists for individually assessed asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics (by product type and industry) and collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, continues to be, recognized are not included in a collective assessment for impairment. Future cash flow in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flow reflect and are directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Corporation to reduce any differences between loss estimates and actual loss experience.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged against income. Interest income continues to be recognized based on the original EIR of the asset. Loans, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to 'Provision for impairment losses' in the statement of comprehensive income.

Restructured Loans

Where possible, the Corporation seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for impairment losses' in the statement of comprehensive income.

Available-for-Sale (AFS) Investment

For AFS investment, the Corporation assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of investments classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from profit or loss and recognized in other comprehensive income. Impairment losses recognized in other comprehensive income on equity instruments are not reversed through other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the statement of comprehensive income.

In the case of debt instrument classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest Income" in the statement of comprehensive income. If subsequently, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

(g) <u>Offsetting Financial Instruments</u>

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

2.5 Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- There is a change in contractual terms, other than a renewal or extension of the arrangement;
- A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
- There is a change in the determination of whether fulfilment is dependent on a specified asset; or
- There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment scenarios above, and at the date of renewal or extension period.

<u>Corporation as lessor</u>

Finance leases, where the Corporation transfers substantially all the risk and benefits incidental to ownership of the leased item to the lessee, are included in the statement of financial position under "Loans and Receivables" account. A lease receivable is recognized at an amount equal to the net investment in the lease. The difference between the gross lease receivable and the net investment in the lease is recognized as unearned finance income. All income resulting from the receivable is included as part of "Interest Income" in the statement of comprehensive income.

Leases where the Corporation does not transfer substantially all the risk and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the year in which they are earned.

2.6 Residual Value of Leased Assets and Deposits on Lease Contracts

The residual value of leased assets, which approximates the amount of lease deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the disposal of the leased asset at the end of the lease term. At the end of the lease term, the residual value receivable of the leased asset is generally applied against the lease deposit of the lessee when the lessee decides to buy the leased asset.

2.7 Property and Equipment and Equipment and Other Property for Lease (EOPL)

Property and equipment and EOPL are carried at acquisition cost less accumulated depreciation and amortization and any impairment in value. The initial cost of property and equipment and EOPL consists of its purchase price, including import duties and non-refundable purchase taxes after deducting trade discounts and rebates, and any costs that are directly attributable to the location and condition necessary for it to be capable of operating in the manner intended by management.

Expenditures incurred after the property and equipment and EOPL have been put into operation, such as repairs and maintenance are normally charged against operations in the period in which the costs are incurred. In situation where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment and EOPL beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment and EOPL.

When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and amortization and any impairment losses are removed from the accounts and any resulting gain or loss is reflected in statement of comprehensive income for the period.

Depreciation is computed using the straight-line method over the estimated useful life of the depreciable assets. Government agencies are guided by the revised estimated useful life of property and equipment prescribed under Annex A of COA Circular No. 2003-007 dated December 11, 2003, with selected property and equipment applicable to the Corporation as follows:

Property and Equipment	Estimated Useful Life
Buildings	10-20 years
Transportation equipment (motor vehicle)	7 years
Office, equipment, furniture and fixtures	5-10 years
Other property and equipment	5 years

The same COA circular dictates that the residual value of property and equipment is fixed at ten per cent of the cost. The computation of the depreciation expense starts on the following month after the purchase/completion of property and equipment irrespective of the date within the month.

Equipment and other property for lease are amortized over the terms of the leases or the estimated useful lives of the asset, whichever is shorter.

The carrying values of the property and equipment and EOPL are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, an impairment loss is recognized in the statement of comprehensive income.

An item of property and equipment, including the related accumulated depreciation and impairment losses, if any, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in statement of comprehensive income in the period the item is derecognized.

2.8 Intangibles

Intangible assets acquired are separately measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost net of the amortization.

Intangible assets are amortized over the estimated useful life ranging from 1-3 years and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization expense on intangible assets is recognized in the statement of comprehensive income in the expense category consistent with the function of the intangible asset.

2.9 Investment Properties

Investment properties, which include land, are initially recorded at cost including transaction costs. Investment properties acquired in exchange of loans and receivables are recorded at the fair value of the properties on acquisition dates. Fair value is supported by market evidence and is determined by appraisers with sufficient experience with respect to both location and the nature of the investment property. Foreclosed properties are classified as “Investment Property” from foreclosure dates.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are charged against current operations in the year in which costs are incurred. Depreciation is calculated on a straight-line basis using the useful life ranging from 5 to 10 years from the time of acquisition of the investment properties.

Subsequent to initial recognition, investment properties, except land, are stated at cost less accumulated depreciation and any impairment in value. Land is stated at cost less any impairment in value.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in “Gain on sale of properties” included under “Other income” in the statement of comprehensive income in the period of retirement or disposal.

Transfers are made to investment properties when and only when, there is a change in use evidences by ending of owner occupation and commencement of an operating lease to another party. Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner occupation or commencement of development with a view to sale.

2.10 Non-Current Assets Held for Sale

Non-current assets held for sale include foreclosed collateral of delinquent customers that the Corporation intends to sell within one year from the date of classification as held for sale.

The Corporation classifies assets as held for sale when their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. For the sale to be highly probable the appropriate level of management must be committed to a plan to sell the asset and an active program to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale are carried at the lower of its carrying amount and fair value less costs to sell. Assets classified as held for sale are not subject to depreciation or amortization. If the Corporation has classified an asset as held for sale but the criteria for it to be recognized as held for sale are no longer satisfied, the Corporation shall cease to classify the asset as held for sale.

The gain or loss arising from the sale or re-measurement of held for sale assets is recognized as part of Other income account in the statement of comprehensive income.

2.11 Impairment of Non-financial Assets

An assessment is made at each reporting date whether there is any indication of impairment of any nonfinancial assets (property and equipment and investment properties), or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its fair value less costs to sell and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other asset or group of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction less cost to sell while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

An impairment loss is charged against income in the year in which it arises, unless the asset is carried at a revalued amount in which case the impairment loss is charged against the revaluation increment of the said asset. A previously recognized impairment loss is reversed only if there has been a change in estimates used to determine the recoverable amount of an asset, but not to an amount that would have been determined (net of any depreciation) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited to current operations, unless the asset is carried at a revalued amount in which case the reversal of the impairment loss is credited to revaluation increment of the said asset. After such reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

2.12 Provisions

Provisions are recognized when present obligations (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount of obligation. Where the Corporation expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense related to any provision is presented in the statement of comprehensive income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in provision due to the passage of time is recognized as an interest expense.

2.13 Contingent Assets and Contingent Liabilities

Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefit is probable. Contingent liabilities are not recognized in the financial statements but are disclosed unless a possibility of an outflow of assets embodying economic benefits is remote.

2.14 Equity

Common stock represents the nominal value of shares that have been issued.

Additional paid-in capital includes any premiums received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Treasury shares are stated at the cost of reacquiring such shares and are deducted from equity attributable to the Corporation's equity holders until the shares are cancelled, reissued or disposed of.

Unrealized fair value gain (loss) on available-for-sale financial assets pertains to cumulative mark-to-market valuation of available-for-sale financial assets.

Retained earnings include all current and prior period results as disclosed in the statement of comprehensive income.

2.15 Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured. The Corporation assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Corporation is acting as principal in all its revenue arrangements. The following specific recognition criteria of income and expenses must also be met before revenue is recognized:

(a) Interest Income

For all financial instruments measured at amortized cost, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument including any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as "Interest income" in the statement of comprehensive income.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

The excess of aggregate lease rentals plus the estimated residual value over the cost of the leased equipment constitutes the "Deferred leasing income". Residual values represent estimated proceeds from the disposal of equipment at the time the lease is terminated. The deferred lease income is amortized over the term of the lease, commencing on the month the lease is executed, using the effective interest rate method.

(b) Income from operating leases

Rent income arising from operating leases is recognized on a straight-line basis over the lease term and is recorded as part of "Other income" in the statement of comprehensive income.

(c) Penalties and Service fees

Penalties and service fees are recognized when earned or accrued when there is a reasonable degree to its collectability.

(d) Gain (Loss) on Foreclosures

Gain (loss) on foreclosed asset is recognized upon collection of existing receivable through foreclosure of asset used as collateral wherein the fair market value of the asset received is greater or lesser than the net carrying value of the receivable settled.

(e) Gain (Loss) from Asset Sold/Exchanged

Gain (loss) on sale of asset sold/exchanged is recognized upon sale of an investment property, property and equipment or other properties acquired wherein the fair market value of the asset received is greater or lesser than the outstanding balance of receivables sold.

2.16 Expense Recognition

Expenses are recognized when it is probable that decrease in future economic benefits related to decrease in asset or an increase in liability has occurred and that the decrease in economic benefits can be measured reliably. Expenses that may arise in the course of ordinary regular activities of the Corporation include, among others, the operating expenses incur in the operation.

(a) Borrowing Costs

Borrowing costs are recognized as expenses in the year in which these costs are incurred using the effective interest method. Borrowing costs consist of interest and other costs that the Corporation incurs in connection with borrowing of funds.

2.17 Employee Benefits

(a) Retirement Benefit Obligations

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Re-measurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the defined benefit liability or asset.

(f) Gain (Loss) on Foreclosures

Gain (loss) on foreclosed asset is recognized upon collection of existing receivable through foreclosure of asset used as collateral wherein the fair market value of the asset received is greater or lesser than the net carrying value of the receivable settled.

(g) Gain (Loss) from Asset Sold/Exchanged

Gain (loss) on sale of asset sold/exchanged is recognized upon sale of an investment property, property and equipment or other properties acquired wherein the fair market value of the asset received is greater or lesser than the outstanding balance of receivables sold.

2.18 Expense Recognition

Expenses are recognized when it is probable that decrease in future economic benefits related to decrease in asset or an increase in liability has occurred and that the decrease in economic benefits can be measured reliably. Expenses that may arise in the course of ordinary regular activities of the Corporation include, among others, the operating expenses incur in the operation.

(b) Borrowing Costs

Borrowing costs are recognized as expenses in the year in which these costs are incurred using the effective interest method. Borrowing costs consist of interest and other costs that the Corporation incurs in connection with borrowing of funds.

2.19 Employee Benefits

(b) Retirement Benefit Obligations

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Re-measurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the defined benefit liability or asset.

Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss. Re-measurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Re-measurements are not reclassified to profit or loss in subsequent periods. All re-measurements recognized in other comprehensive income account "Re-measurement gains (losses) on retirement plan" are not reclassified to another equity account in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Corporation, nor can they be paid directly to the Corporation. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Corporation's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

(c) ***Compensated Absences***

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of each reporting period. These are included in "Accrued other expenses payable" account at the undiscounted amount that the Corporation expects to pay as a result of the unused entitlement.

2.20 Income Taxes

Income tax on profit or loss comprises current and deferred tax. Income tax is determined in accordance with Philippine tax law. Income tax is recognized in the statement of comprehensive income, except to the extent that it relates to OCI items recognized directly in the statement of comprehensive income.

(a) Current Tax

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the period. All changes to current tax assets or liabilities are recognized as a component of tax expense in the statement of comprehensive income.

(b) Deferred Tax

Deferred tax is provided, using the liability method, on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of each reporting period.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss. Only changes in deferred tax assets or liabilities that relate to items recognized in other comprehensive income or directly in equity are recognized in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes relate to the same taxable entity and the same taxation authority.

2.21 Earnings Per Share (EPS)

Basic earnings per common share is determined by dividing the net income by the weighted average number of common shares subscribed and issued during the year, adjusted retroactively for any stock dividend, stock split or reverse stock split declared during the current period. The Corporation does not have dilutive common shares.

2.22 Related Party Relationships and Transactions

Related party relationship and transaction exists when one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between, and/or among the reporting enterprise and its key management personnel, directors or its shareholder. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.23 Events After the Reporting Date

Post year-end events that provide additional information about the Corporation's position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The Corporation's financial statements prepared in accordance with PFRS requires management to make judgments and estimates that affect amounts reported in the financial statements and related notes. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1 Judgments

In the process of applying the Corporation's accounting policies, Management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

a. *Finance lease commitment*

The Corporation entered into finance leases. The Corporation has determined that it has transferred all the significant risks and rewards of ownership of the properties which are leased out on finance lease arrangements. Interest earned on finance lease arrangements amounted to P342.189 million and P344.228 million in 2014 and 2013, respectively (see Note 8).

b. *Fair Value of Financial Instruments*

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that includes the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs.

c. *Contingencies*

There are certain pending claims and suits and in favour of the Corporation that arise from normal course of its operations which are not reflected in the accompanying financial statements. The Corporation's management believes that losses, if any, from these commitments and contingencies will not have a material effect on the Corporation's financial statements (see Note 33).

3.2 Estimates

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

a. ***Impairment Losses on Loans and Receivables***

The Corporation reviews its loans and receivables to assess impairment at least on an annual basis to assess whether provision for credit losses should be recorded in the statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance for credit losses.

As of December 31, 2014 and 2013, allowance for credit losses on Loans and Receivables of the Corporation amounted to P186.726 million and P202.899 million, respectively (see Note 8).

b. ***Impairment losses on AFS Investments***

The Corporation determines that AFS investment are impaired when there has been a significant or prolonged decline in the fair value below of its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. In addition, the Corporation evaluates when there is evidence of deterioration in the financial health of the investee, industry and sector performance and operational and financing cash flows.

As December 31, 2014 and 2013, 100 per cent allowance on impairment losses of AFS investments has been recognized against its carrying value of P5.825 million.

c. ***Impairment of EOPL, Property and Equipment, Investment Property and Non-Current Assets Held for Sale***

The Corporation assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Corporation considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

The Corporation recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of the assets' net selling price or value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less cost to sell while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, the cash generating unit to which the asset belongs.

The carrying values of the Corporation's non-financial assets are as follows:

	2014	2013
Investment property (Note 9)	6,758,382	7,254,304
EOPL (Note 10)	383,766,537	14,523,678
Property and equipment (Note 11)	32,310,606	33,118,050
Non-current assets held for sale (Note 12)	3,299,865	6,253,885

Allowance for impairment losses on Investment property amounted to P3.387 million and P3.062 million as of December 31, 2014 and 2013, respectively, while Allowance for impairment losses on Non-current assets held for sale amounted to P5.415 million and P3.094 million in 2014 and 2013, respectively. There are no impairment losses on EOPL and Property and equipment for years 2014 and 2013. (See Note 15)

d. ***Recognition of Deferred Tax Assets***

The Corporation reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Significant management judgment is required to determine the amount of deferred tax asset that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

As of December 31, 2014 and 2013, deferred tax assets recognized amounted to P59.079 million and P62.716 million, respectively. (See Note 14)

e. ***Estimated useful lives of EOPL, Property and Equipment and Intangible Assets***

The Corporation reviews on an annual basis the estimated useful lives of EOPL, Property and equipment and Intangible assets based on expected asset utilization as anchored on business plans and strategies that also consider expected future technological developments and market behaviour. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives would increase the recorded depreciation expense and decrease noncurrent assets. The estimated useful lives of depreciable assets are disclosed in Note 2.7.

f. ***Estimated Retirement Liabilities and Other Retirement Benefits***

The determination of the Corporation's obligation and cost for retirement and other retirement benefits is dependent on selection of certain assumptions used by actuaries in calculating such amounts.

Those assumptions are described in Note 25.2 and include among others, discount rates and rates of salary increase. While the Corporation believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect retirement obligations.

Retirement costs included under "General and administrative expenses" account in the statement of comprehensive income amounted to P1.825 million and P0.871 million in 2014 and 2013, respectively (see Note 25.2).

4. FINANCIAL RISK AND CAPITAL MANAGEMENT

The Corporation has exposure to the following risks arising from financial instruments:

- Credit Risk
- Interest Rate Risk
- Liquidity Risk

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the Corporation's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The risk management policies are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies are reviewed regularly to reflect changes in market conditions and activities by the Corporation.

The Audit Committee oversees how management monitors and ensures compliance with the risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks face by the Corporation. Risk management processes within the Corporation are audited by the internal audit that examines both adequacy of the procedures and the Corporation's compliance with the procedures. Internal audit discusses the results of all assessment with management and reports its findings and recommendations to the Audit Committee.

The Corporations' risk management policies are summarized below:

4.1 Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. This risk may further be classified as pre-settlement and settlement risk (PSR and SR, respectively). PSR is the risk that the obligor will fail to meet the terms of the contract and default before the contract's settlement date, prematurely ending the contract. SR, on the other hand, is the risk that the obligor will fail to deliver the terms of a contract with another party at the time of settlement. SR can be the risk associated with default at settlement and any timing differences in settlement between the Corporation and the counterparty. The management therefore carefully assesses and manages its exposures to both types of credit risks.

a. *Credit Risk Management*

The Corporation manages credit risk by implementing adequate credit evaluation and approval processes as well as setting limits for individual borrowers, group of borrowers and industry segments. The Corporation maintains a general policy of avoiding excessive exposure in any particular sector of the Philippine economy. The Corporation actively seeks to increase its exposure to priority sectors as determined by its Parent Bank and other industry sector 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 Corporation's leasing and financing portfolio is composed of transactions with wide variety of businesses, the results of operation and financial condition of the Corporation may be diversely affected by any downturn in these sectors as well as the Philippine economy in general.

The Corporation assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. In the Corporation's rating scale, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are reviewed and upgraded as necessary. The Corporation regularly validates the performance of the rating and their predictive power with regard to default events.

b. *Collateral and other credit risk mitigation*

The amount and type of collateral required depends on an assessment of the credit risk of the obligor. The Corporation implements certain requirements regarding the acceptability of types of collateral and valuation.

Collateral comes in the form of financial and non-financial assets. The main types of collaterals obtained include liens over cash deposits, real estate properties, chattel mortgages and mortgages over residential properties. The Corporation also obtains guarantees from parent companies for loans of borrowing entities belonging to a group of companies.

The Corporation monitors market value of collateral, and request for additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowances for credit losses.

The following table shows the breakdown of receivables as to collateral:

	2014	2013
Secured		
Property under finance lease	1,729,189,055	1,815,134,619
Real estate mortgage	225,526,079	339,653,041
Chattel mortgage	936,697,604	783,796,779
	2,891,412,738	2,938,584,439
Unsecured	654,727,672	715,569,369
	3,546,140,410	3,654,153,808

c. *Impairment Assessment*

The Corporation recognizes impairment losses based on the results of its specific (individual) and collective assessment of credit exposures. Impairment has taken place when there is a significant credit rating downgrade takes place, infringement of the original terms of the contract has happened, or when there is an inability to pay the principal or the interest beyond a certain threshold. These and other factors, either singly or in tandem with other factors, constitute observable events and/or data that meet the definition of an objective evidence of impairment.

d. *Maximum exposure to credit risk before collateral held or other credit enhancements*

The assets that are exposed to credit risk are as follows:

	2014	2013
Cash and cash equivalents	42,720,257	23,046,533
Available for sale financial assets	5,825,000	5,825,000
Loans and receivables	3,647,124,267	3,756,189,770
Other assets - accounts receivables	613,525	553,335

The above table represents the maximum credit risk exposure of the Corporation at December 31, 2014 and 2013, without taking into account any collateral held or other credit enhancements as it is impracticable to determine the fair values of these collaterals held by the Corporation as security against its loans and receivables. The exposures set out above are based on gross carrying amounts as reported in the statement of financial position.

The Corporation does not have significant exposure to any individual customer or counter-party nor does it have any major concentration of credit risk related to any financial instrument. The credit exposure granted to Republic of the Philippines and/or its agencies/departments/bureaus are considered non-risk and not subject to any ceiling in accordance with BSP Circular No. 514.

