



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 and Finance Corporation**  
15<sup>th</sup> Floor, SSHG Law Center  
105 Paseo de Roxas  
Legaspi Village, Makati City

We have audited the accompanying financial statements of **LBP Leasing and Finance Corporation** (a wholly-owned subsidiary of Land Bank of the Philippines), which comprise the statements of financial position as at December 31, 2015 and 2014, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

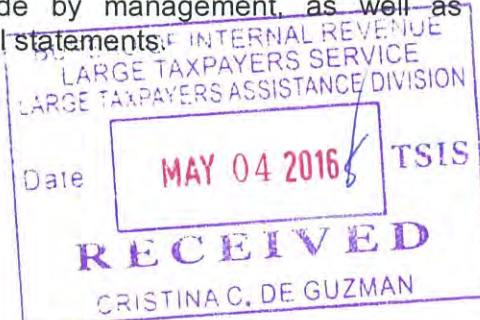
### Management's Responsibility for the Financial Statements

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 audits. We conducted our audits 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.

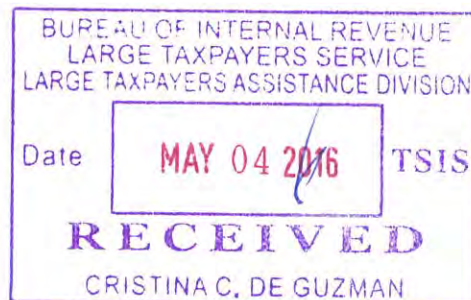
**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of **LBP Leasing and Finance Corporation** as at December 31, 2015 and 2014 and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

**COMMISSION ON AUDIT**

*cdmarquez*  
**CORA D. MARQUEZ**  
Supervising Auditor

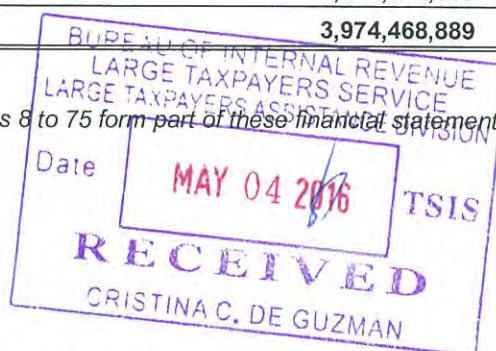
23 March 2016



**LBP LEASING AND FINANCE CORPORATION**  
(Formerly LBP Leasing Corporation)  
(A wholly-owned subsidiary of Land Bank of the Philippines)  
**STATEMENTS OF FINANCIAL POSITION**  
December 31, 2015 and 2014  
(In Philippine Peso)

|  | Note   | 2015                 | 2014<br>As restated  |
|--|--------|----------------------|----------------------|
| <b>ASSETS</b>                                    |        |                      |                      |
| <b>Current assets</b>                            |        |                      |                      |
| Cash and cash equivalents                        | 6      | 42,977,083           | 42,720,257           |
| Loans and receivables-net                        | 8, 14  | 1,288,308,625        | 1,181,258,903        |
| Other current assets                             | 13     | 7,472,284            | 16,797,022           |
|  |        | <b>1,338,757,992</b> | <b>1,240,776,182</b> |
| <b>Non-current assets</b>                        |        |                      |                      |
| Loans and receivables-net                        | 8, 14  | 2,086,877,928        | 2,279,139,588        |
| Investment property-net                          | 9, 14  | 6,397,440            | 6,625,129            |
| Equipment and other property for lease           | 10     | 444,317,578          | 383,609,313          |
| Property and equipment                           | 11     | 30,285,046           | 32,310,606           |
| Non-current assets held for sale-net             | 12, 14 | 3,299,865            | 3,299,865            |
| Other non-current assets                         | 13     | 1,367,806            | 1,842,799            |
| Deferred tax asset                               |        | 63,165,234           | 57,765,234           |
|  |        | <b>2,635,710,897</b> | <b>2,764,592,534</b> |
| <b>TOTAL ASSETS</b>                              |        | <b>3,974,468,889</b> | <b>4,005,368,716</b> |
| <b>LIABILITIES AND EQUITY</b>                    |        |                      |                      |
| <b>LIABILITIES</b>                               |        |                      |                      |
| <b>Current liabilities</b>                       |        |                      |                      |
| Bills payable                                    | 15     | 996,800,000          | 1,006,400,000        |
| Deposit on lease contracts                       | 20     | 134,552,487          | 130,443,866          |
| Trade and other payables                         | 16     | 112,381,778          | 96,283,889           |
| Income tax payable                               |        | 13,695,867           | 14,665,715           |
|  |        | <b>1,257,430,132</b> | <b>1,247,793,470</b> |
| <b>Non-current liabilities</b>                   |        |                      |                      |
| Bills payable                                    | 15     | 1,200,959,295        | 1,314,109,423        |
| Deposit on lease contracts                       | 20     | 99,157,443           | 107,230,456          |
| Retirement liability                             | 21(b)  | 15,041,950           | 9,789,083            |
|  |        | <b>1,315,158,688</b> | <b>1,431,128,962</b> |
|  |        | <b>2,572,588,820</b> | <b>2,678,922,432</b> |
| <b>Equity</b>                                    |        |                      |                      |
| Capital stock                                    | 17(a)  |                      |                      |
| Issued capital                                   |        | 485,552,550          | 485,552,550          |
| Additional paid-in capital                       |        | 113,970,900          | 113,970,900          |
| Treasury stock                                   |        | (10)                 | 0                    |
|  |        | 599,523,440          | 599,523,450          |
| Retained earnings                                | 17(b)  |                      |                      |
| Appropriated                                     |        | 600,000,000          | 0                    |
| Unappropriated                                   |        | 207,381,726          | 731,351,192          |
|  |        | 807,381,726          | 731,351,192          |
| Accumulated other comprehensive income (loss)    |        |                      |                      |
| Unrealized loss on available for sale securities | 7      | (4,077,500)          | (4,077,500)          |
| Remeasurement of retirement benefit obligation   | 21(b)  | (947,597)            | (350,858)            |
|  |        | (5,025,097)          | (4,428,358)          |
|  |        | <b>1,401,880,069</b> | <b>1,326,446,284</b> |
| <b>TOTAL LIABILITIES AND EQUITY</b>              |        | <b>3,974,468,889</b> | <b>4,005,368,716</b> |

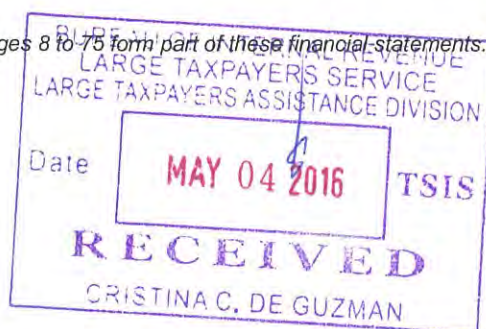
The Notes on pages 8 to 75 form part of these financial statements.



**LBP LEASING AND FINANCE CORPORATION**  
 (Formerly LBP Leasing Corporation)  
 (A wholly-owned subsidiary of Land Bank of the Philippines)  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**For the years ended December 31, 2015 and 2014**  
 (In Philippine Peso)

|   | Note      | 2015               | 2014<br>As restated |
|---|-----------|--------------------|---------------------|
| <b>INTEREST INCOME</b>                                      |           |                    |                     |
| Leases  | 8, 20     | 327,242,646        | 342,188,754         |
| Loans   | 8         | 140,476,646        | 120,249,966         |
| Deposits in banks   | 6         | 149,873            | 213,389             |
| Others  | 8         | 49,092             | 82,952              |
|   |           | 467,918,257        | 462,735,061         |
| <b>INTEREST EXPENSE</b>                                     |           |                    |                     |
| Borrowed funds  | 15        | 65,882,808         | 72,613,073          |
| <b>NET INTEREST INCOME</b>                                  |           | <b>402,035,449</b> | <b>390,121,988</b>  |
| <b>OTHER INCOME</b>   |           |                    |                     |
| Operating leases  | 20        | 45,236,905         | 44,553,018          |
| Other income  | 18        | 7,777,710          | 7,476,066           |
|   |           | 53,014,615         | 52,029,084          |
| <b>DIRECT EXPENSES</b>                                      |           |                    |                     |
| Security, messengerial, janitorial and contractual services | 20        | 131,687,061        | 129,080,169         |
| Provision for credit and impairment losses                  | 14        | 18,000,000         | 14,000,000          |
| Compensation and fringe benefits - Marketing operations     | 21(a)     | 11,753,160         | 12,435,911          |
| Documentary stamp used                                      |           | 4,383,067          | 13,589,568          |
| Insurance   |           | 9,162,451          | 7,907,621           |
| Repairs and maintenance                                     |           | 4,530,335          | 4,902,345           |
| Transfer mortgage and registration fees                     |           | 1,200,442          | 5,660,146           |
| Depreciation-equipment and other property for lease         | 10        | 7,630,917          | 5,195,276           |
|   |           | 188,347,433        | 192,771,036         |
| <b>GROSS INCOME</b>   |           | <b>266,702,631</b> | <b>249,380,036</b>  |
| <b>GENERAL AND ADMINISTRATIVE EXPENSES</b>                  |           |                    |                     |
| Taxes and licenses  |           | 23,184,419         | 24,140,477          |
| Compensation and fringe benefits                            | 21(a)     | 21,549,127         | 16,836,610          |
| Depreciation/amortization                                   | 11        | 4,121,249          | 5,586,419           |
| Litigation/assets acquired expenses                         |           | 5,661,575          | 3,194,015           |
| Insurance   |           | 548,050            | 451,294             |
| Other expenses  | 19        | 17,480,504         | 14,757,234          |
|   |           | 72,544,924         | 64,966,049          |
| <b>NET INCOME BEFORE INCOME TAX</b>                         |           | <b>194,157,707</b> | <b>184,413,987</b>  |
| Income tax expense  | 23        | 45,828,398         | 52,250,406          |
| <b>NET INCOME</b>   |           | <b>148,329,309</b> | <b>132,163,581</b>  |
| <b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>                    |           |                    |                     |
| Remeasurement loss on retirement benefit obligation         | 21(b)     | (596,739)          | (454,681)           |
| <b>TOTAL COMPREHENSIVE INCOME</b>                           |           | <b>147,732,570</b> | <b>131,708,900</b>  |
| <b>EARNINGS PER SHARE</b>                                   | <b>26</b> | <b>P3.05</b>       | <b>P2.72</b>        |

The Notes on pages 8 to 75 form part of these financial statements.



**LBP LEASING AND FINANCE CORPORATION**  
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**STATEMENTS OF CHANGES IN EQUITY**  
 For the years ended December 31, 2015 and 2014  
 (In Philippine Peso)

|   | Issued<br>Capital  | Additional Paid-<br>in Capital<br>Note 17(a) | Treasury<br>Stock | Retained Earnings            |                    | Other<br>Comprehensive<br>Gains/(Losses) | Total                |
|---|--------------------|--|-------------------|------------------------------|--------------------|--|----------------------|
|   |                    |  |                   | Unappropriated<br>Note 17(b) | Appropriated       |  |                      |
| Balance, 31 December<br>2013, as previously<br>stated     | 485,552,550        | 113,970,900                                  | 0                 | 682,475,596                  | 0                  | (5,316,147)                              | 1,276,682,899        |
| Prior period adjustments                                  |                    |  |                   | (3,911,093)                  |                    | 1,747,500                                | (2,163,593)          |
| Transitional adjustments-<br>Retirement liability         |                    |  |                   | (7,403,223)                  |                    | (405,030)                                | (7,808,253)          |
| <b>Balance, 31 December<br/>2013, as restated</b>         | <b>485,552,550</b> | <b>113,970,900</b>                           | <b>0</b>          | <b>671,161,280</b>           | <b>0</b>           | <b>(3,973,677)</b>                       | <b>1,266,711,053</b> |
| Cash dividend to National<br>Government                   |                    |  |                   | (72,153,109)                 |                    |  | (72,153,109)         |
| Prior period adjustment                                   |                    |  |                   | 179,440                      |                    |  | 179,440              |
| Net income for the year                                   |                    |  |                   | 132,163,581                  |                    |  | 132,163,581          |
| Remeasurement loss on<br>retirement benefit<br>obligation |                    |  |                   |                              |                    | (454,681)                                | (454,681)            |
| <b>Balance, 31 December<br/>2014, as restated</b>         | <b>485,552,550</b> | <b>113,970,900</b>                           | <b>0</b>          | <b>731,351,192</b>           | <b>0</b>           | <b>(4,428,358)</b>                       | <b>1,326,446,284</b> |
| Appropriation for<br>business expansion                   |                    |  |                   | (600,000,000)                | 600,000,000        |  | 0                    |
| Cash dividend to National<br>Government                   |                    |  |                   | (72,298,775)                 |                    |  | (72,298,775)         |
| Reacquisition of common<br>stock                          |                    |  | (10)              |                              |                    |  | (10)                 |
| Net income for the year                                   |                    |  |                   | 148,329,309                  |                    |  | 148,329,309          |
| Remeasurement loss on<br>retirement benefit<br>obligation |                    |  |                   |                              |                    | (596,739)                                | (596,739)            |
| <b>Balance, 31 December<br/>2015</b>                      | <b>485,552,550</b> | <b>113,970,900</b>                           | <b>(10)</b>       | <b>207,381,726</b>           | <b>600,000,000</b> | <b>(5,025,097)</b>                       | <b>1,401,880,069</b> |