The Corporation maintains its Cash in bank in the Parent Bank and with other universal banks which are highly rated among the top ten in the country.

e. *Concentrations of risks of financial assets with credit risk exposure*

The Corporation's main credit exposure at their carrying amounts, as categorized by industry sectors follow:

As at December 31, 2014				
	Cash and Cash Equivalents	**Available for sale Securities**	**Loans and Receivables**	**Other Asset (Accounts Receivable)**
Agriculture, fishing and forestry	0	0	30,001,093	0
Wholesale and retail trade	0	0	299,852,307	0

Manufacturing	0	0	31,594,773	0
Public utilities	0	0	290,270,188	0
Services	0	0	1,096,305,136	0
Banks & other financial institutions	42,720,257	5,825,000	506,283,709	0
Real estate	0	0	217,438,205	0
Public sector	0	0	923,700,901	0
Others	0	0	251,677,955	613,525
Allowance for probable losses	0	(5,825,000)	(186,725,776)	0
	42,720,257	**0**	**3,460,398,491**	**613,525**

As at December 31, 2013				
	Cash and Cash Equivalents	**Available for sale Securities**	**Loans and Receivables**	**Other Asset (Accounts Receivable)**
Agriculture, fishing and forestry	0	0	35,746,654	0
Wholesale and retail trade	0	0	320,619,065	0
Manufacturing	0	0	81,485,693	0
Public utilities	0	0	109,539,735	0
Services	0	0	936,455,057	0
Banks & other financial institutions	23,046,533	5,825,000	537,298,495	0
Real estate	0	0	394,954,361	0
Public sector	0	0	985,356,122	0
Others	0	0	354,734,588	553,335
Allowance for probable losses	0.00	(5,825,000)	(202,899,474)	0
	23,046,533	**0**	**3,553,290,296**	**553,335**

a. *Credit Quality of Financial Assets*

The credit quality of financial assets, net of unearned lease income, interest and discount but gross of allowance for credit losses is as follows:

	2014	**2013**
Neither past due nor impaired	3,266,610,756	3,389,994,265
Impaired	279,529,654	264,159,543
	3,546,140,410	3,654,153,808

Neither past due nor impaired

When entering into new markets or new industries, the Corporation focuses on businesses with good credit rating in order to minimize the potential increase in credit risk exposure. Loans and lease receivables that are neither past due nor impaired are due from accounts that have appropriate and strong credit history, with minimal account defaults and whose receivables are fully recoverable based on past experiences.

Past due but not impaired

Past due loans and lease receivables are not considered impaired, unless other information is available on the contrary. Collateralized past due are not considered impaired when cash flows that may result from foreclosure of the related collateral are higher than the carrying amount of the loans.

Impaired

Impaired loans and lease receivables includes accounts which are individually and collectively assessed for impairment. The total impairment provision for loans and lease receivable represents provision for individually and collectively impaired loans and lease receivables. Further information on impairment of loans and lease receivable is provided in Note 8.

4.2 Interest Rate Risk

The Corporation 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 Corporation is vulnerable to increase in market interest rates. However, in consideration of the adequate net interest margin between the Corporation's funding cost and its interest-earning assets; and favorable lease and financing terms which allow the Corporation to (a) re-price periodically as agreed, and (b) to re-price at any time in response to extraordinary fluctuations in interest rates, the Corporation believes that the adverse impact of any interest rate increase would be limited.

4.3 Liquidity Risk

Liquidity Risk is the risk that the Corporation is unable to grant additional credit and/or its failure to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the loss of clients and/or being in default on its obligations to its creditors.

The primary business of the Corporation entails the borrowing and re-lending of funds. Consequently, it is subject to substantial leverage, and may thereof be exposed to potential financial risks that accompany borrowing. In relation to its various borrowing arrangements, the Corporation is currently subject to certain requirements relating to the maintenance of acceptable liquidity and leverage ratios.

Analysis of financial liabilities by remaining contractual maturities

The table below summarize the maturity profile of the Corporation's financial liabilities on contractual undiscounted repayment obligations.

As at December 31, 2014				
	Up to 1 year	**Over 1 up to 3 years**	**Over 3 years**	**Total**
Liabilities				
Bills payable	1,006,400,000	0	1,314,109,423	2,320,509,423
Deposit on lease contracts	130,443,866	69,675,448	37,555,008	237,674,322
Accrued other expenses	37,411,089	0	0	37,411,089
Other liabilities	54,130,003	0	0	54,130,003
	1,228,384,958	69,675,448	1,351,664,431	2,649,724,837

As at December 31, 2013				
	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
Liabilities				
Bills payable	1,509,377,777	0	594,967,885	2,104,345,662
Deposit on lease contracts	104,808,151	107,119,274	26,805,178	238,732,603
Accrued other expenses	41,041,092	0	0	41,041,092
Other liabilities	28,290,360	0	0	28,290,360
	1,683,517,380	107,119,274	621,773,063	2,412,409,717

**Other liabilities identified as financial liabilities do not include accrued taxes and licenses, accrued income tax payable, fringe benefit tax payable and withholding taxes payable.*

Assets available to meet all of the liabilities include cash in bank and loans and receivables. The Corporation would also be able to meet unexpected net cash outflows by accessing additional funding sources.

5. Fair Value Measurement

The following table summarizes by category the carrying amounts and fair value of financial assets and liabilities. Where fair value is presented, such fair value is determined based on valuation techniques described below.

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	42,690,257	42,690,257	23,046,533	23,046,533
Available for sale financial assets	5,825,000	0	5,825,000	0
Loans and receivables	3,647,124,267	3,460,398,491	3,756,189,770	3,553,290,297
Bills payable	2,320,509,423	2,320,509,423	2,104,345,662	2,104,345,662
Accrued taxes and other expenses	54,573,867	54,573,867	63,142,756	63,142,756
Other liabilities	55,956,005	55,956,005	29,420,099	29,420,099
Deposit on lease contracts	237,674,322	237,674,322	238,732,603	238,732,603

The methods and assumptions used by the Corporation in estimating the fair value of the financial instruments follow:

(a) Cash and cash equivalents

The fair values of cash and cash equivalents approximate carrying amounts given their short-term maturities.

(b) Available-for-sale financial assets

The fair value of available-for-sale securities is reduced to zero due to suspension of trading of stock.

(c) Loans and receivables

The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flow expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(d) *Bills payable*

The estimated fair value of bills payable represents the discounted amount of estimated future cash flows expected to be paid. Expected cash flows are discounted at current market rates to determine fair value.

(e) *Accrued taxes and other expenses*

Fair values approximate carrying amounts given the short-term maturities of the liabilities.

(f) *Other liabilities*

Fair values approximate carrying amounts given the short-term maturities of the liabilities.
(g) *Deposits on Lease Contracts*

Deposits on lease contracts are carried at amortized cost which represents the present value.

Fair Value Hierarchy

The Corporation uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the resource or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, savings and current account deposits and short-term placement with original maturities of three months or less from date of placements and that are subject to insignificant risk of change in value.

This account consists of:

	2014	**2013**
Deposits in bank	42,690,257	23,026,533
Petty cash fund	30,000	20,000
	42,720,257	**23,046,533**

Cash in bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of LLC, and earn interest at the respective short-term deposit rates. Annual interest earned on deposit in bank ranges from 1.25 per cent to 1.125 per cent in 2014 and from 1.25 per cent to 0.875 per cent in 2013. Interest income recognized for the year-ended December 31, 2014 and 2013 from deposit in banks amounted to P213,389 and P144,987, respectively.

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account consists of:

	2014	**2013**
Available for sale securities shares-listed	5,825,000	5,825,000
Accumulated market losses	(5,825,000)	(5,825,000)
	0	**0**

The account reflects holdings of 5,825,000 shares of common stock of Export and Industry Bank (EIB).

In 2001, LLC bought deposit receivables of a particular client from Urban Bank at the discounted price of P43.350 million. In September 2004, the receivables (amounting to P58.245 million by then) were settled by the rehabilitated bank renamed as Export-Industry Bank (EIB), thru cash settlement of P52.425 million and 5.825 million shares of common stocks at a par value of P1.00 per share. With the settlement, the investment on the receivables was closed and the 5.825 million shares of Common Stock of EIB were booked as Available-for-sale securities.

The common shares of EIB are publicly held and traded. As part of its rehabilitation program, EIB implemented a reverse split on its common shares, reducing the par value of P1.00 per share to 25¢ per share.

In May 2009, trading on the stock was suspended in view of the pending purchase of EIB by another bank. The acquisition has already been given an approval in principle by the Bangko Sentral ng Pilipinas (BSP). Prior to the suspension in May 2009, shares of EIB were trading at 14¢ per share.

In April 2012, BSP placed EIB under the receivership of Philippine Deposit Insurance Corporation (PDIC) after its total liabilities exceeded its total assets. On October 18, 2012, PDIC scheduled the bidding for EIB but the bidding failed as no potential investors appeared due to the three-day temporary restraining order (TRO) issued by the Makati Regional Trial Court in October 17, 2012 as requested by some of the parties which has claims against the bank.

A rebidding was scheduled on March 20, 2013 but this did not push through because no strategic third party investor has submitted a letter of interest or a pre-bid documentary requirement.

8. LOANS AND RECEIVABLES

Current portion consists of:

	2014	2013
Financial lease receivables	347,931,983	376,956,912
Financial lease receivables - LBP	173,316,410	5,331,394
Loans and receivables financed	560,145,606	664,708,144
	1,081,393,999	1,046,996,450
Accounts receivables	96,624,133	96,370,811
Allowance for probable losses	(1,100,094)	(2,013,909)
	95,524,039	94,356,902
Accrued interest receivables	4,118,093	5,183,901
Allowance for probable losses	(18,859)	(20,631)
	4,099,234	5,163,270
Sales contract receivables	241,631	481,250
	1,181,258,903	**1,146,997,873**

Non-current portion consists of:

	2014	2013
Financial lease receivables	1,382,404,329	1,545,702,496
Allowance for probable losses	(20,944,941)	(28,852,998)
	1,361,459,388	1,516,849,498
Financial lease receivables – LBP	17,764,129	209,296,768
Loans and receivables financed	1,064,577,954	852,158,094
Allowance for probable losses	(164,661,883)	(172,011,936)
	899,916,071	680,146,158
	2,279,139,588	**2,406,292,424**

As of December 31, 2014, 42 per cent of the Corporations' Finance Lease and Loans Receivables are subject to interest re-pricing. The remaining loans earn annual fixed interest rates ranging from 7.5 to 14.0 per cent in 2014.

Finance Lease Receivables (Gross)

An analysis of the LLC's finance lease receivables as at December 31, 2014 and 2013 is presented as follows:

	2014	2013
Finance lease receivables:		
Within 1 year	313,929,953	441,014,540
Beyond 1 year but not beyond 5 years	346,080,514	435,182,051
Beyond 5 years	1,749,941,645	1,824,756,050
	2,409,952,112	2,700,952,641
Residual value of lease assets:		
Within 1 year	61,387,171	100,971,927
Beyond 1 year but not beyond 5 years	82,053,222	85,200,548
Beyond 5 years	129,519,878	139,335,628
	272,960,271	325,508,103
Total minimum lease payments receivables	2,682,912,383	3,026,460,744
Less: Unearned lease income		
Within 1 year	27,385,141	165,029,555
Beyond 1 year	988,014,234	1,015,831,704
	1,015,399,375	1,180,861,258
Net investment in finance lease receivables	1,667,513,008	1,845,599,486
Past due receivables	32,034,890	0
Restructured accounts	30,078,653	36,475,854
Past due - restructured	8,053,498	8,053,498
Items in litigation	10	43,681,948
	70,167,051	88,211,300
Less: Unearned lease income	7,343,747	11,151,378
	62,823,304	77,059,922
	1,730,336,312	1,922,659,408

Finance lease receivables - LBP:		
Within 1 year	221,098,385	11,529,386
Beyond 1 year but not beyond 5 years	7,467,449	298,961,749
Beyond 5 years	73,738,440	137,586,120
	302,304,274	448,077,255
Residual value of leased assets:		
Within 1 year	3,626,600	283,600
Beyond 1 year but not beyond 5 years	2,027,000	5,653,600
Beyond 5 years	0	0
	5,653,600	5,937,200
Total minimum lease payments receivables	307,957,874	454,014,455
Less: Unearned lease income		
Within 1 year	51,408,575	6,481,592
Beyond 1 year	65,468,761	232,904,701
	116,877,336	239,386,293
	191,080,538	214,628,162

Loans and Receivables Financed (Gross)

The breakdown of loans and receivables financed as of December 31, 2014 and 2013 are as follows:

	2014	2013
Loans and receivables financed:		
Due within 1 year	560,145,606	664,708,144
Due beyond 1 year	792,536,484	572,198,225
	1,352,682,090	1,236,906,369
Past due receivables	116,614,286	132,109,199
Restructured accounts	27,519,964	59,054,189
Past due - restructured	26,765,104	19,025,496
Items in litigation	105,529,979	74,186,867
	276,429,333	284,375,751
Less: Unearned income	4,387,863	4,415,882
	272,041,470	279,959,868
	1,624,723,560	1,516,866,238

Summary of Loans and Receivables (Gross)

	2014	2013
Loans and Lease Receivables		
Financial lease receivables	1,730,336,312	1,922,659,408
Financial lease receivables - LBP	191,080,538	214,628,162
Loans and receivables financed	1,624,723,560	1,516,866,238
	3,546,140,410	3,654,153,808
Other Receivables		
Accounts receivables	96,624,133	96,370,811
Accrued interest receivables	4,118,093	5,183,901
Sales contract receivables	241,631	481,250
	100,983,857	102,035,962
	3,647,124,267	3,756,189,770

Accounts receivables amounting to P95.480 million and P93.008 million represent the amounts due from Parent Bank for financial lease and operating lease transactions for 2014 and 2013, respectively.

Interest Income on Receivables

Interest Income in the statements of comprehensive income consists of interest on:

	2014	2013
Lease contract receivables	342,188,754	344,227,553
Loans receivables	120,249,966	108,903,501
Cash and cash equivalents	213,389	144,987
Sales contract receivables	82,952	120,022
	462,735,061	453,396,063

Reconciliation of credit losses (in thousand pesos)

A reconciliation of the allowance for credit losses for loans and receivables by class is as follows:

2014	Lease Contracts Receivables	Loans and Finance Receivables	Other Receivables	Total
At January 1, 2014	28,853	172,011	2,035	202,899
Provisions during the year	606	14,131	(737)	14,000
Write-off during the year	0	(1,287)	(24)	(1,311)
Foreclosure and adjustments	(8,514)	(20,193)	(155)	(28,862)
At December 31, 2014	20,945	164,662	1,119	186,726
Individual impairment	3,693	150,063	1,119	154,875
Collective impairment	17,252	14,599	0	31,851
Total impairment	20,945	164,662	1,119	186,726
Gross amount of loans Individually determined to be impaired, before deducting any individually assessed credit losses	14,376	236,688	1,346	252,410

2013	Lease Contracts Receivables	Loans and Finance Receivables	Other Receivables	Total
At January 1, 2013	26,259	183,859	1,969	212,087
Provisions during the year	2,892	10,042	66	13,000
Write-off during the year	(298)	(18,690)	0	(18,988)
Foreclosure and adjustments	0	(2,013)	0	(2,013)
Reallocation to other properties acquired	0	(1,187)	0	(1,187)
At December 31, 2013	28,853	172,011	2,035	202,899
Individual impairment	28,853	156,494	2,035	187,382
Collective impairment	0	15,517	0	15,517
Total impairment	28,853	172,011	2,035	202,899
Gross amount of loans Individually determined to be impaired, before deducting any individually assessed credit losses	51,735	282,615	2,107	336,457

BSP Reporting

Details of finance lease receivable as to industry/economic sector and collateral type at December 31, 2014 are as follows:

a. As to industry/economic sector (in per cent)

	2014	2013
Services	30.06	28.14
Public sector	25.33	28.91
Banks and other financial institutions	13.88	13.36
Wholesale and retail trade	8.22	9.64
Public utilities	7.96	3.29
Real estate	5.96	11.88
Manufacturing	0.87	2.44
Agriculture, fishing and forestry	0.82	1.08
Others	6.90	1.26
	100.00	100.00

The BSP considers that concentration of credit exists when total loan exposure to a particular industry or economic sector exceeds 30 per cent of total loan portfolio. However, credit granted to Public Sectors, in accordance with the BSP Circular No. 514 and it's Manual of Regulations for Banks and Non-Bank Financial Intermediaries, specifically provide that loans, other credit accommodations and guarantees to the Republic of the Philippines (ROP) and/or its agencies/departments/bureaus shall be considered non-risk and not subject to any ceiling.

b. As to collateral (in thousand pesos)

	2014	2013
Secured		
Property under finance lease	1,729,189	1,815,135
Real estate mortgage	225,526	339,653
Chattel mortgage	936,698	783,797
	2,891,413	2,938,585
Unsecured	654,727	715,569
	3,546,140	3,654,154

BSP Circular No. 351 allows non-banks with no unbooked valuation reserves and capital adjustments required by the BSP to exclude from nonperforming classification those receivables from customers classified as 'Loss' in the latest examination of the BSP which are fully covered by allowance for credit losses, provided that interest on said loans shall not be accrued.

As of December 31, 2014 and 2013, nonperforming loans (NPLs) not fully covered by allowance for credit losses follow (in thousand pesos):

	2014	2013
Total NPLs	233,806	219,170
Less NPLs fully covered by allowance for credit losses	(131,034)	(107,507)
	102,772	**111,663**

As of December 31, 2014 and 2013, secured and unsecured NPLs follow (in thousand pesos):

	2014	2013
Secured	142,475	122,524
Unsecured	91,331	96,646
	233,806	**219,170**

9. INVESTMENT PROPERTY

These include acquired land and buildings that are held to earn rentals, or for capital appreciation, or both. The movements of the Investment Property account are presented below:

Cost	
At January 1, 2014	10,316,000
Additions	0
At December 31, 2014	**10,316,000**
Accumulated depreciation and impairment	
At January 1, 2014	3,061,696
Depreciation	170,333
Impairment	325,589
At December 31, 2014	3,557,618
Net book value, December 31, 2014	**6,758,382**
Net book value, December 31, 2013	**7,254,304**

The aggregate market value of investment properties as of December 31, 2014 and 2013 amounted to P11.552 million and P11.996 million, respectively. Fair value has been determined based on valuations made by in-house appraisers or accredited independent appraisers. Valuations were derived on the basis of information on the prevailing market value of similar/ comparable real properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuation were made.

10. EQUIPMENT AND OTHER PROPERTY FOR LEASE

The Corporation entered into financial lease transaction with various lessees either by purchase from equipment supplier or by sale and leaseback with the leases involving various equipment with terms ranging from 24 to 60 months. The equipment acquired from equipment suppliers are initially booked as 'Equipment and other property for lease – financial lease' until the Certificate of Acceptance from client is received, and the corresponding implementation memo is approved for booking to 'Lease contract receivables'. On September 24, 2014, the Board of Directors approved the acquisition of the 5,000 square meter property at Bonifacio Global City for the account of Security and Exchange Commission (SEC). The Corporation and Insurance Commission will be the co-buyers of the property in the amount of P600.00 million. As of December 31, 2014, P308.38 million was initially booked as 'Equipment and other property for lease – financial lease' as the Corporation's share in the acquisition of the property.

The Corporation also entered into an operating lease with its Parent bank, with lease terms ranging from 12 to 60 months, involving transportation equipment.

The gross carrying amount and accumulated depreciation of the subject equipment as of December 31, 2014 and 2013 follow:

	2014	2013
Finance lease	326,766,692	6,962,162
Operating lease	106,936,922	53,626,941
Accumulated depreciation - operating lease	(49,937,077)	(46,065,425)
	383,766,537	14,523,678

Depreciation charges for the year amounting to P5.038 million is included as part of Depreciation/amortization account under Direct expenses in the statement of comprehensive income.

11. PROPERTY AND EQUIPMENT

The composition of and movement in this account are as follow:

	Building and improvements	Furniture and fixtures	Transportation equipment	Other properties acquired	Total
Cost					
January 1, 2014	42,566,207	12,982,336	1,567,273	0	57,115,816
Additions	0	1,389,062	0	2,491,000	3,880,062
Disposals/adjustments	0	(2,295,177)	0	0	(2,295,177)
December 31, 2014	42,566,207	12,076,221	1,567,273	2,491,000	58,700,701
Accumulated depreciation					
January 1, 2014	13,174,239	9,329,620	1,493,907	0	23,997,766
Depreciation	1,256,776	710,936	0	1,681,425	3,649,137
Disposals/adjustments	0	(1,256,808)	0	0	(1,256,808)
December 31, 2014	14,431,015	8,783,748	1,493,907	1,681,425	26,390,095
Net book value, December 31, 2014	**28,135,192**	**3,292,473**	**73,366**	**809,575**	**32,310,606**
Net book value December 31, 2013	**29,391,968**	**3,652,716**	**73,366**	**0**	**33,118,050**

As of December 31, 2014 and 2013, gross carrying amount of fully depreciated property and equipment still in use by the Corporation amounted to P0.849 million and P0.825 million, respectively.