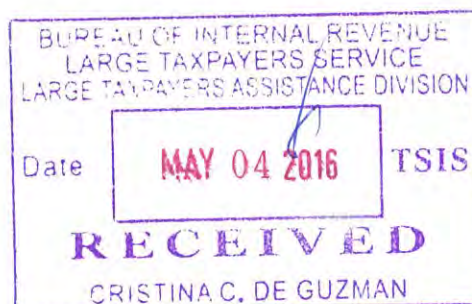
*The Notes on pages 8 to 75 form part of these financial statements.*



**LBP LEASING AND FINANCE CORPORATION**  
(Formerly LBP Leasing Corporation)  
(A wholly-owned subsidiary of Land Bank of the Philippines)  
**STATEMENTS OF CASH FLOWS**  
For the years ended December 31, 2015 and 2014  
(In Philippine Peso)

|   | Note | 2015                 | 2014                 |
|---|------|----------------------|----------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                   |      |                      |                      |
| Interest received   |      | 464,391,224          | 505,885,697          |
| Other income received   |      | 7,047,559            | 6,121,650            |
| Net cash received/(paid) to clients                           |      | 30,905,541           | (275,292,280)        |
| Cash paid to settle expenses                                  |      | (211,624,577)        | (250,469,862)        |
| Interest paid   |      | (58,408,267)         | (72,646,750)         |
| Income taxes paid   |      | (36,346,316)         | (37,584,691)         |
| <b>Net cash generated from/(used in) operating activities</b> |      | <b>195,965,164</b>   | <b>(123,986,236)</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                   |      |                      |                      |
| Net acquisitions/disposal of property and equipment           |      | (659,425)            | (350,692)            |
| <b>Net cash used in investing activities</b>                  |      | <b>(659,425)</b>     | <b>(350,692)</b>     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                   |      |                      |                      |
| Proceeds from borrowings under line of credit agreement       |      | 1,563,300,000        | 2,365,800,000        |
| Payment of long term debt                                     |      | (1,686,050,128)      | (2,149,636,239)      |
| Reacquisition of shares                                       | 17a  | (10)                 | 0                    |
| Cash dividends paid   | 17b  | (72,298,775)         | (72,153,109)         |
| <b>Net cash provided by/(used in) financing activities</b>    |      | <b>(195,048,913)</b> | <b>144,010,652</b>   |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>              |      | <b>256,826</b>       | <b>19,673,724</b>    |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>         | 6    | <b>42,720,257</b>    | <b>23,046,533</b>    |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>               | 6    | <b>42,977,083</b>    | <b>42,720,257</b>    |

*The Notes on pages 8 to 75 form part of these financial statements.*



**LBP LEASING AND FINANCE CORPORATION**  
(Formerly LBP Leasing Corporation)  
(A wholly-owned subsidiary of Land Bank of the Philippines)  
**NOTES TO FINANCIAL STATEMENTS**  
(All amounts in Philippine Peso, unless otherwise stated)

**1. GENERAL INFORMATION**

**1.1 Corporate Information**

The LBP Leasing Corporation (LLC or “the Corporation”), a wholly-owned subsidiary of Land Bank of the Philippines (LBP), was registered with the Securities and Exchange Commission on March 17, 1983 under SEC Registration No. 111115. It was granted a license to operate as a finance company on March 18, 1983.

The Corporation’s name was changed from LBP Leasing Corporation (LLC) to LBP Leasing and Finance Corporation (LLFC) effective November 3, 2015.

LLFC’s registered address is at the 15<sup>th</sup> Floor SyCip Law Center, No. 105 Paseo De Roxas, Makati City.

The principal activities of LLFC 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;
- (d) To make loans with or without such security, as the Board of Directors may think fit within the limits allowed by law; and
- (e) To raise funds for the Corporation’s operations through the issuance of debt instruments and/or securitization of its assets.

**1.2 Issuance of financial statements**

The Board of Directors (BOD), through Resolution No. 16-013, approved and authorized for issuance the Corporation’s financial statements as of and for the years ended December 31, 2015 and 2014 on February 24, 2016.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **2.1 Basis of Financial Statements Preparation**

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

#### ***Statement of compliance***

The financial statements of the Corporation have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) as issued by the Financial Reporting Standards Council, and adopted by SEC.

These financial statements are the Corporation's separate financial statements and the exemptions from consolidation of subsidiaries' financial statements have been used.

#### ***Basis of measurement***

The financial statements have been prepared under the historical cost basis, except for available-for-sale investment which has been stated at fair value.

#### ***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 statements of financial position broadly in order of liquidity. Analysis regarding recovery (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 24 to the financial statements.

#### ***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 and represent absolute amounts 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.

#### ***Use of judgments and estimates***

The preparation of financial statements in compliance with PFRS requires the use of certain critical accounting estimates. It also requires the management to exercise judgment in the most appropriate application of the accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and its effects are disclosed in Note 3.



### ***Changes in accounting policies and disclosures***

a. New standards and amendments effective from January 1, 2015

The accounting policies adopted are consistent with those of the previous financial year except for the following new standards and amendments effective for the first time from January 1, 2015:

- Amendment to PFRS 13, Fair Value Measurement (amendment to the basis of conclusions only, with consequential amendments to the bases of conclusions of other standards)

This amendment states that issuing PFRS 13 and amending PFRS 9 and PAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.

The amendment has no significant impact on the Corporation's financial statements.

- Amendment to PAS 16, Property, Plant and Equipment

The amendment requires that when an item of property, plant and equipment is revalued the gross carrying amount be adjusted in a manner that is consistent with the revaluation of the carrying amount.

The amendment has no impact on the Corporation's financial statements because the Corporation measures its property, plant and equipment using the cost model.

- Amendment to PAS 24, Related Party Disclosures

The amendment states that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.

The amendment has no significant impact on the Corporation's financial statements.

b. New Accounting Standard Effective after the Reporting Period Ended December 31, 2015

The Corporation will adopt the following PFRS when these become effective:

- Amendments to IFRS 11, Accounting for Acquisitions of Interests in Joint Operations

The amendments clarify the accounting for acquisitions of an interest in a joint operation when the operation constitutes a business such that the acquirer is required to apply all of the principles on business combinations in IFRS 3 and

other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11. Accordingly, a joint operator that is an acquirer of such an interest has to:

- measure most identifiable assets and liabilities at fair value;
- expense acquisition-related costs (other than debt or equity issuance costs);
- recognize deferred taxes;
- recognize any goodwill or bargain purchase gain;
- perform impairment tests for the cash generating units to which goodwill has been allocated; and
- disclose information required relevant for business combinations.

The amendments apply to the acquisition of an interest in an existing joint operation and also to the acquisition of an interest in a joint operation on its formation, unless the formation of the joint operation coincides with the formation of the business.

The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted but corresponding disclosures are required. The amendments apply prospectively.

Future adoption of these amendments will have no impact on the Corporation's financial statements.

- IFRS 14, Regulatory Deferral Accounts

The standard permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements. Regulatory deferral account balances, and movements in them, are presented separately in the statement of financial position and statement of profit or loss and other comprehensive income, and specific disclosures are required.

The standard is effective for annual reporting periods beginning on or after January 1, 2016. Earlier application is permitted.

Future adoption of this standard will have no impact on the Corporation's financial statements.

- Amendments to PAS 16, Properties, Plant and Equipment

These amendments clarify that a depreciation method that is based on revenue generated by an activity that includes the use of an asset is not appropriate. This is because such methods reflects a pattern of generation of economic benefits that arise from the operation of the business of which an asset is part, rather than the pattern of consumption of an asset's expected future economic benefits.

The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

The above amendments will have no impact on the Corporation's financial statements because the Corporation's depreciation are not based on revenues.

- Amendments to PAS 38, Intangible Assets

These amendments introduce rebuttable presumption that a revenue-based amortization method for intangible assets is inappropriate for the same reasons as in PAS 16. However, the IASB states that there are limited circumstances when the presumption can be overcome:

- the intangible asset is expressed as a measure of revenue (the predominant limiting factor inherent in an intangible asset is the achievement of a revenue threshold); and
- it can be demonstrated that revenue and the consumption of economic benefits of the intangible asset are highly correlated (the consumption of the intangible asset is directly linked to the revenue generated from using the asset).

The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

Future adoption of these amendments will have no impact on the Corporation's financial statements.

- Amendments to PAS 27, Separate Financial Statements

The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.

The amendments are effective for annual periods beginning on or after January 1, 2016, with earlier application being permitted.

Future adoption of these amendments will have no impact on the Corporation's financial statements.

- Amendments to PFRS 10, Consolidated Financial Statements and PAS 28: Investments in Associates and Joint Ventures (2011)

The amendments include the following:

- Amendment to PAS 28 (2011) so that the current requirements regarding the partial gain or loss recognition for transactions between an investor and its associate or joint venture only apply to the gain or loss resulting from the sale or contribution of assets that do not constitute a business as defined in PFRS 3 Business Combinations and the gain or loss resulting from the sale or contribution to an associate or a joint

venture of assets that constitute a business as defined in PFRS 3 is recognized in full.

- Amendment to PFRS 10 so that the gain or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in PFRS 3 to an associate or joint venture is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

The amendments are to be effective for annual periods beginning on or after January 1, 2016.

Future adoption of these amendments will have no impact on the Corporation's financial statements.

#### Annual improvements to PFRS

The Annual Improvements to PFRSs contain non-urgent but necessary amendments to PFRS.

#### 2012 to 2014 Cycle

- Amendment to PFRS 5, Non-current Assets Held for Sale and Discontinued Operations

The amendment adds specific guidance in PFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

The above amendment will not have an impact on the Corporation's financial statements.

- Amendments to PFRS 7, Financial Instruments: Disclosures

The amendments provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required and clarification on the applicability of the amendments to PFRS 7 on offsetting disclosures to condensed interim financial statements.

Future adoption of these amendments will have no impact on the Corporation's financial statements.

- Amendment to PAS 19, Employee Benefits

The amendment clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level).

The above amendment will not have a significant impact on the Corporation's financial statements.

- Amendment to PAS 34, Interim Financial Reporting

The amendment clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference.

The above amendment will have no impact on the Corporation's financial statements.

The above improvements are effective for annual periods beginning on or after January 1, 2016. However, early application of these improvements is permitted.

- Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception

The amendments address the issues that have arisen in relation to the exemption from consolidation for investment entities:

- Whether an investment entity parent should account for an investment entity subsidiary at fair value, when the subsidiary provides investment-related services to third parties
- The interaction between the investment entity amendments and the exemption from preparing consolidated financial statements requirements in PFRS 10.
- Whether a non-investment entity must 'unwind' the fair value accounting of its joint ventures or associates that are investment entities.

An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by PFRS 12.

Future adoption of these amendments will have no impact on the Corporation's financial statements.

- Amendments to PAS 1, Presentation of Financial Statements

The amendments include the following:

- Materiality. The amendments clarify that (1) information should not be obscured by aggregating or by providing immaterial information, (2) materiality considerations apply to the all parts of the financial statements, and (3) even when a standard requires a specific disclosure, materiality considerations do apply.
- Statement of financial position and statement of profit or loss and other comprehensive income. The amendments (1) introduce a clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional

guidance on subtotals in these statements and (2) clarify that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

The amendments add additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of PAS 1. The IASB also removed guidance and examples with regard to the identification of significant accounting policies that were perceived as being potentially unhelpful.

The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted. Application of the amendments need not be disclosed.

Future adoption of these amendments will have no impact on the Corporation's financial statements.

- PFRS 9, Financial Instruments (2014)

This standard consists of the following three phases:

Phase 1: Classification and measurement of financial assets and financial liabilities

With respect to the classification and measurement under this standard, all recognized financial assets that are currently within the scope of PAS 39 will be subsequently measured at either amortized cost or fair value. Specifically:

- A debt instrument that (i) is held within a business model whose objective is to collect the contractual cash flows and (ii) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding must be measured at amortized cost (net of any write done for impairment), unless the asset is designated at fair value through profit or loss (FVTPL) under the fair value option.
- A debt instrument that (i) is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and (ii) has contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, must be measured at FVTOCI, unless the asset is designated at FVTPL under the fair value option.
- All other debt instruments must be measured at FVTPL.
- All equity investments are to be measured in the statement of financial position at fair value, with gains and losses recognized in profit or loss except that if an equity investment is not held for trading, an irrevocable election can be made at initial recognition to measure the investment at FVTOCI, with dividend income recognized in profit or loss.

This standard also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. On major change from PAS 39 relates to the presentation of changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk for the liability. Under this standard, such changes are presented in other comprehensive income, unless the presentation of the effect of the change in the liability credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under PAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.

#### Phase 2: Impairment methodology

The impairment model under this standard reflects expected credit losses, as opposed to incurred credit losses under PAS 39. Under the impairment approach of this standard, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

#### Phase 3: Hedge accounting

The general hedge accounting requirements for this standard retain the three types of hedge accounting mechanism in PAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of economic relationships. Retrospective assessment of hedge effectiveness is no longer required. Far more disclosure requirements about an entity's risk management activities have been introduced.

The standard is effective for annual reporting periods beginning on or after January 1, 2018. Earlier application is permitted.

Future adoption of this standard will have no impact on the Corporation's financial statements.

- IFRS 15, Revenue from Contracts with Customers

The standard specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles-based, five-step model to be applied to all contracts with customers.

The standard is effective for annual reporting periods beginning on or after January 1, 2017. Earlier application is permitted.

The Management is still evaluating the impact of the new accounting standard on the Corporation's current revenue recognition.

## **2.2 Financial instruments**

### ***Initial recognition***

A financial asset or financial liability is recognized in the statements of financial position when the Corporation becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The fair value of the consideration given or received is determined by reference to the transaction price or other market prices. If such market prices are not reliably determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rate of interest for similar instruments with similar maturities. The initial measurement of financial instruments, except for those designated at fair value through profit and loss (FVPL), includes transaction cost.

Financial instruments are classified as financial assets and financial liabilities or equity instruments in accordance with the substance of the contractual agreement.

### ***Classification of financial instruments***

The Corporation classifies its financial assets as financial assets at fair value through profit and loss (FVPL), loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) financial assets. Financial liabilities are classified as financial liabilities at FVPL and other liabilities. The classification depends on the purpose for which the investments are acquired or liabilities are settled and whether these are quoted in an active market or not. Management determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every financial reporting date.

### ***Classification of financial instruments between debt and equity***

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual agreement. Interest relating to a financial instrument or a component that is a financial liability, are reported as expenses.

A financial instrument is classified as debt if it provides for a contractual obligation to deliver cash or other financial assets to another entity; or exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Corporation; or satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Corporation does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.



### ***Offsetting financial instruments***

Financial assets and financial liabilities are offset and the net amount is 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.

### ***Determination of fair value***

The fair value for financial instruments traded in active markets at the statement of financial position date is based on its quoted market price or dealer price quotation (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

### ***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.

### ***Financial assets***

#### ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not designated as AFS or financial asset at FVPL. Loans and receivables are carried at amortized cost, less impairment in value. Amortization is determined using the effective interest rate method. Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Corporation will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying

amount and the present value of the future expected cash flows associated with the impaired receivable. Such provisions are recorded in a separate allowance account with the loss being recognized in the statement of comprehensive income. On confirmation that the receivables will not be collectible, the gross carrying value of the asset is written off and derecognized against the associated provision.

The Corporation's cash, loans and receivables, and accounts receivable – others, as disclosed in Notes 6, 8, and 13, respectively, are included in this category.

Cash pertains to cash on hand and in banks.

The loans and receivables account include the aggregate rental on finance lease transactions. Unearned income on finance lease transactions is shown as deduction from the "Loans and receivables" account in the statements of financial position.

#### *AFS investments*

AFS investments are non-derivative financial assets that are either designated in this category or are not classified in any of the other categories. AFS investments are carried at fair value in the statements of financial position and the unrealized gains or losses are recognized as other comprehensive income in AFS reserve shown in the statements of changes in equity until the investment is derecognized or the investment is determined to be impaired.

On derecognition or impairment, the cumulative gain or loss previously reported in AFS reserve is transferred to the statements of comprehensive income. Interest earned on holding AFS investments are recognized in the statements of comprehensive income using the effective interest rate method.

The Corporation's AFS financial asset pertains to the investment in shares of stock of Export and Import Bank (EIB).

#### ***Financial liabilities***

The Corporation classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired.

#### *Financial liabilities at FVPL*

Financial liabilities are classified in this category if these result from trading activities or derivative transactions that are not accounted for as accounting hedges, or when the Corporation elects to designate a financial liability under this category. These are carried in the statements of financial position at fair value with changes in fair value recognized in the statements of comprehensive income.

The Corporation has no designated financial liability at FVPL.

### *Other financial liabilities*

This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings.

The financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest rate method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

The Corporation's bills payable, trade and other payables and clients' deposits on lease contracts as disclosed in Notes 15, 16 and 20, respectively, are included in this category.

### ***Derecognition of financial assets and liabilities***

#### *Financial assets*

A financial asset or, where applicable a part of a financial asset or part of a group of similar financial assets is derecognized when the rights to receive cash flows from the asset have 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 rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of ownership of the asset, or has neither transferred nor retained substantially all the risks and rewards of ownership of the asset, but has transferred control of the asset.

When the Corporation has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of ownership 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 the original carrying amount 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 or 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 liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statements of comprehensive income.

## ***Impairment of financial assets***

### *Assessment of impairment*

The Corporation assesses at each financial reporting date whether a financial asset or group of financial assets is impaired. It 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 it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The determination of impairment losses for financial assets is inherently subjective because it requires material estimates, including the amount and timing of expected recoverable future cash flows. These estimates may change significantly from time to time, depending on available information.

### *Evidence of impairment*

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Corporation on terms that it would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

### *Impairment on assets carried at amortized cost*

#### *Loans and receivables*

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 or 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 statements 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.

#### Impairment on 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 increased 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.

#### *Impairment on asset carried at cost*

If there is objective evidence that an impairment loss has been incurred on an asset carried at cost such as an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or of a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

#### *Reversal of impairment loss*

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statements of comprehensive income, to the extent that the carrying value of the asset does not exceed its cost or amortized cost at the reversal date.

### **2.3 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 properties" 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 from the time of acquisition of investment properties ranging from 5 to 10 years.

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 properties are 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 evidenced 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.

#### **2.4 Property and equipment and equipment and other property for lease (EOPL)**

Property and equipment and EOPL are initially measured at cost. At the end of each financial reporting period, property and equipment and EOPL are measured at cost less any subsequent accumulated depreciation, amortization and impairment in value. The initial cost of an asset consists of its purchase price, directly attributable costs of bringing the asset to its working condition for its intended use and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent expenditures relating to an item of property and equipment and EOPL that have already been recognized are added to the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Corporation. The carrying amount of property and equipment and EOPL includes the cost of testing machinery to ensure that these function as intended and also all costs attributable to bringing the asset to the location and condition for it to be capable of operating. All repairs and maintenance costs are charged to operations during the year in which these are incurred.

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 properties 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 and EOPL, 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 derecognition 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.

## **2.5 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.

## **2.6 Other assets**

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at cost. Subsequently, these are charged to statements of comprehensive income as they are consumed in operations or as they expire with the passage of time.



Prepayments are classified in the statement of financial position as current assets and expected to be incurred within one year, otherwise, prepayments are classified as non-current asset.

Other assets pertain to expenditures which have future economic benefits and are not identified as financial assets, prepayments, or equipment. These are classified as current in the statement of financial position since the benefit from such assets are expected to be realized within one year from the financial reporting date, otherwise, they are classified as non-current.

## **2.7 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 to 5 years following the straight-line method 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 separate statements if comprehensive income in the expense category consistent with the function of the intangible asset.

The Corporation's intangible asset account consists of computer software and is lodged under the other asset account.

## **2.8 Impairment of non-financial assets**

At each financial reporting date, the Corporation reviews the carrying amounts of non-financial assets to determine whether there is any indication of impairment. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of the assets is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to its present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Any impairment loss is recognized in the statements of comprehensive income.

An impairment loss is reversed if there has been change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of impairment loss is credited to current operations.

## **2.9 Trade and other payables**

Trade and other payables are recognized initially at the transaction price and subsequently measured at amortized cost using the effective interest rate method. Trade and other payables classified as current liabilities are measured at the undiscounted amount of cash to be paid, which is normally the invoice amount.

## **2.10 Provisions and contingencies**

The Corporation recognizes a provision if a present obligation, legal and constructive, has arisen as a result of a past event, payment is probable and the amount can be reliably measured. The amount recognized is the best estimate of the expenditure required to settle the present obligation at statement of financial position date, that is, the amount the Corporation would rationally pay to settle the obligation to a third party.

Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statements but disclosed in the notes to financial statements when an inflow of economic benefits is probable.

## **2.11 Dividends**

Dividends are recognized when these become legally payable. Dividend distribution to equity shareholders is recognized as a liability in the Corporation's financial statements in the period in which the dividends are declared and approved by the Corporation's Board of Directors.

## **2.12 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.

The Corporation's retained earnings account is composed of:

### *Appropriated retained earnings*

Appropriated retained earnings represent the portion of retained earnings that have been set aside by action of the Board of Directors for a specific use.

### *Unappropriated retained earnings*

Unappropriated retained earnings represent the amount of accumulated profits and gains realized out of the normal and continuous operations of the Corporation after deducting distributions to stockholders and transfers to capital stock or other accounts, and which are:

- Not appropriated by the Board of Directors for corporate expansion or projects;
- Not covered by a restriction for dividend declaration under a loan agreement; and
- Not required to be retained under special circumstances obtaining in the Corporation such as when there is a need for a special reserve for probable contingencies.

## **2.13 Revenue recognition**

### *(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 collectibility.

### *(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 (lesser) than the net carrying value of the receivable settled, respectively.

(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 (less) than the outstanding balance of receivables sold.

(f) *Other income*

Other income is recognized in the period in which these are earned.

## **2.14 Costs and expenses recognition**

Costs and expenses are recognized in profit or loss when decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen and that can be reliably measured. Expenses are recognized in profit or loss on the basis of a direct association between the costs incurred and the earning of specific items of income; a systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statements of financial position as an asset.

Expenses in the statements of comprehensive income are presented using the function of expense method. Cost of services are expenses incurred that are associated with services rendered. Operating expenses are cost attributable to administrative, marketing and other business activities of the Corporation.

### *Borrowing costs*

Borrowing costs that are directly attributable to the acquisition, construction or production of a "qualifying asset" or an asset that necessarily takes a substantial period to get ready for its intended use or sale, are included in the cost of the asset. Other borrowing costs which consist of interest and other costs that the Corporation incurs in connection with borrowing of funds are recognized as expenses in the year in which these costs are incurred using the effective interest method.

## **2.15 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 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.

#### 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.

#### **2.16 Leases**

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 statements of financial position under "Loans and Other 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.

The Corporation is a lessor under finance leases.

Leases where the Corporation does not transfer substantially all the risks 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 rentals are recognized as revenue in the year in which they are earned.

The Corporation is both a lessee and a lessor under operating leases.

## **2.17 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.

## **2.18 Related parties**

Parties are considered related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. The key management personnel of the Corporation and post-employment benefit plans for the benefit of the Corporation's employees are also considered related parties.

## **2.19 Income tax**

### *Current income tax*

Current income tax assets and liabilities for the current and the prior periods are measured at the amount expected to be recovered from or paid to the taxing authority. The tax rates and tax laws used to compute for the amount are those that have been enacted or substantively enacted at the financial reporting date. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

### *Deferred income tax*

Deferred income tax is provided, using liability method, on all temporary differences at the financial reporting date between the tax bases of assets and liabilities and its carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) and net operating loss carryover (NOLCO), to the extent that it is probable that taxable

profit will be available against which the deductible temporary differences and carryforward of unused tax credits and NOLCO can be utilized.

The carrying amount of deferred income tax assets is reviewed at each financial reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Any adjustments are recognized in the statement of comprehensive income.

Deferred income 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 financial reporting date.

Current and deferred tax are recognized as an expense or income in the statement of comprehensive income, except when these relate to items that are recognized outside profit or loss whether in other comprehensive income or directly in equity, in which case the tax are also recognized outside profit or loss.

## **2.20 Earnings per share**

Basic earnings per share (EPS) is calculated by dividing profit or loss for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period, after giving retroactive effect to any stock dividend.

## **2.21 Events after the financial reporting date**

Post year-end events up to the date of the auditors' report that provide additional information about the Corporation's position at financial 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. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

The preparation of the financial statements in compliance with Philippine Financial Reporting Standards requires management to make estimates, assumptions and judgments that affect the amounts reported in the financial statements and accompanying notes. The estimates, assumptions and judgments are based on management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from these estimates and assumptions used. The effect of any change in estimates will be reflected in the financial statements when these become reasonably determinable.

## **3.1 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.

#### *Estimation of allowance for impairment loss 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.

In 2015 and 2014, management has assessed an amount of P204,725,776 and P186,725,776, respectively, as doubtful of collection. Accordingly, a provision for impairment was recognized in the statements of comprehensive income.

The carrying value of the Corporation's loans and receivables amounted to P3,375,186,553 and P3,460,398,491 as at December 31, 2015 and 2014, respectively, as disclosed in Note 8.

#### *Estimation of useful lives of EOPL, property and equipment and investment properties*

The Corporation estimates the useful lives of EOPL, property and equipment and investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives of EOPL, property and equipment and investment properties are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of EOPL, property and equipment and investment properties is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of EOPL, property and equipment and investment properties would increase recorded operating expenses and decrease non-current assets.

The estimated useful lives of investment properties, EOPL and property and equipment are set out in Notes 2.3 and 2.4.

#### *Estimation of impairment of Investment properties, EOPL, property and equipment 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.

Allowance for impairment losses on Investment Properties amounted to P3,387,285 as of December 31, 2015 and 2014, while allowance for impairment losses on Non-Current Assets Held for Sale amounted to P5,415,033 in 2015 and 2014. There are no impairment losses on EOPL and Property and Equipment for the years 2015 and 2014.

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

|  | <b>2015</b>        | <b>2014</b>  |
|--|--------------------|--------------|
| Investment Properties (Note 9)             | <b>6,397,440</b>   | 6,625,129*   |
| EOPL (Note 10)                             | <b>444,317,578</b> | 383,609,313* |
| Property and Equipment (Note 11)           | <b>30,285,046</b>  | 32,310,606   |
| Non-current Assets Held for Sale (Note 12) | <b>3,299,865</b>   | 3,299,865    |

\*As restated

#### *Estimation of liability for retirement benefits cost*

The determination of the Corporation's pension cost is dependent on the selection of certain assumptions used by actuaries in calculating such amount. Those assumptions include, among others, discount rate, expected rate of return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions used are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The retirement benefits cost charged to operations under "General and Administrative Expenses" account amounted to P4,656,128 and P1,834,038 as at December 31, 2015 and 2014, respectively, as disclosed in Note 21(a).

The related liability stands at P15,041,950 and P9,789,083 as at December 31, 2015 and 2014, respectively, as disclosed in Note 21(b).