Depreciation charges for the year are included as part of Depreciation/amortization account under Direct expenses and General and administrative expenses of the statement of comprehensive income. The composition of the Corporation's depreciation and amortization in the statement of comprehensive income is as follows:

	2014	2013
Equipment and other properties for lease (Note 10)	5,038,052	958,876
Property and equipment (Note 11)	3,649,137	2,277,528
Other assets (Intangibles) (Note 13)	1,633,696	732,587
Investment property (Note 9)	170,333	0
	10,491,218	3,968,991

12. NON-CURRENT ASSETS HELD FOR SALE

This account pertains to group of assets to be disposed of, by sale or otherwise, in a single transaction. Thus, these assets are available for immediate sale at its present condition and the sale is highly probable.

	Land	Building	Equipment	Total
Balance at January 1, 2014	7,582,044	156,620	1,608,750	9,347,414
Disposal	(619,508)	(13,008)	0	(632,516)
Impairment	(3,950,132)	0	(1,464,901)	(5,415,033)
Balance at December 31, 2014	**3,012,404**	**143,612**	**143,849**	**3,299,865**

The changes in allowance for impairment are as follows:

	2014	2013
Balance at January 1	3,093,529	1,906,962
Provision during the year	2,321,504	1,186,567
Balance at December 31	**5,415,033**	**3,093,529**

The Corporation recognized gain from sale/derecognition of non-current assets held for sale amounting to P0.628 in CY 2014 and P0.784 million in CY 2013.

13. OTHER ASSETS

Current and non-current classification of other assets as at December 31, 2014 and 2013 are as follows:

	2014		
	Due within one year	Due beyond one year	Total
Miscellaneous assets	9,959,980	1,126,631	11,086,611
Prepaid expense	4,758,111	0	4,758,111
Intangibles	1,340,802	699,862	2,040,664
Accounts receivables	613,525	0	613,525
Stationeries and supplies unissued	124,605	0	124,605
Other investments	0	16,000	16,000
Other assets	0	306	306
	16,797,022	**1,842,799**	**18,639,821**

	2013		
	Due within one year	Due beyond one year	Total
Miscellaneous assets	4,907,638	1,126,630	6,034,268
Prepaid expense	3,987,230	0	3,987,230
Intangibles	732,272	681,399	1,413,671
Accounts receivables	553,335	0	553,335
Stationeries and supplies unissued	116,053	0	116,053
Other investments	0	16,000	16,000
Other assets	0	306	306
	10,296,528	**1,824,335**	**12,120,863**

An Intangible asset as defined in Philippine Accounting Standard No. 38 is a non-physical asset having a useful life greater than one year. The Corporation applied this standard to software licenses and operating system of a computer, that whenever a computer software is purchased and does not form as an integral part of the related hardware, this computer software is treated as an intangible asset.

In accordance with paragraph 9.2 of COA Resolution No. 2006-006 dated January 31, 2006, and if it is probable that future economic benefits attributable to the assets shall flow to the Corporation, the computer software are recognized at cost, and reported herein as net of accumulated amortization. Amortization is based on the straight line method less ten per cent residual value.

Amortization charges on Other assets – Intangibles for CY 2014 and 2013 of P1,633,696 and P732,587, respectively, are included as part of Depreciation/amortization account under General and Administrative Expenses in the statement of comprehensive income.

14. DEFERRED TAX ASSET

This account consists of deferred tax asset due beyond one year from reporting date amounting to P59,078,677 and P62,716,409 as of December 31, 2014 and 2013, respectively.

15. ALLOWANCE FOR CREDIT AND IMPAIRMENT LOSSES

Changes in the allowance for probable losses are as follows (in thousand pesos):

	2014	2013
Balance as at January 1		
Financial lease receivables	28,853	26,259
Loans and receivables financed	172,011	183,859
Accounts receivables - clients	2,014	1,960
Accrued interest receivables	21	9
Investment property	3,062	3,062
Non-current assets held for sale	3,094	1,907
Other assets	0	1,366
	209,055	218,422
Provisions for the year	14,000	13,000
Accounts charged off and others	(27,527)	(22,367)
Balance as at December 31	**195,528**	**209,055**

Allocations of allowance for credit and impairment losses are as follow (in thousand pesos):

	2014	2013
Balance as at December 31		
Financial lease receivables	20,945	28,853
Loans and receivables financed	164,662	172,011
Accounts receivables - clients	1,100	2,014
Accrued interest receivables	19	21
Investment property	3,387	3,062
Non-current assets held for sale	5,415	3,094
	195,528	**209,055**

With the foregoing level of allowance for probable losses, Management believes that LLC has sufficient allowance to take care of any losses that may be incurred from the non-collection or non-realization of its receivables and other risk assets.

16. BILLS PAYABLE

This account represents peso borrowings from various banks.

	2014	2013
Current:		
Promissory Note	1,006,400,000	1,509,377,778
Non-current:		
Promissory Note	1,314,109,423	587,190,107
Retail Countryside Fund	0	7,777,778
	1,314,109,423	594,967,885
	2,320,509,423	**2,104,345,663**

Interest rates on bills payable follow:

	2014	2013
Promissory Note	2.75% - 4.00%	3.20% - 7.75%
Retail Countryside Fund	-	4.00%

Bills payable are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances as of December 31, 2014 and 2013 are partially secured with terms of maturity ranging from 90 days to 10 years. Interest expense on borrowings amounted to P72.613 million and P74.287 million for the years ending December 31, 2014 and 2013, respectively.

As at December 31, 2014, there are no defaults and breaches on these promissory notes.

17. DEPOSITS ON LEASE CONTRACTS

This account represents deposits on:

	2014	2013
Financial leases	228,530,004	238,606,873
Operating leases	9,144,318	125,730
	237,674,322	**238,732,603**

Breakdown of deposits on finance leases by contractual settlement dates as at December 31, 2014 and 2013 is as follows:

	2014	2013
Due within 1 year	130,443,866	104,808,151
After 1 year up to maturity	107,230,456	133,924,452
	237,674,322	**238,732,603**

18. ACCRUED TAXES AND OTHER EXPENSES

This account consists of:

	2014	2013
Accrued other expenses payable	32,178,977	35,775,304
Accrued income tax payable	14,845,155	18,825,928
Accrued interest payable	5,232,112	5,265,789
Accrued other taxes and licenses payable	2,317,623	3,275,735
	54,573,867	**63,142,756**

All accrued interest, taxes and other expenses are due within a year from the reporting date.

19. OTHER LIABILITIES

	2014	2013
Accounts payable – Suppliers	19,426,462	62,799
Withholding tax payable	1,773,207	1,126,915
Accounts payable – Others	1,134,532	1,796,534
Philhealth payable	10,600	11,300
Pag-ibig fund payable	9,338	7,843
SSS payable	9,064	1,268
Fringe benefit tax payable	7,369	2,824
Miscellaneous liabilities	33,585,433	26,410,615
	55,956,005	**29,420,098**

As at December 31, 2014 and 2013, the account balances comprising this account will mature within the next 12 months from respective reporting dates.

Of the total Miscellaneous liabilities as of December 2014 and 2013, P16.72 million and P13.98 million, respectively, represents payments made by several loan/lease accounts with request for restructuring or waiver of penalties. These accounts are temporarily booked as Miscellaneous liabilities – unapplied payments pending evaluation and action on the respective requests of the concerned accounts.

The remaining balance of the Miscellaneous liabilities account represents advance payment of clients and other parties for insurance and other expenses in compliance with the conditions of approval of their respective accounts.

20. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

	2014			2013		
	Due within one year	Due beyond one year	Total	Due within one year	Due beyond one year	Total
Financial Assets						
Cash and cash equivalents	42,720,257	0	**42,720,257**	23,046,533	0	**23,046,533**
Loans and receivables	1,181,258,903	2,279,139,588	**3,460,398,491**	1,146,997,873	2,406,292,424	**3,553,290,297**
	1,223,979,160	2,279,139,588	**3,503,118,748**	1,170,044,406	2,406,292,424	**3,576,336,830**
Non-Financial Assets						
Investment property		6,758,382	**6,758,382**	0	7,254,304	**7,254,304**
Equipment and other properties for lease		383,766,537	**383,766,537**	0	14,523,678	**14,523,678**
Property and equipment		32,310,606	**32,310,606**	0	33,118,050	**33,118,050**
Non-current assets held for sale		3,299,865	**3,299,865**	0	6,253,885	**6,253,885**
Other assets	16,797,022	60,921,476	**77,718,498**	10,296,528	64,540,744	**74,837,272**
	16,797,022	487,056,866	**503,853,888**	10,296,528	125,690,661	**135,987,189**
Total	1,240,776,182	2,766,196,454	**4,006,972,636**	1,180,340,934	2,531,983,085	**3,712,324,019**
Financial Liabilities						
Accrued taxes and other expenses	54,573,867	0	**54,573,867**	63,142,756	0	**63,142,756**
Other liabilities	55,956,005	0	**55,956,005**	29,420,098	0	**29,420,098**
Bills payables	1,006,400,000	1,314,109,423	**2,320,509,423**	1,509,377,778	594,967,885	**2,104,345,663**
Deposits on lease contracts	130,443,866	107,230,456	**237,674,322**	104,808,151	133,924,452	**238,732,603**
Total	1,247,373,738	1,421,339,879	**2,668,713,617**	1,706,748,783	728,892,337	**2,435,641,120**

21. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Corporation by the weighted average number of ordinary shares outstanding during the year.

The following reflects the basic earnings per share computation:

	2014	2013
Net income	133,712,644	158,733,987
Weighted average number of shares	48,555,000	48,555,000
Basic earnings per share	**2.75**	**3.27**

There were no treasury shares and outstanding dilutive potential common shares as of December 31, 2014 and 2013.

22. EQUITY

The Corporation calculates its capital as equity as shown in the Statement of Financial Position.