#### *Realizability of deferred income tax assets*

The Corporation reviews its deferred tax assets at each financial 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 taxes to be utilized.

Deferred tax assets recognized amounted to P63,165,234 and P57,765,234 as at December 31, 2015 and 2014, respectively, as disclosed in Note 23.

Management believes that the amount is fully recoverable.

## 3.2 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:

### *Determination of functional currency*

Based on the economic substance of the underlying circumstances relevant to the Corporation, the functional currency is determined to be the Philippine Peso. It is the currency that mainly influences the rendering of transport services and the cost of providing such services.

### *Classification of financial instruments*

The Corporation classifies a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the statements of financial position.

The Corporation's financial assets and liabilities are presented in Notes 4 and 5.

### *Determination of fair value of financial assets*

The Corporation carries certain financial assets at fair value, which requires extensive use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates), the amount of changes in fair value would differ if the Corporation utilized a different valuation methodology. Any changes in fair value of these financial assets would affect profit and loss and equity.

### *Classification of leases*

The Corporation has entered into various lease agreements both as a lessee and a lessor. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements.

As a lessor, total rental earned from operating leases amounted to P45,236,905 in 2015 and P44,553,018 in 2014, as disclosed in Notes 20 and 22.

Interest earned on finance lease arrangements amounted to P319,526,503 and P342,188,754 in 2015 and 2014, respectively, as disclosed in Notes 8 and 20 to the financial statements.

As a lessee, total rental expenses incurred from the leases amounted to P1,187,702 in 2015 and P89,600 in 2014, as disclosed in Note 20.

## **4. FINANCIAL RISKS AND CAPITAL MANAGEMENT OBJECTIVES AND POLICIES**

### *Principal financial instruments*

The Corporation's principal financial instruments comprise cash, loans and receivables, accounts receivable – others, AFS financial assets, bills payable, trade and other payables and deposit on lease contracts.

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 Unit that examines both adequacy of the procedures and the Corporation's compliance with the procedures. The Internal Audit Unit discusses the results of all of its assessments 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 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:

|                              | 2015           | 2014<br>(As restated) |
|------------------------------|----------------|-----------------------|
| Secured                      |                |                       |
| Property under finance lease | 1,441,750,678  | 1,729,189,055         |
| Real estate mortgage         | 472,941,183    | 225,526,079           |
| Chattel mortgage             | 1,155,803,851  | 936,697,604           |
|                              | 3,070,495,712  | 2,891,412,738         |
| Unsecured                    | 509,416,617    | 755,711,529           |
|                              | P3,579,912,329 | P3,647,124,267        |

(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*

|                              | 2015                 |                      | 2014                 |                      |
|------------------------------|----------------------|----------------------|----------------------|----------------------|
|                              | Carrying Value       | Maximum Exposure     | Carrying Value       | Maximum Exposure     |
| Financial assets:            |                      |                      |                      |                      |
| Cash                         | 42,917,083           | 42,917,083           | 42,690,257           | 42,690,257           |
| Loans and receivables        | 3,579,912,329        | 3,579,912,329        | 3,647,124,267        | 3,647,124,267        |
| Accounts receivable – others | 904,988              | 904,988              | 613,525              | 613,525              |
| AFS financial asset          | 5,825,000            | 5,825,000            | 5,825,000            | 5,825,000            |
|                              | <b>3,629,559,400</b> | <b>3,629,559,400</b> | <b>3,696,253,049</b> | <b>3,696,253,049</b> |

The preceding table represents the maximum credit risk exposure of the Corporation as at December 31, 2015 and 2014, 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 statements 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 its 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, 2015**

|                                   | Cash | Loans and receivables | Accounts receivable - others | Available for sale securities |
|-----------------------------------|------|-----------------------|------------------------------|-------------------------------|
| Agriculture, fishing and forestry | 0    | 39,375,732            | 0                            | 0                             |
| Wholesale and retail trade        | 0    | 193,068,504           | 0                            | 0                             |
| Manufacturing                     | 0    | 11,870,648            | 0                            | 0                             |
| Public utilities                  | 0    | 283,068,798           | 0                            | 0                             |
| Services                          | 0    | 1,035,179,978         | 0                            | 0                             |

|  | Cash       | Loans and receivables | Accounts receivable - others | Available for sale securities |
|--|------------|-----------------------|------------------------------|-------------------------------|
| Banks and other financial institutions                 | 42,917,083 | 420,941,965           | 0                            | 5,825,000                     |
| Real estate  | 0          | 49,931,346            | 0                            | 0                             |
| Public sector  | 0          | 881,137,251           | 0                            | 0                             |
| Others   | 0          | 665,338,107           | 904,988                      | 0                             |
| Total  | 42,917,083 | 3,579,912,329         | 904,988                      | 5,825,000                     |
| Less: Allowance for probable losses/fair value changes | 0          | (204,725,776)         | 0                            | (5,825,000)                   |
|  | 42,917,083 | 3,375,186,553         | 904,988                      | 0                             |

As at December 31, 2014

|  | Cash       | Loans and receivables | Accounts receivable - others | Available for sale securities |
|--|------------|-----------------------|------------------------------|-------------------------------|
| Agriculture, fishing and forestry                      | 0          | 30,001,093            | 0                            | 0                             |
| Wholesale and retail trade                             | 0          | 299,852,307           | 0                            | 0                             |
| Manufacturing  | 0          | 31,594,773            | 0                            | 0                             |
| Public utilities                                       | 0          | 290,270,188           | 0                            | 0                             |
| Services   | 0          | 1,096,305,136         | 0                            | 0                             |
| Banks and other financial institutions                 | 42,690,257 | 506,283,709           | 0                            | 5,825,000                     |
| Real estate  | 0          | 217,438,205           | 0                            | 0                             |
| Public sector  | 0          | 923,700,901           | 0                            | 0                             |
| Others   | 0          | 251,677,955           | 613,525                      | 0                             |
| Total  | 42,690,257 | 3,647,124,267         | 613,525                      | 0                             |
| Less: Allowance for probable losses/fair value changes | 0          | (186,725,776)         | 0                            | (5,825,000)                   |
|  | 42,690,257 | 3,460,398,491         | 613,525                      | 0                             |

(f) *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:

As at December 31, 2015

|                              | Neither past due nor impaired | Impaired    | Total         |
|------------------------------|-------------------------------|-------------|---------------|
| Cash                         | 42,917,083                    | 0           | 42,917,083    |
| Loans and receivables        | 3,375,186,553                 | 204,725,776 | 3,579,912,329 |
| Accounts receivable – others | 904,988                       | 0           | 904,988       |
| AFS financial asset          | 0                             | 5,825,000   | 5,825,000     |
|                              | 3,419,008,624                 | 210,550,776 | 3,629,559,400 |

As at December 31, 2014

|                              | Neither past due nor impaired | Impaired    | Total         |
|------------------------------|-------------------------------|-------------|---------------|
| Cash                         | 42,690,257                    | 0           | 42,690,257    |
| Loans and receivables        | 3,460,398,491                 | 186,725,776 | 3,647,124,267 |
| Accounts receivable – others | 613,525                       | 0           | 613,525       |
| AFS financial asset          | 0                             | 5,825,000   | 5,825,000     |
|                              | 3,503,702,273                 | 192,550,776 | 3,696,253,049 |

#### *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 to 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 in 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 therefore be exposed to potential financial risks that accompany borrowing. In relation to its various borrowing arrangements, the Corporation is currently subject to certain requirements relative to the maintenance of acceptable liquidity and leverage ratios.

#### *Analysis of financial liabilities by remaining contractual maturities*

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

**As at December 31, 2015**

|                                | Up to 1 year         | Over 1 year to<br>3 years | Over 3 years         | Total                |
|--------------------------------|----------------------|---------------------------|----------------------|----------------------|
| Bills payable                  | 996,800,000          | 0                         | 1,200,959,295        | 2,197,759,295        |
| Trade and other payables*      | 108,428,716          | 0                         | 0                    | 108,428,716          |
| Deposits on lease<br>contracts | 134,552,487          | 43,543,314                | 55,614,129           | 233,709,930          |
|                                | <b>1,239,781,203</b> | <b>43,543,314</b>         | <b>1,256,573,424</b> | <b>2,539,897,941</b> |

**As at December 31, 2014**

|                                | Up to 1 year         | Over 1 year to<br>3 years | Over 3 years         | Total                |
|--------------------------------|----------------------|---------------------------|----------------------|----------------------|
| Bills payable                  | 1,006,400,000        | 0                         | 1,314,109,423        | 2,320,509,423        |
| Trade and other payables*      | 92,156,688           | 0                         | 0                    | 92,156,688           |
| Deposits on lease<br>contracts | 130,443,866          | 69,675,448                | 37,555,008           | 237,674,322          |
|                                | <b>1,229,000,554</b> | <b>69,675,448</b>         | <b>1,351,664,431</b> | <b>2,650,340,433</b> |

\*Trade and other payables identified as financial liabilities do not include government dues.

Financial 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 Corporation's principal financial instruments comprise cash, loans and receivables, accounts receivable – others, AFS financial assets, bills payable, trade and other payables and deposits on lease contracts.

### (a) Carrying Amount versus Fair Value

The following table compares the carrying amounts and fair values of the Corporation's financial assets and financial liabilities as at December 31, 2015 and 2014.

|  | 2015                 |                      | 2014                 |                      |
|--|----------------------|----------------------|----------------------|----------------------|
|  | Cost                 | Fair Value           | Cost                 | Fair Value           |
| <b>Financial assets:</b>               |                      |                      |                      |                      |
| Cash (Note 6)                          | 42,977,083           | 42,977,083           | 42,720,257           | 42,720,257           |
| Loans and receivables (Notes 8)        | 3,579,912,329        | 3,375,186,553        | 3,647,124,267        | 3,460,398,491        |
| Accounts receivable – others (Note 13) | 904,988              | 904,988              | 613,525              | 613,525              |
| AFS financial asset (Note 7)           | 5,825,000            | 0                    | 5,825,000            | 0                    |
|  | <b>3,629,619,400</b> | <b>3,419,068,624</b> | <b>3,696,283,049</b> | <b>3,503,732,273</b> |
| <b>Financial liabilities:</b>          |                      |                      |                      |                      |
| Bills payable (Note 15)                | 2,197,759,295        | 2,197,759,295        | 2,320,509,423        | 2,320,509,423        |
| Trade and other payables* (Note 16)    | 108,428,716          | 108,428,716          | 92,156,688           | 92,156,688           |
| Deposit on lease contracts (Note 20)   | 233,709,930          | 233,709,930          | 237,674,322          | 237,674,322          |
|  | <b>2,539,897,941</b> | <b>2,539,897,941</b> | <b>2,650,340,433</b> | <b>2,650,340,433</b> |

\*Trade and other payables identified as financial liabilities do not include government dues.



The Corporation considers that the carrying amount of the following financial assets and financial liabilities are a reasonable approximation of their fair value:

- Cash
- Trade and other payables

(b) *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).

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in its entirety into only one of the three levels.

The only financial instrument of the Corporation measured at fair value is its available for sale financial asset which was classified under level 1.

(c) *Valuation techniques*

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

(i) *Loans and other receivables*

The estimated fair value of loans and other 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.

(ii) *Available for sale financial asset*

For Level 1 available-for-sale investments the group uses the closing market price as at reporting date per share multiplied by the number of shares held.

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

(iii) *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.

(iv) *Deposits on lease contracts*

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

## 6. CASH AND CASH EQUIVALENTS

This account consists of:

|                  | 2015              | 2014       |
|------------------|-------------------|------------|
| Deposit in banks | 42,917,083        | 42,690,257 |
| Cash on hand     | 60,000            | 30,000     |
|                  | <b>42,977,083</b> | 42,720,257 |

Cash in banks earn interest at floating rates based on daily bank deposit rates. Annual interest earned on deposits in banks range from 1.125 per cent to 1.250 per cent in 2015 and 2014. Interest income earned from deposits in banks reported in the statements of comprehensive income totaled P149,873 and P213,389 for the years ended December 31, 2015 and 2014, respectively.

## 7. AVAILABLE FOR SALE FINANCIAL ASSET

This account consists of:

|  | 2015        | 2014        |
|--|-------------|-------------|
| Available for sale securities, listed shares | 5,825,000   | P5,825,000  |
| Allowance for probable losses                | (5,825,000) | (5,825,000) |
|  | <b>0</b>    | 0           |

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

In 2001, LLFC 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 P0.25 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.

The fair value of available-for-sale financial asset as at December 31, 2015 and 2014 has been reduced to zero due to suspension of trading of stocks.

The fair value change of P5,825,000 is included within the overall decrease relating to available for sale financial asset recognized in other comprehensive income.

As of December 31, 2015, total accumulated unrealized loss on AFS amounted to P4,077,500, net of deferred tax.

## 8. LOANS AND RECEIVABLES

The current portion of the Corporation's loans and receivables consist of:

|                                 | 2015                 | 2014          |
|---------------------------------|----------------------|---------------|
| Finance lease receivables       | 249,793,207          | 347,931,983   |
| Finance lease receivables – LBP | 17,697,463           | 173,316,410   |
| Loans and receivables financed  | 880,138,310          | 560,145,606   |
|                                 | <b>1,147,628,980</b> | 1,081,393,999 |
| Accounts receivable - clients   | 137,801,865          | 96,624,133    |
| Allowance for probable losses   | (1,542,087)          | (1,100,094)   |
|                                 | <b>136,259,778</b>   | 95,524,039    |
| Accrued interest receivable     | 4,419,867            | 4,118,093     |
| Allowance for probable losses   | 0                    | (18,859)      |
|                                 | <b>4,419,867</b>     | 4,099,234     |
| Sales contracts receivable      | 0                    | 241,631       |
|                                 | <b>1,288,308,625</b> | 1,181,258,903 |

The non-current portion consists of:

|                                 | 2015                 | 2014                 |
|---------------------------------|----------------------|----------------------|
| Finance lease receivables       | 1,266,424,785        | 1,382,404,329        |
| Allowance for probable losses   | (40,986,648)         | (20,944,940)         |
|                                 | <b>1,225,438,137</b> | <b>1,361,459,389</b> |
| Finance lease receivables – LBP | 63,138,770           | 17,764,128           |
| Allowance for probable losses   | 0                    | 0                    |
|                                 | <b>63,138,770</b>    | <b>17,764,128</b>    |
| Loans and receivables financed  | 960,498,062          | 1,064,577,954        |
| Allowance for probable losses   | (162,197,041)        | (164,661,883)        |
|                                 | <b>798,301,021</b>   | <b>899,916,071</b>   |
|                                 | <b>2,086,877,928</b> | <b>2,279,139,588</b> |

As of December 31, 2015, 10 per cent of the Corporations' finance lease and loans receivable are subject to interest re-pricing. The remaining loans earn annual fixed interest rates ranging from 3 per cent to 20 per cent in 2015.

The Corporation's finance lease and loans receivable as of December 31, 2014 earned interest at fixed rates ranging from 7.5 per cent to 14.0 per cent.

#### Finance lease receivables

An analysis of the LLFC's finance lease receivables as at December 31, 2015 and 2014 is presented as follows:

|   | 2015                 | 2014                  |
|---|----------------------|-----------------------|
| Finance lease receivables:                  |                      |                       |
| Within 1 year                               | 183,417,431          | 313,929,953           |
| Beyond 1 year but not beyond 5 years        | 286,621,946          | 346,080,514           |
| Beyond 5 years                              | 1,545,719,800        | 1,749,941,645         |
|   | <b>2,015,759,177</b> | <b>2,409,952,112</b>  |
| Residual value of leased assets:            |                      |                       |
| Within 1 year                               | 74,545,783           | 61,387,171            |
| Beyond 1 year but not beyond 5 years        | 84,968,911           | 82,053,222            |
| Beyond 5 years                              | 126,186,545          | 129,519,878           |
|   | <b>285,701,239</b>   | <b>272,960,271</b>    |
| Total minimum lease receivable              | <b>2,301,460,416</b> | <b>P2,682,912,383</b> |
| Less: Unearned Leasing Income               |                      |                       |
| Within 1 year                               | 8,170,007            | 27,385,141            |
| Beyond 1 year                               | 842,785,742          | 988,014,234           |
|   | <b>850,955,749</b>   | <b>1,015,399,375</b>  |
| Net investment in finance lease receivables | <b>1,450,504,667</b> | <b>P1,667,513,008</b> |

|  | 2015                 | 2014                 |
|--|----------------------|----------------------|
| Past due receivables                                 | 37,155,966           | 32,034,890           |
| Restructured accounts                                | 0                    | 30,078,653           |
| Past due – restructured accounts                     | 5,599,903            | 8,053,498            |
| Items in litigation                                  | 35,998,817           | 10                   |
|  | 78,754,686           | 70,167,051           |
| Less: Unearned leasing income                        | 13,041,361           | 7,343,747            |
|  | 65,713,325           | 62,823,304           |
|  | <b>1,516,217,992</b> | <b>1,730,336,312</b> |
|  | 2015                 | 2014                 |
| Finance lease receivables – LBP                      |                      |                      |
| Within 1 year  | 35,712,551           | 221,098,385          |
| Beyond 1 year but not beyond 5 years                 | 124,766,449          | 7,467,449            |
| Beyond 5 years                                       | 0                    | 73,738,440           |
|  | 160,479,000          | 302,304,274          |
| Residual value of leased assets:                     |                      |                      |
| Within 1 year  | 5,653,600            | 3,626,600            |
| Beyond 1 year but not beyond 5 years                 | 0                    | 2,027,000            |
| Beyond 5 years                                       | 0                    | 0                    |
|  | 5,653,600            | 5,653,600            |
| Total minimum lease receivable                       | 166,132,600          | 307,957,874          |
| Less: Unearned leasing income                        |                      |                      |
| Within 1 year  | 23,668,688           | 51,408,575           |
| Beyond 1 year  | 61,627,679           | 65,468,761           |
|  | 85,296,367           | 116,877,336          |
| Net investment in finance lease receivables<br>- LBP | 80,836,233           | 191,080,538          |

#### Loans and receivables financed

The breakdown of loans and receivables financed as of December 31, 2015 and 2014 are as follows:

|                                  | 2015                 | 2014                 |
|----------------------------------|----------------------|----------------------|
| Loans and receivables financed   |                      |                      |
| Within 1 year                    | 880,138,310          | 560,145,606          |
| Beyond 1 year                    | 716,638,722          | 792,536,484          |
|                                  | 1,596,777,032        | 1,352,682,090        |
| Past due receivables             | 102,204,693          | 116,614,286          |
| Restructured accounts            | 24,661,842           | 27,519,964           |
| Past due – restructured accounts | 14,546,681           | 26,765,104           |
| Items in litigation              | 105,749,886          | 105,529,979          |
|                                  | 247,163,102          | 276,429,333          |
| Less: Unearned interest income   | 3,303,762            | 4,387,863            |
|                                  | 243,859,340          | 272,041,470          |
|                                  | <b>1,840,636,372</b> | <b>1,624,723,560</b> |

## Summary of loans and receivables

### Loans and lease receivables

|                                 | 2015                 | 2014                 |
|---------------------------------|----------------------|----------------------|
| Finance lease receivables       | 1,516,217,992        | 1,730,336,312        |
| Finance lease receivables – LBP | 80,836,233           | 191,080,538          |
| Loans and receivables financed  | 1,840,636,372        | 1,624,723,560        |
|                                 | <b>3,437,690,597</b> | <b>3,546,140,410</b> |

### Other receivables:

|                               | 2015               | 2014               |
|-------------------------------|--------------------|--------------------|
| Accounts Receivable – clients | 137,801,865        | 96,624,133         |
| Accrued interest receivable   | 4,419,867          | 4,118,093          |
| Sales contracts receivable    | 0                  | 241,631            |
|                               | <b>142,221,732</b> | <b>100,983,857</b> |

Accounts receivable amounting to P136,202,064 and P95,474,901 represent the amounts due from the Parent Bank for financial and operating lease transactions for 2015 and 2014, respectively.

### Interest income on receivables

Interest income on receivables as presented in the statements of comprehensive income follows:

|                            | 2015               | 2014               |
|----------------------------|--------------------|--------------------|
| Lease contracts receivable | 327,242,646        | 342,188,754        |
| Loans receivable           | 140,476,646        | 120,249,966        |
| Sales contracts receivable | 49,092             | 82,952             |
|                            | <b>467,768,384</b> | <b>462,521,672</b> |

### Reconciliation of credit losses

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

#### **As at December 31, 2015 (In thousand pesos)**

|                                      | Lease contracts receivable | Loans and receivables financed | Accounts receivable - clients | Accrued interest receivable | Total          |
|--------------------------------------|----------------------------|--------------------------------|-------------------------------|-----------------------------|----------------|
| At January 1, 2015                   | 20,945                     | 164,662                        | 1,100                         | 19                          | 186,726        |
| Provisions during the year           | 17,577                     | 0                              | 423                           | 0                           | 18,000         |
| Write-offs during the year           | 0                          | 0                              | 0                             | 0                           | 0              |
| Foreclosures and adjustments         | 2,465                      | (2,465)                        | 19                            | (19)                        | 0              |
| At December 31                       | <b>40,987</b>              | <b>162,197</b>                 | <b>1,542</b>                  | <b>0</b>                    | <b>204,726</b> |
| Specific impairment provision        | 14,236                     | 162,197                        | 1,542                         | 0                           | 177,975        |
| Collective impairment provision      | 26,751                     | 0                              | 0                             | 0                           | 26,751         |
| Total impairment provision (Note 14) | <b>40,987</b>              | <b>162,197</b>                 | <b>1,542</b>                  | <b>0</b>                    | <b>204,726</b> |

|   |        |         |       |   |         |
|---|--------|---------|-------|---|---------|
| Gross amount of loans specifically determined to be impaired before deducting individually-assessed credit losses | 47,275 | 208,675 | 1,600 | 0 | 257,550 |
|---|--------|---------|-------|---|---------|

As at December 31, 2014 (In thousand pesos)

|   | Lease<br>Contracts<br>Receivable | Loans and<br>receivables<br>financed | Accounts<br>receivable -<br>clients | Accrued<br>interest<br>receivable | Total    |
|---|----------------------------------|--------------------------------------|-------------------------------------|-----------------------------------|----------|
| At January 1, 2014  | 28,853                           | 172,011                              | 2,014                               | 21                                | 202,899  |
| Provisions during the year  | 606                              | 14,131                               | (737)                               | 0                                 | 14,000   |
| Write-offs during the year  | 0                                | (1,287)                              | (24)                                | 0                                 | (1,311)  |
| Foreclosures and adjustments  | (8,514)                          | (20,193)                             | (153)                               | (2)                               | (28,862) |
| At December 31  | 20,945                           | 164,662                              | 1,100                               | 19                                | 186,726  |
| Specific impairment provision   | 3,693                            | 150,063                              | 1,100                               | 19                                | 154,875  |
| Collective impairment provision   | 17,252                           | 14,599                               | 0                                   | 0                                 | 31,851   |
| Total impairment provision  | 20,945                           | 164,662                              | 1,100                               | 19                                | 186,726  |
| Gross amount of loans specifically determined to be impaired before deducting individually-assessed credit losses | 14,376                           | 236,688                              | 1,346                               | 0                                 | 252,410  |

### **BSP Reporting**

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

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

|  | 2015   | 2014   |
|--|--------|--------|
| Services                               | 28.92  | 30.06  |
| Public sector                          | 24.61  | 25.33  |
| Banks and other financial institutions | 11.76  | 13.88  |
| Wholesale and retail trade             | 5.40   | 8.22   |
| Public utilities                       | 7.91   | 7.96   |
| Real estate                            | 1.39   | 5.96   |
| Manufacturing                          | 0.33   | 0.87   |
| Agriculture, fishing and forestry      | 1.10   | 0.82   |
| Others                                 | 18.59  | 6.90   |
|  | 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 its 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

|                              | 2015                 | 2014          |
|------------------------------|----------------------|---------------|
| Secured                      |                      |               |
| Property under finance lease | 1,441,750,678        | 1,729,189,055 |
| Real estate mortgage         | 472,941,183          | 225,526,079   |
| Chattel mortgage             | 1,155,803,851        | 936,697,604   |
|                              | <b>3,070,495,712</b> | 2,891,412,738 |
| Unsecured                    | 367,194,885          | 654,727,672   |
|                              | <b>3,437,690,597</b> | 3,546,140,410 |

BSP Circular No. 351 allows non-banks with no un-booked valuation reserves and capital adjustments required by the BSP to exclude from non-performing 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, 2015 and 2014, the non-performing loans (NPLs) not fully- covered by allowance for credit losses follow (in thousand pesos):

|  | 2015           | 2014      |
|--|----------------|-----------|
| Total NPLs   | 285,304        | 233,806   |
| Less NPLs fully-covered by allowance for credit losses | (120,809)      | (131,034) |
|  | <b>164,495</b> | 102,772   |

As of December 31, 2015 and 2014, the secured and unsecured NPLs follow (in thousand pesos):

|           | 2015           | 2014    |
|-----------|----------------|---------|
| Secured   | 190,606        | 142,475 |
| Unsecured | 94,698         | 91,331  |
|           | <b>285,304</b> | 233,806 |

## 9. INVESTMENT PROPERTIES

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

|                                 | 2015           | 2014<br>(As restated) |
|---------------------------------|----------------|-----------------------|
| <b>Cost</b>                     |                |                       |
| At January 1 and December 31    | 10,316,000     | 10,316,000            |
| <b>Accumulated depreciation</b> |                |                       |
| At January 1                    | 303,586        | 0                     |
| Depreciation for the year       | 227,689        | 303,586               |
| At December 31                  | <b>531,275</b> | 303,586               |



|                                    | 2015             | 2014<br>(As restated) |
|------------------------------------|------------------|-----------------------|
| <b>Allowance for Impairment</b>    |                  |                       |
| At January 1                       | 3,387,285        | 3,061,696             |
| Provision for the year             | 0                | 325,589               |
| At December 31                     | 3,387,285        | 3,387,285             |
| <b>Net book value, December 31</b> | <b>6,397,440</b> | <b>6,625,129</b>      |

The aggregate market value of investment properties as of December 31, 2015 and 2014 amounted to P10,669,800 and P11,551,800, respectively. The 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 or 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.

Costs incurred in maintaining investment properties totaled P34,355 in 2015 (Note 22) which were paid to LBP Resources Development Corporation (LBRDC), a related party.