22.1 Capital Stock

Details of Capital stock as of December 31, 2014 and 2013 follow:

	2014	2013
Authorized Common Stocks, P10.00 par, 50,000,000 shares	**500,000,000**	**500,000,000**

	No. of Shares	Paid up Common stock	Additional Paid-in	Total
		(in thousands)		
Issued and Outstanding				
At January 1, 2010	46,348	463,481	90,760	554,241
Stock Dividends Issued				
May 11, 2010	1,053	10,534	11,019	21,553
July 31, 2010	1,154	11,537	12,192	23,729
At January 1, 2014	48,555	485,552	113,971	599,523
At December 31, 2014	**48,555**	**485,552**	**113,971**	**599,523**

22.2 Dividend Declaration

In compliance with Republic Act No. 7656 requiring the declaration of dividends by Government-Owned and Controlled Corporations, LBP Leasing Corporation is required to declare and remit at least fifty percent of its annual net income after tax as dividend.

For CY 2013, the Board of Directors of LBP Leasing Corporation, in its March 26, 2014 meeting, approved the declaration of cash dividends amounting to P72.153 million or P1.486 per share on the 48.555 million common stocks held by all stockholders of record as of December 31, 2013. The payment of the cash dividends reduced the Corporation's Retained Earnings from P682.476 million to P610.323 million.

For CY 2014, the Board of Directors of LBP Leasing Corporation, in its February 25, 2015 meeting, approved the declaration of cash dividend under Board Resolution No. 15-022 amounting to P72.299 million or P1.489 per share on the 48.555 million common stocks held by all stockholders of record as of December 31, 2014.

22.3 **Retained Earnings**

	2014	2013
Beginning balance	682,475,596	618,380,481
Prior period adjustment	(64,526)	43,875
Income for the year	133,712,644	158,733,987
Payment of dividends	(72,153,109)	(94,682,747)
	743,970,605	**682,475,596**

On April 29, 2015, the Board of Directors approved the appropriation of P600.0 million of the Corporation's Retained earnings - unappropriated for business expansion under BOD Resolution No. 15-058. The said appropriations have been reported to the Securities and Exchange Commission on May 14, 2015.

After the declaration of cash dividends amounting to P72.299 million and appropriation of P600.000 million for business expansion, the Retained Earnings - Unappropriated was down to P71.672 million.

22.4 **Accumulated Other Comprehensive Losses**

This account presents other comprehensive income and the fair value changes on available for sale investments.

	2014	2013
Net unrealized gains/(losses) on AFS	(5,825,000)	(5,825,000)
Remeasurement gains/(losses) on Retirement fund	589,964	508,853
	(5,235,036)	**(5,316,147)**

23. LEASES

The Corporation enters into finance lease agreements over various assets. An analysis of the Corporation finance lease receivables is shown in Note 8.

The Corporation also entered into operating leases on certain motor vehicles. These operating leases are from periods ranging from 6 to 60 months with equal monthly rental payments as set forth in the lease agreement. Operating lease income presented under Other income in the Corporation's statements of comprehensive income for the years ended December 31, 2014 and 2013 amounted to P44.553 million and P45.907 million, respectively. The carrying amount of lease deposits payable to lessee amounted to P9.144 million and P0.126 million as of December 31, 2014 and 2013, respectively.

Operating lease commitments
Future minimum rental receivables under non-cancelable operating leases as of December 31, 2014 and 2013 are as follows:

	2014	2013
Due within 1 year	21,610,000	21,644,000
After 1 year up to maturity	93,000	93,000
	21,703,000	**21,737,000**

Chauffeuring services related to lease on vehicles are presented under the Direct expense – security, messengerial, janitorial and contractual services on the statement of comprehensive income. Details of which are as follows:

	2014	2013
Finance lease	106,060,450	104,431,765
Operating lease	23,019,719	24,289,134
	129,080,169	**128,720,899**

24. OTHER INCOME

This account consists of:

	2014	2013
Gain from sale/Derecognition of non-financial assets	627,471	783,680
Recovery from charged-off assets	272,264	0
Profit from assets sold/exchanged	212,460	8,550
Miscellaneous income	6,363,871	6,536,827
	7,476,066	**7,329,057**

25. EMPLOYEE BENEFITS

25.1 Compensation and fringe benefits

Expenses recognized for salaries and employee benefits are presented below:

	2014	2013
Salaries and wages	14,561,070	14,805,815
Bonuses	4,608,667	7,243,713
Retirement	1,824,590	871,420
Social security costs	732,837	708,256
Other benefits	5,627,909	2,183,730
Total employees benefits	**27,355,073**	**25,812,934**
Directors' remuneration	1,908,000	1,858,000
Total compensation and fringe benefits	**29,263,073**	**27,670,934**

Employee benefits include annual salaries, paid sick leave, profit sharing and bonuses, and other non-monetary benefits. Total accrued compensated absences as at December 31, 2014 and 2013 are P4.380 million and P3.792 million, respectively.

25.2 **Retirement Benefits/Costs**

The Corporation has a funded noncontributory defined benefit retirement plan (the Plan) covering substantially all of its officers and regular employees. Under the Plan, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements. The retirement plan provides retirement benefits (equivalent to 22.5 days pay for every year of service) after satisfying certain age and service requirements.

The funds are administered by LBP Trust Banking Group who is responsible for investment strategy of the plan.

The following tables summarize the components of retirement expense recognized in the consolidated statements of income and pension liability/assets recognized in the consolidated statements of financial position for the existing retirement plan. The Retirement Trust Fund account was opened on November 28, 2012 with LBP Trust Banking Group (LBP-TBG). Prior to the opening of Retirement Trust Fund account with LBP and the availability of the Funding Actuarial Valuation report, the Corporation accrues Retirement Costs based on actual services rendered by the employees and Article V of the LBP Subsidiaries Retirement Benefit Plan which defines the percentage of entitlement of incumbents to retirement benefits.

The LBP-TBG, as part of its services, handled the selection and engagement of the Actuarial Service Company that will undertake the actuarial valuation for LBP Leasing Corporation. The Funding Actuarial Valuation report of the Corporation as of January 1, 2013 was completed on April 12, 2013 using the Accrued Benefit Actuarial Cost Method (Projected Unit Credit).

The components of retirement costs included in “General and administrative expenses” account in the statement of comprehensive income are as follows:

	2014	2013
Current service cost	1,400,828	637,885
Past service cost	417,721	155,808
Net interest cost	6,041	77,227
	1,824,590	**870,920**

The amount of re-measurement gains on retirement plan recognized in the statement of comprehensive income is as follow:

	2014	2013
Plan assets	(13,985)	103,823
Defined benefit obligation	150,548	623,110
	136,563	**726,933**

The above re-measurement gains on retirement plan is recorded net of deferred tax liability amounting to P0.41 million and P0.218 million for the period ended December 31, 2014 and 2013, respectively.

The amount included in the statement of financial position arising from the Corporation's obligation in respect of its defined benefit plan is as follows:

	2014	2013
Present value of defined benefit obligations	10,552,422	8,817,197
Fair value of plan assets	9,151,594	9,125,085
Prepaid/(accrued) retirement benefit	**(1,400,828)**	**307,888**

Changes in the present value of the defined benefit obligation are as follows:

	2014	2013
Balance at beginning of the year	8,817,196	8,411,296
Current service cost	1,400,828	637,885
Interest cost	484,946	391,125
Re-measurement (gains)/losses arising from:		
Financial Assumptions	(150,548)	(623,110)
	10,552,422	**8,817,196**

Changes in the fair value of plan assets are as follows:

	2014	2013
Balance at beginning of the year	8,707,364	6,750,497
Contributions	0	1,956,867
Interest income	478,905	313,898
Withdrawal	(20,690)	0
Re-measurement (gains)/losses arising from:		
Return on plan assets	(13,985)	103,823
	9,151,594	**9,125,085**

The Corporation's plan assets are comprised of the following (in thousand pesos):

	2014	2013
Debt instruments		
Government securities	4,342	9,004
Cash and cash equivalents		
Special deposit account	4,823	145
Deposit in banks	4	1
	9,169	**9,150**

As of December 31, 2014 and 2013, the carrying amount of the plan assets approximates its fair value.

The Asset-Liability Matching Study (ALM) is performed by the LBP-Trust Banking Group at each reporting date in which the consequences of the strategic investment policies are analyzed.

The costs of defined benefit pension plan as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension obligation for the defined benefit plan are as follows:

Discount rate	5.50%
Future salary increases	7.00%
Expected average remaining working lives of employees	
Male	46
Female	35

The sensitivity analysis was conducted to determine based on reasonably possible changes of the assumption occurring as of the end of the reporting period, assuming if all other assumptions were held constant. Management believes that as of the reporting date, changes in the discount rate and future salary increase will not significantly affect the retirement obligation of the Corporation. Management believes that retirement obligation will not be sensitive to the salary rate increases because it is expected to be within the same level of the remaining life of the obligation while the discount rate is not expected to drastically increase or decrease at its existing level.

The Corporation expects to pay P0.699 million in contributions to its defined benefit plans in 2015.

A Trust Agreement was made and entered into by LLC and LBP-TBG on November 28, 2012. Among the salient provisions of the Trust Agreement are the following:

- The Trustor (LLC) shall deliver and pay to the Trustee such sums representing the annual contributions of the Trustor as provided in the Plan, starting with the contributions for the year 2012 in the amount of Six Million Seven Hundred Fifty One Thousand One Hundred Fifty Pesos and 86 Centavos (P6,751,150.86) Philippine Currency.

- The Trustor waives all its rights and interests to the money or properties which are and will be paid or transferred to the Fund, to the extent required to provide the benefits payable pursuant to the Plan.

- The Trustee shall administer the Fund to be held in trust for the purpose stated in and subject to all the terms and conditions of this Agreement as well as the Plan, which shall be deemed part of this Agreement. It shall invest and re-invest the Fund, together with all increments and proceeds in fixed-income government securities.

The Trustee has the right and power to cause any asset acquired from the investment/re-investment of the fund to be held, registered and issued in its own name as Trustee or in the name of its nominee, provided, that the books and records of the Trustee shall at all times show that all such properties are part of the Fund. It shall open and maintain savings and/or checking account as may be determined necessary from time to time in the performance of the trust and the authority herein conferred to the Trustee as well as pay all costs, fees, charges and such other expenses connected with the investments, administration, preservation and maintenance of the Fund and to charge the same to the Fund.