#### 10. EQUIPMENT AND OTHER PROPERTY FOR LEASE

The Corporation entered into financial lease transactions with various lessees either by purchase from equipment suppliers 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 land 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 P600,000,000. As of December 31, 2014, P308,378,250 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 details pertinent to the Corporation's equipment and other property for lease (EOPL) are as follows:

|                 | 2015               | 2014               |
|-----------------|--------------------|--------------------|
| Finance Lease   | 393,376,370        | 324,320,982        |
| Operating Lease | 50,941,208         | 59,288,331         |
|                 | <b>444,317,578</b> | <b>383,609,313</b> |

A roll forward analysis of EOPL under operating leases is presented in the succeeding table:

|                                     | 2015              | 2014              |
|-------------------------------------|-------------------|-------------------|
| <b>Cost</b>                         |                   |                   |
| At January 1                        | 109,382,633       | 52,280,677        |
| Additions                           | 0                 | 57,101,956        |
| Disposals                           | (5,613,543)       | 0                 |
| At December 31                      | 103,769,090       | 109,382,633       |
| <b>Accumulated depreciation</b>     |                   |                   |
| At January 1                        | 50,094,302        | 44,899,026        |
| Depreciation for the year (Note 11) | 7,630,917         | 5,195,276         |
| Disposals                           | (4,897,337)       | 0                 |
| At December 31                      | 52,827,882        | 50,094,302        |
| <b>Net book value, December 31</b>  | <b>50,941,208</b> | <b>59,288,331</b> |

Depreciation charges for 2015 and 2014 amounting to P7,630,917 and P5,195,276, respectively, are lodged under the depreciation and amortization account under Direct Expenses in the statements of comprehensive income.

In 2015, the Corporation sold vehicles previously covered by operating lease agreements with a total carrying value of P516,009 on which it realized a gain of P1,589,491 as disclosed in Note 18 to the financial statements.

During 2015, the Corporation donated vehicles with an aggregate net book value of P200,197 (Note 22) to LBP Resources Development Corporation (LBRDC), Land Bank of the Philippines – Facilities Management Department (LBP-FMD) and Masaganang Sakahan, Inc. (MSI), respectively.

## 11. PROPERTY AND EQUIPMENT

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

### As at December 31, 2015

|                                     | Building and<br>improvements | Furniture<br>and<br>Fixtures | Transportation<br>Equipment | Other<br>properties<br>acquired | Total             |
|-------------------------------------|------------------------------|------------------------------|-----------------------------|---------------------------------|-------------------|
| <b>Cost</b>                         |                              |                              |                             |                                 |                   |
| At January 1                        | 42,566,207                   | 12,076,221                   | 1,567,273                   | 2,491,000                       | 58,700,701        |
| Additions                           | 0                            | 659,425                      | 0                           | 0                               | 659,425           |
| Disposals                           | 0                            | (1,170,149)                  | 0                           | 0                               | (1,170,149)       |
| At December 31                      | 42,566,207                   | 11,565,497                   | 1,567,273                   | 2,491,000                       | 58,189,977        |
| <b>Accumulated<br/>depreciation</b> |                              |                              |                             |                                 |                   |
| At January 1                        | 14,431,015                   | 8,783,748                    | 1,493,907                   | 1,681,425                       | 26,390,095        |
| Depreciation for<br>the year        | 1,256,776                    | 735,507                      | 0                           | 560,475                         | 2,552,758         |
| Disposals                           | 0                            | (1,037,922)                  | 0                           | 0                               | (1,037,922)       |
| At December 31                      | 15,687,791                   | 8,481,333                    | 1,493,907                   | 2,241,900                       | 27,904,931        |
| <b>Net book value</b>               | <b>26,878,416</b>            | <b>3,084,164</b>             | <b>73,366</b>               | <b>249,100</b>                  | <b>30,285,046</b> |

**As at December 31, 2014**

|                                 | Building and improvements | Furniture and Fixtures | Transportation Equipment | Other properties acquired | Total       |
|---------------------------------|---------------------------|------------------------|--------------------------|---------------------------|-------------|
| <b>Cost</b>                     |                           |                        |                          |                           |             |
| At January 1                    | 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   |
| Adjustments                     | 0                         | (1,583,877)            | 0                        | 0                         | (1,583,877) |
| Disposals                       | 0                         | (711,300)              | 0                        | 0                         | (711,300)   |
| At December 31                  | 42,566,207                | 12,076,221             | 1,567,273                | 2,491,000                 | 58,700,701  |
| <b>Accumulated depreciation</b> |                           |                        |                          |                           |             |
| At January 1                    | 13,174,239                | 9,329,620              | 1,493,907                | 0                         | 23,997,766  |
| Depreciation for the year       | 1,256,776                 | 710,936                | 0                        | 1,681,425                 | 3,649,137   |
| Adjustments                     | 0                         | (833,290)              | 0                        | 0                         | (833,290)   |
| Disposals                       | 0                         | (423,518)              | 0                        | 0                         | (423,518)   |
| At December 31                  | 14,431,015                | 8,783,748              | 1,493,907                | 1,681,425                 | 26,390,095  |
| Net book value                  | 28,135,192                | 3,292,473              | 73,366                   | 809,575                   | 32,310,606  |

As of December 31, 2015 and 2014, the total cost of fully-depreciated property and equipment still in use by the Corporation amounted to P5,259,057 and P1,312,602, respectively.

Certain obsolete and unserviceable furniture, fixtures and office equipment with an aggregate cost of P1,170,149 have been retired in November 2015 on which the Corporation recognized a total loss of P132,227 (Note 18).

In 2014, the Corporation exchanged its old office equipment with a net book value of P71,130 for newer models costing P881,802 from which it realized a trade-in gain of P212,460 as disclosed in Note 18 to the financial statements.

Adjustments to furniture and fixtures in 2014 pertain to reclassification of computer software to intangibles lodged under the other assets account (See Note 13).

The Corporation recognized depreciation and amortization charges in the amount of P11,752,166 in 2015 and P10,781,695 in 2014, as shown in the Direct and General and Administrative Expense sections in the statements of comprehensive income, with details as follows:

|  | 2015              | 2014       |
|--|-------------------|------------|
| Equipment and other properties for lease (Note 10) | <b>7,630,917</b>  | 5,195,276  |
| Investment properties (Note 9)                     | <b>227,689</b>    | 303,586    |
| Property and equipment (Note 11)                   | <b>2,552,758</b>  | 3,649,137  |
| Intangibles (Note 13)                              | <b>1,340,802</b>  | 1,633,696  |
|  | <b>4,121,249</b>  | 5,586,419  |
|  | <b>11,752,166</b> | 10,781,695 |

Management has reviewed the carrying values of the Corporation's property and equipment as of December 31, 2015 and 2014 for impairment. Based on the results of its evaluation, there were no indications that the property and equipment are impaired.

## 12. NON-CURRENT ASSETS HELD FOR SALE

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

### As at December 31, 2015

|                          | Land        | Building | Equipment   | Total       |
|--------------------------|-------------|----------|-------------|-------------|
| At January 1             | 6,962,536   | 143,612  | 1,608,750   | 8,714,898   |
| Allowance for impairment | (3,950,132) | 0        | (1,464,901) | (5,415,033) |
| Adjustment               | 113,849     | 0        | (113,849)   | 0           |
| At December 31           | 3,126,253   | 143,612  | 30,000      | 3,299,865   |

### As at December 31, 2014

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

The changes in allowance for impairment are as follows:

|                           | 2015      | 2014      |
|---------------------------|-----------|-----------|
| At January 1              | 5,415,033 | 3,093,529 |
| Provision during the year | 0         | 2,321,504 |
| At December 31            | 5,415,033 | 5,415,033 |

Adjustments in provision for impairment in 2015 represent a reallocation of excess allowance for land and buildings with an aggregate assessed value of P10,459,800 to pieces of equipment whose total fair market value was determined to be P30,000.

Valuations were conducted by both in-house and third party appraisers on the basis of information on the prevailing market value of similar or 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.

The Corporation recognized a total gain from sale/de-recognition of non-current assets held for sale amounting to P627,471 in 2014.

### 13. OTHER ASSETS

Current and non-current classification of other assets as at December 31, 2015 and 2014 are as follows:

#### As at December 31, 2015

|                                    | Due within<br>1 year | Due beyond<br>1 year | Total            |
|------------------------------------|----------------------|----------------------|------------------|
| Miscellaneous assets               | 3,060,777            | 1,126,629            | 4,187,406        |
| Prepaid expense                    | 2,924,429            | 0                    | 2,924,429        |
| Intangibles                        | 474,991              | 224,871              | 699,862          |
| Accounts receivable-others         | 904,988              | 0                    | 904,988          |
| Stationeries and supplies-unissued | 107,099              | 0                    | 107,099          |
| Other investments                  | 0                    | 16,000               | 16,000           |
| Other assets                       | 0                    | 306                  | 306              |
|                                    | <b>7,472,284</b>     | <b>1,367,806</b>     | <b>8,840,090</b> |

#### As at December 31, 2014

|                                    | Due within 1<br>year | Due beyond<br>1 year | Total             |
|------------------------------------|----------------------|----------------------|-------------------|
| Miscellaneous assets               | 9,959,979            | 1,126,631            | 11,086,60         |
| Prepaid expense                    | 4,758,111            | 0                    | 4,758,111         |
| Intangibles                        | 1,340,802            | 699,862              | 2,040,664         |
| Accounts receivable-others         | 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               |
|                                    | <b>16,797,022</b>    | <b>1,842,799</b>     | <b>18,639,821</b> |

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 systems of a computer that do not form as integral parts of the related hardware.

In accordance with paragraph 9.2 under COA Resolution No. 2006-006 dated January 31, 2006, and as 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 percent residual value.

As of December 31, 2015 and 2014, amortization charges on intangibles amounted to P1,340,802 and P1,633,696, respectively.

#### 14. ALLOWANCE FOR CREDIT AND IMPAIRMENT LOSSES

Changes in the allowance for probable losses are as follows:

|  | 2015        | 2014         |
|--|-------------|--------------|
| At January 1                           |             |              |
| Financial lease receivables            | 20,944,940  | 28,852,998   |
| Loans and receivables financed         | 164,661,883 | 172,011,936  |
| Accounts receivable                    | 1,100,094   | 2,013,909    |
| Accrued interest receivable            | 18,859      | 20,631       |
| Investment properties                  | 3,387,285   | 3,061,696    |
| Non-current assets held for sale       | 5,415,033   | 3,093,529    |
|  | 195,528,094 | 209,054,699  |
| Provisions for the year                | 18,000,000  | 14,000,000   |
| Accounts charged-off/other adjustments | 0           | (27,526,605) |
| At December 31                         | 213,528,094 | 195,528,094  |

Allocations of allowance for credit and impairment losses are as follows:

|                                  | 2015        | 2014        |
|----------------------------------|-------------|-------------|
| Financial lease receivables      | 40,986,648  | 20,944,940  |
| Loans and receivables financed   | 162,197,041 | 164,661,883 |
| Accounts receivable              | 1,542,087   | 1,100,094   |
| Accrued interest receivable      | 0           | 18,859      |
| Investment properties            | 3,387,285   | 3,387,285   |
| Non-current assets held for sale | 5,415,033   | 5,415,033   |
|                                  | 213,528,094 | 195,528,094 |

With the foregoing level of allowance for credit and impairment losses, Management believes that LLFC 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.

#### 15. BILLS PAYABLE

This account represents peso borrowings from various banks in the form of promissory notes.

|             | 2015          | 2014          |
|-------------|---------------|---------------|
| Current     | 996,800,000   | 1,006,400,000 |
| Non-current | 1,200,959,295 | 1,314,109,423 |
|             | 2,197,759,295 | 2,320,509,423 |

Interest rates on bills payable range from 2.80 per cent to 4.00 per cent and 3.20 per cent to 7.75 per cent in 2015 and 2014, respectively.

Bills payable are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances as of December 31, 2015 and 2014 are partially secured, and with terms of maturities ranging from 90 days to 9 years. Interest Expense on borrowings amounted to P65,882,808 and P72,613,073 for the years ending December 31, 2015 and 2014, respectively.

Total interest expense in 2015 as presented in the statements of comprehensive income is net of P23,148,429 finance charges on a lease facility that were capitalized as EOPL in accordance with the provisions of PAS 23 on Borrowing costs.

As at December 31, 2015, there are no defaults or breaches on these promissory notes.

## 16. TRADE AND OTHER PAYABLES

This account consists of:

|                            | 2015               | 2014<br>(As restated) |
|----------------------------|--------------------|-----------------------|
| Accounts payable – trade   | 14,592,754         | 19,426,462            |
| Government dues:           |                    |                       |
| Withholding taxes payable  | 1,066,613          | 1,773,207             |
| Philhealth                 | 13,575             | 10,600                |
| Pag-ibig Fund              | 20,583             | 9,338                 |
| SSS                        | 15,770             | 9,064                 |
| Fringe benefit taxes       | 7,200              | 7,369                 |
| Accrued taxes and licenses | 2,829,321          | 2,317,623             |
| Accounts payable – others  | 796,336            | 3,134,532             |
| Accrued interest payable   | 4,990,510          | 5,232,112             |
| Accrued expenses – others  | 65,464,231         | 32,178,977            |
| Miscellaneous liabilities  | 22,584,885         | 32,184,605            |
|                            | <b>112,381,778</b> | <b>96,283,889</b>     |

Trade accounts payable represents liabilities to suppliers with credit terms ranging from 30 to 120 days from invoice date.

Accrued expenses – others include cost incurred for security, messengerial, and janitorial services payable to LBP Service Corporation (LBP – SC), a subsidiary of Land Bank of the Philippines, monetary value of employees' leave credits and performance based-bonus for 2015 due to officers and employees.

Total Miscellaneous liabilities represent advance payments received from various clients to be applied to registration and mortgage fees.

## 17. EQUITY

### (a) Capital Stock

The Corporation has been authorized to issue 50,000,000 ordinary shares at a par value of P10 per share. The pertinent information on the components of the Corporation's capital stock as of December 31, 2015 and 2014 is presented hereunder:

|   | 2015               | 2014        |
|---|--------------------|-------------|
| Issued and outstanding shares - 48,555,255 shares | <b>485,552,550</b> | 485,552,550 |
| Treasury stock – 1 share                          | <b>(10)</b>        | 0           |
| Additional paid-in capital                        | <b>113,970,900</b> | 113,970,900 |
|   | <b>599,523,440</b> | 599,523,450 |

On July 12, 2015, one share owned by a deceased member of the Board was reacquired thereby reducing the amount of outstanding shares to P485,552,540.

### (b) Retained earnings

#### Dividend declaration

In compliance with Republic Act No. 7656 requiring the declaration of dividends by Government-Owned and/or Controlled Corporations, LBP Leasing and Finance Corporation is required to declare and remit at least 50 percent of its annual Net Income After Tax as dividends.

For CY 2015, the Board of Directors of LBP Leasing and Finance Corporation, in its March 23, 2016 meeting, approved the declaration of cash dividends amounting to P80,500,000 or P1.658 per share on the 48,555,254 common stocks held by all stockholders of date of record, December 31, 2015.

Cash dividends declared by the Board of Directors through a Resolution dated February 25, 2015 totaled P72,298,775 or P1.489 per share to stockholders as of date of record, December 31, 2014. These cash dividends were paid on April 30, 2015.

#### Appropriation of retained earnings

On April 29, 2015, the Board of Directors through Resolution No. 15-058, approved the appropriation of retained earnings amounting to P600,000,000 for the business expansion. This appropriation was subsequently reported to the Securities and Exchange Commission on May 14, 2015.

#### Reconciliation of Retained earnings

The financial statements of the Corporation as of and for the years ended December 31, 2014 and 2013 have been restated to reflect the impact of transitional adjustments in accordance with PAS 19, as revised, and correction of prior period errors (See Note 29).



Presented below is a reconciliation of the retained earnings account:

|  |             |                     |
|--|-------------|---------------------|
| <b>At December 31, 2013, as previously stated</b>                      |             | <b>P682,475,596</b> |
| Add/(Deduct): Effect of prior period adjustments                       |             |                     |
| Recognition of deferred tax asset on unrealized loss on AFS            | (1,747,500) |                     |
| Reversal of excess deferred tax asset                                  | (99,067)    |                     |
| Recognition of additional amortization of intangibles                  | (64,526)    |                     |
| Accrual of donations and charitable contributions                      | (2,000,000) |                     |
| Transitional adjustment – PAS 19R                                      | (7,403,223) | (11,314,316)        |
| <b>At December 31, 2013, as restated</b>                               |             | <b>671,161,280</b>  |
| Net income for the year ended December 31, 2014, as previously stated  | 133,712,644 |                     |
| Add/(Deduct): Effect of prior period adjustments                       |             |                     |
| Recognition of depreciation on EOPL reclassified from FL to OL         | (157,224)   |                     |
| Recognition of additional depreciation on Investment properties - PFRS | (133,253)   |                     |
| Recognition of additional retirement expense - PFRS                    | (9,448)     |                     |
| Reversal of deferred tax asset recognized on actuarial gains           | (420,000)   |                     |
| Reversal of excess deferred tax asset                                  | (829,138)   | 132,163,581         |
| Reversal of over accrual in income tax payable                         |             | 179,440             |
| Cash dividend paid to the National Government                          |             | (72,153,109)        |
| <b>At December 31, 2014, as restated</b>                               |             | <b>731,351,192</b>  |
| Cash dividend paid to the National Government                          |             | (72,298,775)        |
| Appropriation for business expansion                                   |             | (600,000,000)       |
| Net income for the year ended December 31, 2015                        |             | 148,329,309         |
| <b>At December 31, 2015</b>  |             | <b>207,381,726</b>  |

## 18. OTHER INCOME

This account is composed of:

|  | 2015             | 2014             |
|--|------------------|------------------|
| Gain on sale of equipment and other property for lease (Note 10) | 1,589,491        | 0                |
| Gain (loss) on disposal/sale of property and equipment (Note 11) | (132,227)        | 212,460          |
| Gain on sale of non-financial assets (Note 12)                   | 0                | 627,471          |
| Recovery from charged-off assets                                 | 0                | 272,264          |
| Miscellaneous income   | 6,320,446        | 6,363,871        |
|  | <b>7,777,710</b> | <b>7,476,066</b> |

In 2014, the Corporation recovered 50 per cent of its receivables from a client through a compromise agreement.

Miscellaneous income represents penalties and surcharges.

## 19. OTHER EXPENSES

Other expenses lodged under general and administrative expenses account in the statements of comprehensive income is comprised of:

|   | 2015              | 2014              |
|---|-------------------|-------------------|
| Security, messengerial, janitorial and contractual services | 2,398,944         | 2,602,948         |
| Donations and other charitable contributions                | 2,300,197         | 2,000,000         |
| Representation and entertainment                            | 2,014,493         | 1,669,867         |
| Transportation and travelling                               | 1,743,398         | 1,487,610         |
| Power, light and water                                      | 1,485,000         | 1,816,176         |
| Rent (Note 20)  | 1,187,702         | 89,600            |
| Postage, cables, telephone and telegram                     | 1,122,685         | 721,563           |
| Repairs and maintenance                                     | 858,094           | 601,433           |
| Advertising and publicity                                   | 836,870           | 836,574           |
| Management and other professional fees                      | 815,345           | 719,700           |
| Membership fees and dues                                    | 598,919           | 608,811           |
| Stationeries and supplies used                              | 588,567           | 634,932           |
| Information technology                                      | 437,143           | 44,227            |
| Fuels and lubricants  | 271,747           | 309,609           |
| Data processing charges                                     | 90,315            | 85,343            |
| Fringe benefit taxes (Note 21)                              | 32,019            | 29,424            |
| Periodicals and magazines                                   | 18,576            | 18,388            |
| Bank charges  | 5,782             | 2,150             |
| Fines, penalties and other charges                          | 0                 | 93,867            |
| Miscellaneous expenses                                      | 674,708           | 385,012           |
|   | <b>17,480,504</b> | <b>14,757,234</b> |

## 20. LEASE COMMITMENTS

The Corporation has the following lease commitments

### Corporation as lessor

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

Interest income earned from finance leases amounted to P327,242,646 and P342,188,754 in 2015 and 2014, respectively, as presented in the statements of comprehensive income.

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, 2015 and 2014 amounted to P45,236,905 and P44,553,018, respectively.

The carrying amount of lease deposits payable to the respective lessees as of December 31, 2015 and 2014 are presented in the table below:

|                  | 2015               | 2014               |
|------------------|--------------------|--------------------|
| Finance leases   | 224,565,612        | 228,530,004        |
| Operating leases | 9,144,318          | 9,144,318          |
|                  | <b>233,709,930</b> | <b>237,674,322</b> |

The breakdown of deposits on finance and operating leases by contractual settlement dates as at December 31, 2015 and 2014 is as follows:

|                             | 2015               | 2014               |
|-----------------------------|--------------------|--------------------|
| Due within 1 year           | 134,552,487        | 130,443,866        |
| After 1 year up to maturity | 99,157,443         | 107,230,456        |
|                             | <b>233,709,930</b> | <b>237,674,322</b> |

Operating lease commitments

Future minimum rental receivables under non-cancelable operating leases as of December 31, 2015 and 2014 are as follows:

|                             | 2015              | 2014              |
|-----------------------------|-------------------|-------------------|
| Due within 1 year           | 21,610,032        | 21,610,000        |
| After 1 year up to maturity | 92,560            | 93,000            |
|                             | <b>21,702,592</b> | <b>21,703,000</b> |

Chauffeur services related to the lease of vehicles are presented under the Direct Expense – Security, Messengerial, Janitorial and Contractual Services in the statements of comprehensive income. Details of which are as follows:

|                 | 2015               | 2014               |
|-----------------|--------------------|--------------------|
| Finance lease   | 110,128,707        | 106,060,450        |
| Operating lease | 21,558,354         | 23,019,719         |
|                 | <b>131,687,061</b> | <b>129,080,169</b> |

Corporation as lessee

On February 3, 2014, the Corporation entered into an operating lease agreement for a period of 1 month with Campos Rueda and Sons, Inc. covering 6 parking slots at a monthly rental rate of P2,240, inclusive of VAT, per slot.

On June 1, 2014, the Corporation entered into another operating lease agreement with Dasein Transport Corporation wherein 40 parking slots were designated for LLFC's use at a monthly rental rate of P2,300 inclusive of VAT. Monthly billings are based on the actual number of vehicles parked.

Rental fees paid to the lessors for the years ended December 2015 and 2014 totalled P1,187,702 and P89,600 (Note 19), respectively.

The operating lease agreements, being temporary, may be extended or cancelled at the option of either parties provided that a prior written notice is given. As such, no future minimum lease payments are expected to be made.

## 21. EMPLOYEE BENEFITS

### (a) Compensation and fringe benefits

Expenses recognized for salaries and employee benefits are presented below:

|                         | 2015              | 2014              |
|-------------------------|-------------------|-------------------|
| Salaries and wages      | 15,924,764        | 14,561,070        |
| Bonuses                 | 4,501,560         | 4,608,667         |
| Directors' remuneration | 1,858,320         | 1,908,000         |
| Retirement benefit cost | 4,656,128         | 1,834,038         |
| Social security cost    | 773,774           | 732,837           |
| Other benefits          | 5,587,741         | 5,627,909         |
|                         | <b>33,302,287</b> | <b>29,272,521</b> |

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, 2015 and 2014 amounted to P4,903,615 and P4,379,741, respectively.

### (b) Retirement benefits

#### (i) Characteristics and funding

The Corporation has a funded non-contributory 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 (LBP-TBG) who is responsible for investment strategy of the plan.

The Retirement Trust Fund account with LBP-TBG was opened on November 28, 2012. Prior to the opening of Retirement Trust Fund account with LBP-TBG 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. 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 the Agreement and subject to all the terms and conditions stated therein, as well as the Plan, which is deemed part of the 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 and quoted with the understanding that the same may be reviewed at the request of either party and adjusted in a mutually satisfactory basis. The Trustee is authorized to debit such fee from the Fund.
- 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 the Agreement. The 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.

The Corporation's retirement plan is exposed to the following risks:

- *Interest rate risk*: decreases/increases in the discount rate used will increase/decrease the defined benefit obligation
- *Longevity risk*: changes in the estimation of mortality rates of current and former employees.
- *Salary risk*: increases in future salaries increase the gross defined benefit obligation.

(ii) *Actuarial assumptions*

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 and Finance Corporation. The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation as of December 31, 2003 was carried out and completed by an independent actuary April 12, 2013 using the Accrued Benefit Actuarial Cost Method (Projected Unit Credit).

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 principal actuarial assumptions used as at the statement of financial position date:

|   | 2015  | 2014  |
|---|-------|-------|
| Discount rate   | 4.37% | 5.50% |
| Expected rate of return on plan assets                | 2.50% | 2.50% |
| Salary increase rate                                  | 7.00% | 7.00% |
| Expected average remaining working lives of employees | 26    | 24    |

As of December 31, 2015, the principal balance of the retirement fund stands at P15,041,950 as compared to P9,789,083 as of December 31, 2014.

In 2016, The Corporation expects to contribute P4,656,128 into its employee retirement plan.

(iii) *Reconciliation of defined benefit obligation and fair value of scheme assets*

|  | Defined benefit obligation |            | Fair value of plan assets |             | Net defined liability |           |
|--|----------------------------|------------|---------------------------|-------------|-----------------------|-----------|
|  | 2015                       | 2014       | 2015                      | 2014        | 2015                  | 2014      |
| <b>Balance, 1 January*</b>                     | <b>18,940,677</b>          | 16,625,449 | <b>(9,151,594)</b>        | (9,125,085) | <b>9,789,083</b>      | 7,500,364 |
| Service cost - current                         | 4,228,256                  | 1,400,828  | 0                         | 0           | 4,228,256             | 1,400,828 |
| Interest cost (income)                         | 827,880                    | 914,400    | (400,008)                 | (501,880)   | 427,872               | 412,520   |
| Included in profit or loss                     | 5,056,136                  | 2,315,228  | (400,008)                 | (501,880)   | 4,656,128             | 1,813,348 |
| Re-measurement loss (gain)                     |                            |            |                           |             |                       |           |
| (a) Actuarial loss (gain) from:                |                            |            |                           |             |                       |           |
| - Demographic assumptions                      | 0                          | 0          | 0                         | 0           | 0                     | 0         |
| - Financial assumptions                        | 0                          | 0          | 0                         | 0           | 0                     | 0         |
| - Experience adjustments                       | 0                          | 0          | 0                         | 0           | 0                     | 0         |
| (b) Return on plan assets (excluding interest) | 0                          | 0          | 596,739                   | 454,681     | 596,739               | 454,681   |
| Included in other comprehensive income         | 0                          | 0          | 596,739                   | 454,681     | 596,739               | 454,681   |
| Effects of movements in exchange rates         | 0                          | 0          | 0                         | 0           | 0                     | 0         |
| Employer contributions                         | 0                          | 0          | 0                         | 0           | 0                     | 0         |
| Withdrawals                                    | 0                          | 0          | 0                         | 20,690      | 0                     | 20,690    |
| Benefits paid                                  | 0                          | 0          | 0                         | 0           | 0                     | 0         |
| Other movements                                | 0                          | 0          | 0                         | 20,690      | 0                     | 20,690    |
| <b>Balance, December 31</b>                    | <b>23,996,813</b>          | 18,940,677 | <b>(8,954,863)</b>        | (9,151,594) | <b>15,041,950</b>     | 9,789,083 |

\*Includes P7,185,143 transitional liability arising from the adoption of PAS 19R.