- The Trustee shall exercise any right or privileges pertaining to the bonds, securities or other properties held in trust. It shall open a savings account with its own commercial banking sector, for and in the name of the Fund wherein all funds awaiting investments and those received as contribution or by way of income or earnings from the investment/re-investments of the fund may be deposited temporarily. The Trustee shall execute and deliver any and all documents and to perform any act which may be deemed necessary or proper to carry out the powers granted.

- In the management of the Fund, the Trustee shall pay to the members or the beneficiaries the benefits under the Plan upon written advice of the Trustor. It shall keep and maintain books of accounts and/or records of the management and operations of the fund, which the Trustor or its authorized representative may inspect from time to time during office hours. It shall, at the end of every calendar quarter, submit the financial reports, i.e. Balance sheet, Statement of Income and Expenses, Schedule of Investments, Investment Activity Report statements and such other reports as may be requested by the Trustor. Such reports shall be deemed conclusive should the Trustor fail to object thereto in writing within thirty (30) days from receipt thereof. The Trustor shall administer the funds held in trust with such degree of skill and care as a prudent man would exercise in the conduct of an enterprise of like character and with similar aims. It shall secure the Tax Exemption Certificate from the Bureau of Internal Revenue so that the Plan may be entitled to tax exemption benefits as provided by law.

- For its services, the Trustee shall be entitled to a fee equivalent to 0.5 per cent per annum of the average total assets of the Fund, computed daily and collected after the end of each calendar quarter, subject to a minimum of P10,000.00 per year. The Trustee is hereby authorized to debit its fee from the Fund. The above fee is quoted with the understanding that the same may be reviewed at the request of either party and adjusted in a mutually satisfactory basis.

- Except for fraud, bad faith or gross negligence, the Trustee shall not be liable for any loss or depreciation in the value of the Fund resulting from the investments or re-investments thereof as authorized herein, or from the performance of any act in accordance with the provision of this Agreement. This Agreement does not guarantee a yield, return or income on the investments/re-investments of the fund as the same can fall as well as rise depending on prevailing market conditions and is not covered by the Philippine Deposit Insurance Corporation (PDIC). Losses, if any, shall be for the account of the Trustor.

- This Agreement shall remain in full force and effect until the termination of the Plan, unless sooner terminated by either party hereto by giving a thirty (30) day advance written notice to the other.

- The Retirement Fund is treated as off books in compliance with PAS 26 – Accounting and Reporting by Retirement Benefit Plan. The trust fund will be monitored by the LLC Corporate Services Group (CSG) and will be checked periodically by the LLC Accountant.

LBP LEASING CORPORATION
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
December 31, 2014

ASSETS		
Deposits in bank		
Savings account – own bank		4,093.47
Due from BSP		
Special deposit account	4,820,000.00	
Interest receivable, Special deposit account - BSP	3,012.48	4,823,012.48
Available-for-Sale (AFS) Financial Assets		
AFS Debt Securities – Government Securities		
Investment in GS-Treasury Bills (MTM)	132,611.48	
Investment in GS - Coupon (MTM)	4,235,037.13	
Interest Receivable – Domestic GV	26,921.70	
Accumulated market gains/(losses) –Treasury Bills	(182.03)	
Accumulated market gains/(losses) coupons	(14,548.61)	
Accumulated bond discounts-Investment in GS (Coupon)	1,690.36	
Accumulated premium amortization-investment in GS Coupon	(39,371.09)	4,342,158.69
Other assets		
Prepaid tax – Investment in Treasury Bills	139.66	139.66
TOTAL ASSETS		**9,169,404.30**
LIABILITIES		
Withholding tax payable		6,137.30
Trust fee payable		11,672.70
		17,810.00
EQUITY		
Principal		
Beginning	8,707,364.11	
Less: Capital withdrawals	20,689.65	8,686,674.46
Accumulated income		
Retained earnings, beg.	187,581.45	
Net income for this period	292,069.03	
Retained earnings, end		479,650.48
Net unrealized gains/losses-AFS		(14,730.64)
		9,151,594.30
TOTAL LIABILITIES AND EQUITY		**9,169,404.30**

26. TAXES AND LICENSES

This account consists of:

	2014	**2013**
Gross receipts tax	20,159,370	19,668,714
Real property tax - BIR accounts	2,644,516	0
Business license	1,009,329	1,310,339
Real estate tax	288,086	288,086
Barangay clearance	15,295	11,900
Annual fees (SEC)	12,625	12,625
Registration of vehicles	10,756	10,876
Annual non-VAT registration fee	500	500
	24,140,477	**21,303,040**

a. *Relevant Tax Regulations*

LBP Leasing Corporation is a Non-VAT entity under Philippine tax laws per Revenue Regulations (RR) 9-2004. LLC is subject to percentage and other taxes (presented as Taxes and licenses in the statement of comprehensive income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp tax. LLC was also designated by the Bureau of Internal Revenue (BIR) as withholding tax agent under Revenue Regulations (RR) No. 17-2003 and RR 12-94, as amended.

In compliance, LLC pays the corresponding GRT on all items treated as gross income, and fringe benefit tax (FBT) on the benefits provided to its officers in accordance with the tax law and revenue regulation prescribing FBT. LLC withheld corresponding taxes on payments of compensation of employees, fees to directors and cost or purchase price to contractors and suppliers of goods.

b. *Supplementary Information Required by the Bureau of Internal Revenue*

Bureau of Internal Revenue (BIR) requires certain information on taxes, duties and license fees paid or accrued during the taxable year 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 Philippine Securities and Exchange Commission rules and regulations covering the form and content of financial statements under Securities Regulation Code Rule 68.

The amounts relating to such information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRSs. The following is the tax information required for the taxable year ended December 31, 2014:

(i) *Based on Revenue Regulation (RR) 15-2010*

	2014	2013
a. Documentary stamp tax	13,589,568	8,291,565
b. Local		
Real estate taxes	288,086	288,086
Mayor's permit/barangay clearance	1,024,627	1,322,239
c. National		
BIR annual registration	500	500
Percentage taxes	20,146,972	19,668,624
d. Others		
LTO registration fees	10,756	10,876
SEC annual registration fees	12,625	12,625
	35,073,134	**29,594,515**

The amount of corporate income tax and withholding taxes paid/accrued for the year amounted to:

	2014	2013
i. Tax on compensation	3,386,481	3,522,185
ii. Fringe benefit tax/es	29,424	12,819
iii. Expanded creditable withholding tax/es	22,005,909	5,244,290
iv. Percentage tax/es	2,273,031	2,367,686
v. Final withholding tax/es	24,368,852	9,268,102
vi. Corporate income tax/es	47,533,833	44,721,435
	99,597,530	**65,136,517**

(ii) Based on RR No. 19-2011

	CY 2014			
	Exempt	Special Rate	Regular/ Normal Rate	Total
Sale of services	0	0	514,550,756	514,550,756

	CY 2013			
	Exempt	Special Rate	Regular/ Normal Rate	Total
Sale of services	0	0	503,304,754	503,304,754

(a) Cost of Services

	CY 2014			
	Exempt	Special Rate	Regular/ Normal Rate	Total
Cost of Services				
Direct charges - salaries, wages and benefits	0	0	12,435,911	12,435,911
Direct charges -depreciation	0	0	5,038,052	5,038,052
Direct charges - outside services	0	0	133,982,513	133,982,513
Direct charges - others	0	0	99,770,408	99,770,408
	0	**0**	**251,226,884**	**251,226,884**

	CY 2013			
	Exempt	Special Rate	Regular/ Normal Rate	Total
Cost of Services				
Direct charges - salaries, wages and benefits	0	0	10,522,221	10,522,221
Direct charges -depreciation	0	0	958,876	958,876
Direct charges - outside services	0	0	128,721,899	128,721,899
Direct charges - others	0	0	114,164,200	114,164,200
	0	**0**	**254,367,196**	**254,367,196**

(b) Non-Operating and Taxable Other Income

CY 2014				
	Exempt	**Special Rate**	**Regular/ Normal Rate**	**Total**
Interest income - others	0	0	82,951	82,951
Miscellaneous income/(loss)	0	0	6,363,871	6,363,871
Loss on sale of assets	0	0	1,112,195	1,112,195
	0	**0**	**7,559,017**	**7,559,017**

CY 2013				
	Exempt	**Special Rate**	**Regular/ Normal Rate**	**Total**
Interest income - others	0	0	120,022	120,023
Miscellaneous income/(loss)	0	0	6,536,827	6,536,827
Gain on sale of assets	0	0	(2,390,648)	(2,390,649)
	0	**0**	**4,266,201**	**4,266,201**

27. OTHER EXPENSES

This account consists of:

	2014	**2013**
Security, messengerial and janitorial services	2,602,948	1,870,197
Donation and other charitable contribution	2,000,000	50,000
Power, light and water	1,816,176	1,754,607
Representation and entertainment	1,669,867	1,825,575
Transportation and travelling	1,487,610	1,353,033
Advertising and publicity	836,574	1,087,516
Postage, cables, telephone and telegram	721,563	634,656
Management and other professional fees	719,700	508,200
Stationeries and supplies issued	634,932	714,593
Membership fees and dues	608,811	556,482
Repairs and maintenance	601,433	581,130
Fuel and lubricants	309,609	305,580
Fines, penalties and other charges	93,867	4,000
Rent	89,600	0
Data processing charges	85,343	140,214
Information technology expense	44,227	99,288
Fringe benefit tax	29,424	12,819
Periodicals and magazines	18,388	18,668
Bank charges	2,150	1,165
Miscellaneous expenses	385,012	295,437
	14,757,234	**11,813,160**

28. INCOME TAX

The major components of income tax expense for the years ended December 31, 2014 and 2013 are:

	2014	2013
Current income tax expense	47,398,297	44,808,940
Deferred tax expense	5,016,175	5,703,086
Income tax benefit	(1,413,204)	(6,090,526)
	51,001,268	**44,421,500**

Under Philippine tax laws, the Corporation is subject to percentage and other taxes as well as income taxes. Percentage and other taxes paid consist of gross receipts tax and documentary stamp tax.

Income taxes include corporate income tax and final taxes paid at the rate of 20.00 per cent, which is a final withholding tax on gross interest income from deposits with banks. In addition, current tax regulations define expenses to be classified as entertainment, amusement and recreation (EAR) and set a limit for the amount that is deductible for tax purposes. Under the regulation, EAR expense allowed as a deductible expense for the Corporation, a service Corporation is limited to the actual EAR paid or incurred but not to exceed 1.00 per cent of net revenue (i.e. gross revenue less discounts). EAR of the Corporation charged against current operations, included under “Other Expenses” in the statement of comprehensive income amounted to P0.426 million and P0.201 million in 2014 and 2013, respectively.

Current tax regulations provide that the Regular Corporate Income Tax (RCIT) rate shall be 30.00 per cent and interest allowed as a deductible expense shall be reduced by an amount of 33.00 per cent of interest income subjected to final tax. It also provides for the change in GRT rate from 5.00 per cent to 7.00 per cent on non-lending income.

The regulations also provide for MCIT of 2.00 per cent on modified gross income. Any excess of the MCIT over the RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, the NOLCO is allowed as deduction from taxable income in the next three years from the year of inception.

Minimum Corporate Income Tax (MCIT) computed at 2.00 per cent of gross profit amounted to P4.979 million and P4.979 million in 2014 and 2013, respectively.

Republic Act No. 9504, An Act Amending National Internal Revenue Code, provides that starting July 1, 2008, the optional standard deduction (OSD) equivalent to 40.00 per cent of gross income may be claimed as an alternative deduction in computing for the RCIT.

The Corporation has opted to use the Optional Standard Deduction (OSD). The presentation of the Statement of Comprehensive Income reflects the “Gross income” which was the basis in computing the OSD to arrive at the taxable income. Direct expenses incurred to provide the services as provided in Section 4 of RA 16-2008 was presented as a deduction from the gross revenue.

Deferred income tax asset
Deferred income tax asset at December 31 relates to the following:

	2014	2013
Allowance for probable loss	58,658,677	62,716,409
Accrued retirement expense	420,000	0
	59,078,677	**62,716,409**

29. RELATED PARTY DISCLOSURES

In the ordinary course of business, the Corporation enters into transactions with its Parent Corporation, Land Bank of the Philippines. Under the Corporation policy, these transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. The transactions with related parties are settled in cash. No provisions are held against receivables from related parties in 2014 and 2013.

29.1 **The total amount of transactions which have been entered into with related parties for the relevant financial year is as follows:**

Accounts	Related Party	2014	2013
Cash and cash equivalents	Parent Company	36,631,071	17,335,028
Accounts receivables	Parent Company	95,479,963	93,008,483
Net investment on lease contract receivable	Parent Company	191,133,329	214,628,163
Bills payable	Parent Company	2,320,509,423	1,820,345,662
Deposit on lease contracts	Parent Company	51,724,308	2,041,020
Accounts payable	Parent Company	10,300	0
Accrued interest payable	Parent Company	5,232,112	4,689,997
Miscellaneous liabilities	Parent Company	1,167,742	874,318
		2,701,888,248	**2,152,922,671**

29.2 **The income and expenses in respect of related parties included in the financial statements are as follows:**

Accounts	Related Party	2014	2013
Financial lease income	Parent Company	159,603,261	160,261,044
Operating lease income	Parent Company	44,553,018	45,907,499
Income from deposits in bank	Parent Company	197,809	118,985
Interest and financing charges	Parent Company	70,488,378	66,639,133
		274,842,466	**272,926,661**

a. *Bills payable and Interest and Financing Charges*

Interest rates on borrowings to related party range from 2.75 per cent to 4.00 per cent. The loans are partially secured by assignment of receivables with terms of maturity ranging from 90 days to 5 years.

b. *Financial Lease Income*

The Corporation is leasing motor vehicles to its Parent Bank for a period of seven years.

c. *Operating Lease Income*

The Corporation is leasing motor vehicles to its Parent Bank for a period of three years with renewal option included in the contracts.

d. *Other Related Party Transactions*

Other related party transactions conducted in the normal course of business include regular banking transactions, borrowings and sharing of certain operating expenses.

29.3 Compensation of Key Management Personnel

Compensation of key management personnel included under "Compensation and fringe benefits" in the statement of comprehensive income follows:

	2014	2013
Key management compensation		
Salaries and other benefits	9,202,711	8,927,926
Post-employment benefits	5,067,310	4,952,500
Actual director's remuneration	2,942,400	3,357,500
	17,212,421	**17,237,926**

The LBP Leasing Corporation Board of Directors is composed of 11 members, including the chairperson. Of the ten Board members, six are interlocking directors, being officers or directors of the Parent Bank, Land Bank of the Philippines.

29.4 LBP Trust Banking Group as LLC Employees' Retirement Fund Trustee

A Trust Agreement was made and entered into between LBP Leasing Corporation (LLC) and Land Bank of the Philippines – Trust Banking Group (LBP-TBG) on November 28, 2012, thereby appointing the latter as the Trustee of the LLC Employees' Retirement Trust Fund. The total carrying amount and fair value of the retirement plan's assets as of December 31, 2014 and 2013 are disclosed in Note 25.2.

30. FINANCIAL PERFORMANCE

The following basic ratios measure the financial performance of the Corporation:

	2014	2013
Return on Average Assets	3.46	4.65
Return on Average Equity	10.23	12.80
Return on Investment	22.30	26.56
Debt to Equity	1.99:1	1.91:1
Solvency	1.50:1	1.52:1

31. OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

The Corporation has not set-off financial instruments in 2014 and 2013 and does not have offsetting arrangements. Currently, financial assets and financial liabilities are settled on a gross basis; however, each party of the lease agreement will have the option to settle such amount on a net basis in the event of default of the other party. As such, the Corporation's lease contract receivables from the lessees amounting to P1,922.67 million and P2,137.29 million as of December 31, 2014 and 2013, respectively, can be offset by the amount of lease deposits amounting to P237.674 million and P238.733 million as of December 31, 2014 and 2013 (Note 17), respectively. The balance of lease contract receivables net of lease deposit amounted to P1,683.99 million and P1,898.56 million as of December 31, 2014 and 2013, respectively.

32. EVENTS AFTER THE REPORTING PERIOD

On April 29, 2015, the Board of Directors approved the appropriation of P600.0 million of the Corporation's Retained earnings - unappropriated for business expansion under BOD Resolution No. 15-058. The said appropriations have been reported to Securities and Exchange Commission on May 14, 2015.

33. CONTINGENCIES

Pending Case on the Transfer of Ownership of Property

On February 2015, the plaintiffs filed a Motion to Withdraw Complaint. Plaintiffs, prayed for, among others, the recall of the Writ of Preliminary Injunction issued by the Court. It was the said Writ that rendered LLC unable to consolidate its title over the property it purchased for DOLE-NCR. The matter has been submitted for the Court's resolution and after several follow-ups with the court's personnel, LLC Legal Counsel was assured that the Order granting the Motion, will be released within the month of April. The case stems from the company's purchase of a property for the account of a lease-to-own client. After the purchase however, but prior to the transfer, the owner of the adjoining lot claimed that the building constructed on the purchased property in fact encroached on their lot. The owner sued the former owner, LLC and the DOLE as the occupant of the purchased property, claiming damages among others. The plaintiff likewise applied and was granted an Injunctive Order. Hence, LLC is unable to transfer the title of the property to the company's name during the pendency of the action.

In addition to the preceding note, in the ordinary course of business, the Corporation incurs contingent liabilities and commitments arising from normal business transactions which are not reflected in the accompanying financial statements. As of December 31, 2014, management does not anticipate significant losses from these contingencies and commitments that would adversely affect the Corporation's financial position and results of operations.

PRODUCTS AND SERVICES

LEASING FACILITIES

FINANCE LEASES

Financial Lease is a credit facility where LBP Lease (lessor) acquires fixed assets based on the requirements/needs of the client (lessee) which are then leased by the client (Lessee) from LBP Lease (Lessor) through payment of periodic lease amortization. The benefits and risks of ownership of the assets are transferred to the lessee.

This facility allows enterprises to acquire equipment, motor vehicle, lot and building and other equipment, to expand, upgrade or modernize their operations. It also enables enterprises to match financing terms with the earning potential of the capital asset, preserve working capital and credit lines and address existing or current budget limitation.

OPERATING LEASES

Operating Lease is a credit facility where the client (lessee) makes rental payments to LBP Lease (lessor) for the use of an asset over a fixed period (normally, more than a year). Under the facility, LBP Lease retains the benefits and risk of ownership of the leased asset. At the end of the lease term, the lessee may opt to renew the lease, purchase the asset at its fair market value or return the asset to LBP Lease.

Operating lease facility is for clients who do not want to be burdened with acquisition and disposition processes and will rather not have the risks and benefits of ownership on the asset to be acquired. It can only be granted for selected asset types that have relatively long economic life and well established secondary markets.

FINANCING FACILITIES

Fixed Asset Financing

This facility provides medium or long-term financing to clients and may be granted to provide funding for the following:

- Acquisition of equipment or other capital assets to be secured by the object to be financed.
- Construction and/or improvement of client's fixed asset/s that may contribute to the expansion and improvement of their business and will be secured by real estate and/or chattel mortgages.

Working Capital Financing

This facility provides clients with a source of funds to finance their permanent or short-term working capital requirements.

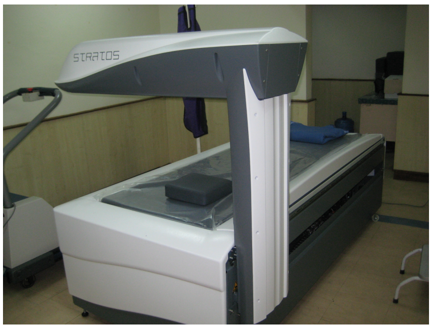
Receivable Discounting/Purchase

This facility provides client with working capital to improve liquidity through the discounted purchase of receivables due in the future on a "with recourse" or "without recourse" basis.

SPECIAL CREDIT PROGRAMS

Special lease and credit programs may be developed by LBP Leasing Corporation in partnership with asset suppliers or other institutions to facilitate the processing and implementation of lease or credit facilities for identified sectors.

- Vendor Partnership Program
- Institutional Consumer Financing
- Anchor-Based Program
- Other Special Programs



LBP Leasing Corporation (LLC)

15th Floor SycipLaw Centre,

No. 105 Paseo de Roxas St.,

1226 Makati City, Philippines

Trunkline No: (02) 818-2200

Fax No.: (02) 819-6176

Email Address: info@lbpleasing.com

Website: www.lbpleasing.com