Retirement costs are included in the "General and Administrative expenses" account in the statements of comprehensive income and the Corporation, having opted to avail of the Optional Standard Deduction (OSD) accordingly, did not recognize any deferred tax assets nor liabilities on re-measurement gains and losses and net benefit obligation.

(iv) *Disaggregation of defined benefit plan assets*

|                           | 2015      | 2014  |
|---------------------------|-----------|-------|
| Deposits in bank          |           |       |
| Saving account – own bank | 5,006     | 4,093 |
| Time deposit – own bank   | 2,260,000 | 0     |

|  | 2015             | 2014             |
|--|------------------|------------------|
| Interest receivable (TD) – own bank        | 283              | 0                |
| Due from BSP                               |                  |                  |
| Special deposit account - BSP              | 0                | 4,820,000        |
| Interest receivable – BSP                  | 0                | 3,012            |
| Available for sale (AFS) financial assets  |                  |                  |
| AFS Debt Securities - Government           | 6,880,030        | 4,342,159        |
| Other assets                               |                  |                  |
| Prepaid tax – Investment in Treasury bills | 0                | 140              |
| <b>Total Assets</b>                        | <b>9,145,319</b> | <b>9,169,404</b> |
| Withholding tax payable                    | 12,409           | 6,137            |
| Trust fee payable                          | 11,727           | 11,673           |
| <b>Total Liabilities</b>                   | <b>24,136</b>    | <b>17,810</b>    |
| Principal                                  | 8,613,565        | 8,686,674        |
| Accumulated income                         | 588,546          | 479,650          |
| Net unrealized losses - AFS                | (80,928)         | (14,730)         |
| <b>Total Equity</b>                        | <b>9,121,183</b> | <b>9,151,594</b> |
| <b>Total Liabilities and Equity</b>        | <b>9,145,319</b> | <b>9,169,404</b> |

## 22. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Corporation enters into transactions with its Parent Bank, Land Bank of the Philippines. Under the Corporation's 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 2015 and 2014.

The total amount of transactions which have been entered into with Land Bank of the Philippines for the relevant financial years are as follows:

|                                   | 2015                 | 2014                 |
|-----------------------------------|----------------------|----------------------|
| Cash                              | 35,565,518           | 36,631,071           |
| Accounts receivable               | 136,202,064          | 95,474,901           |
| Net investment in lease contracts |                      |                      |
| receivable                        | 80,836,233           | 191,080,538          |
| Bills payable                     | 1,797,759,295        | 2,320,509,423        |
| Deposit on lease contracts        | 51,724,308           | 51,724,308           |
| Accounts payable                  | 0                    | 10,300               |
| Accrued interest payable          | 4,567,463            | 5,232,112            |
| Miscellaneous liabilities         | 1,584,532            | 1,167,741            |
|                                   | <b>2,108,239,413</b> | <b>2,701,830,394</b> |



The income and expenses in respect of the above enumerated transactions included in the financial statements are as follows:

|                              | <b>2015</b>        | 2014        |
|------------------------------|--------------------|-------------|
| Finance lease income         | <b>149,932,725</b> | 159,603,261 |
| Operating lease income       | <b>45,236,905</b>  | 44,553,018  |
| Interest income on deposits  | <b>149,873</b>     | 197,809     |
| Interest and finance charges | <b>77,714,114</b>  | 70,488,378  |
|                              | <b>273,033,617</b> | 274,842,466 |

(a) *Bills payable and Interest and Financing Charges*

Interest rates on borrowings from the Parent Bank ranges 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 9 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.

The key management personnel compensations are as follows:

|  | <b>2015</b>       | 2014       |
|--|-------------------|------------|
| Salaries and other short-term benefits | <b>9,905,609</b>  | 9,202,711  |
| Post-employment benefits               | <b>3,365,984</b>  | 5,067,310  |
| Directors' remuneration                | <b>3,449,800</b>  | 2,942,400  |
|  | <b>16,721,393</b> | 17,212,421 |

Other transactions with LBP and its subsidiaries include the payment of maintenance costs amounting to P34,355 in relation to the Corporation's investment properties and donation of vehicles with a total net book value of P200,197 as disclosed in Notes 9 and 10 to the financial statements.

### 23. INCOME TAXES

The income tax expense consists of:

|          | 2015               | 2014<br>(As restated) |
|----------|--------------------|-----------------------|
| Current  | <b>51,228,398</b>  | 47,398,297            |
| Deferred | <b>(5,400,000)</b> | 4,852,109             |
|          | <b>45,828,398</b>  | 52,250,406            |

The reconciliation between the income tax expense computed at the statutory income tax rate of 30 per cent, and the provision for income tax expense as shown in the statements of comprehensive income is as follows:

|  | 2015               | 2014        |
|--|--------------------|-------------|
| Net income before income tax   | <b>194,157,707</b> | 184,413,987 |
| Add/Less:  |                    |             |
| General and administrative expenses  | 72,544,924         | 64,966,049  |
| Gross income   | <b>266,702,631</b> | 249,380,036 |
| Less: Optional Standard Deduction (40% of the total of gross income and net amount of non-deductible and non-taxable expenses amounting to P17,899,585 and (P16,316,669) in 2015 and 2014, respectively) | 113,840,887        | 93,225,347  |
| Net income subject to income tax   | <b>152,861,744</b> | 156,154,689 |
| Income tax computed at statutory tax rate of 30 per cent   | <b>45,858,523</b>  | 46,846,407  |
| Tax effect of:   |                    |             |
| Interest income subject to final tax   | <b>(44,962)</b>    | (64,017)    |
| Interest in arbitrage  | <b>14,837</b>      | 21,126      |
| Non-deductible expenses  | <b>0</b>           | 5,446,890   |
| Income tax expense   | <b>45,828,398</b>  | 52,250,406  |

Income tax due, after deducting creditable withholding taxes and quarterly income tax payments, amounts to P13,695,867 and P14,665,715 as of December 31, 2015 and 2014, respectively.

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.

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 P5,692,044 and P4,661,267 in 2015 and 2014, 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 Statements 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 RR No. 16-2008 was presented as a deduction from the gross revenue.

Details of the deferred tax assets and liabilities recognized in the statements of financial position are as follows:

|   | Balance,<br>December<br>31, 2014 | Charged to<br>operations | Charged<br>to OCI | Balance,<br>December 31,<br>2015 |
|---|----------------------------------|--------------------------|-------------------|----------------------------------|
| Deferred tax assets on:                       |                                  |                          |                   |                                  |
| Allowance for credit and impairment<br>losses | 56,017,734                       | 5,400,000                | 0                 | 61,417,734                       |
| Unrealized loss on AFS                        | 1,747,500                        | 0                        | 0                 | 1,747,500                        |
|   | 57,765,234                       | 5,400,000                | 0                 | 63,165,234                       |

#### 24. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (GROSS OF ALLOWANCE FOR PROBABLE LOSSES)

|   | 2015                 |                      |               | 2014                 |                      |               |
|---|----------------------|----------------------|---------------|----------------------|----------------------|---------------|
|   | Due within 1<br>year | Due beyond<br>1 year | Total         | Due within 1<br>year | Due beyond<br>1 year | Total         |
| Financial assets:                               |                      |                      |               |                      |                      |               |
| Cash  | 42,977,083           | 0                    | 42,977,083    | 42,720,257           | 0                    | 42,720,257    |
| Loans and<br>receivables                        | 1,289,850,712        | 2,290,061,617        | 3,579,912,329 | 1,182,377,856        | 2,464,746,411        | 3,647,124,267 |
| Accounts<br>receivable –<br>others              | 904,988              | 0                    | 904,988       | 613,525              | 0                    | 613,525       |
| AFS financial<br>asset                          | 0                    | 5,825,000            | 5,825,000     | 0                    | 5,825,000            | 5,825,000     |
|   | 1,333,732,783        | 2,295,886,617        | 3,629,619,400 | 1,225,711,638        | 2,470,571,411        | 3,696,283,049 |
| Non-financial assets:                           |                      |                      |               |                      |                      |               |
| Investment<br>properties                        | 0                    | 9,784,725            | 9,784,725     | 0                    | 10,012,414           | 10,012,414    |
| Equipment and<br>other<br>property for<br>lease | 0                    | 444,317,578          | 444,317,578   | 0                    | 383,609,313          | 383,609,313   |
| Property and<br>equipment                       | 0                    | 30,285,046           | 30,285,046    | 0                    | 32,310,606           | 32,310,606    |
| Non-current<br>assets held<br>for sale          | 0                    | 8,714,898            | 8,714,898     | 0                    | 8,714,898            | 8,714,898     |
| Other assets                                    | 6,567,296            | 1,367,806            | 7,935,102     | 16,183,498           | 1,842,799            | 18,026,297    |
|   | 6,567,296            | 494,470,053          | 501,037,349   | 16,183,498           | 436,490,030          | 452,673,528   |
| Total assets                                    | 1,340,300,079        | 2,790,356,670        | 4,130,656,749 | 1,241,895,136        | 2,907,061,441        | 4,148,956,577 |

|                                      | 2015                 |                      |                      | 2014                 |                      |                      |
|--------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
|                                      | Due within 1 year    | Due beyond 1 year    | Total                | Due within 1 year    | Due beyond 1 year    | Total                |
| Financial liabilities:               |                      |                      |                      |                      |                      |                      |
| Bills payable                        | 996,800,000          | 1,200,959,295        | 2,197,759,295        | 1,006,400,000        | 1,314,109,423        | 2,320,509,423        |
| Trade and other payables*            | 108,428,716          | 0                    | 108,428,716          | 92,156,688           | 0                    | 92,156,688           |
| Deposits on lease contracts          | 134,552,487          | 99,157,443           | 233,709,930          | 130,443,866          | 107,230,456          | 237,674,322          |
|                                      | <b>1,239,781,203</b> | <b>1,300,116,738</b> | <b>2,539,897,941</b> | <b>1,229,000,554</b> | <b>1,421,339,879</b> | <b>2,650,340,433</b> |
| Other liabilities:                   |                      |                      |                      |                      |                      |                      |
| Income tax and other government dues | 17,648,929           | 0                    | 17,648,929           | 18,792,916           | 0                    | 18,792,916           |
| Retirement liability                 | 0                    | 15,041,950           | 15,041,950           | 0                    | 9,789,083            | 9,789,083            |
|                                      | <b>17,648,929</b>    | <b>15,041,950</b>    | <b>32,690,879</b>    | <b>18,792,916</b>    | <b>9,789,083</b>     | <b>28,581,999</b>    |
| <b>Total liabilities</b>             | <b>1,257,430,132</b> | <b>1,315,158,688</b> | <b>2,572,588,820</b> | <b>1,247,793,470</b> | <b>1,431,128,962</b> | <b>2,678,922,432</b> |

\*Trade and other payables identified as financial liabilities do not include government dues.

## 25. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Corporation has not set-off financial instruments in 2015 and 2014 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 P737,455,464 and P1,921,669,631 as of December 31, 2015 and 2014, respectively, can be offset by the amount of lease deposits amounting to P233,709,930 and P237,674,322 as of December 31, 2015 and 2014, respectively (Note 20). The balance of lease contract receivables net of lease deposit amounted to P503,745,543 and P1,683,995,309 as of December 31, 2015 and 2014, respectively.

## 26. EARNINGS PER SHARE

The financial information pertinent to the derivation of earnings per share follows:

|   | 2015               | 2014        |
|---|--------------------|-------------|
| Net profit for the year                       | <b>148,329,309</b> | 132,163,581 |
| Weighted average number of outstanding shares | <b>48,555,255</b>  | 48,555,255  |
| Basic earnings per share                      | <b>3.05</b>        | 2.72        |

One of the total outstanding shares was reacquired in July 2015 as disclosed in Note 17 to the financial statements.

There were no outstanding dilutive potential common shares as of December 31, 2015 and 2014.

## 27. FINANCIAL PERFORMANCE

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

|                          | 2015   | 2014   |
|--------------------------|--------|--------|
| Return on average assets | 3.73%  | 3.30%  |
| Return on average equity | 10.87% | 10.19% |
| Return on investment     | 24.74% | 22.04% |
| Debt to equity ratio     | 1.83:1 | 2.01:1 |
| Solvency ratio           | 1.54:1 | 1.50:1 |

## 28. 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 LLFC 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; LLFC's Legal Counsel was assured that the Order – granting the Motion, will be released within the month of April. The case stems from the Corporation'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, LBP Leasing and Finance Corporation 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, LLFC was unable to transfer the title of the property to its name during the pendency of the action. After the Court issued an Order dismissing the complaint and lifting the writ of preliminary injunction, LLFC was able to consolidate its title to the property.

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, 2015, Management does not anticipate significant losses from these contingencies and commitments that would adversely affect the Corporation's financial position and results of operations.

## 29. FINANCIAL STATEMENTS PRESENTATION

### a. *Restatement*

The financial statements of LBP Leasing and Finance Corporation have been restated to reflect the adjustments relating to the application of PAS 19, as amended which became effective on January 1, 2014, requiring retrospective application.

The Corporation's December 31, 2014 financial statements have also been restated to reflect the adjustments relating to the following:

- a. Additional depreciation on investment properties resulting from the conversion of the Corporation's financial statements from prudential reporting to PFRS;
- b. Additional depreciation on equipment and other property for lease previously classified as out on finance lease;
- c. Reversal of deferred tax assets recognized on expenses reported under General and Administrative Expenses as the Corporation has availed of the Optional Standard Deduction (OSD);
- d. Recognition of deferred tax asset on unrealized loss on AFS financial assets;
- e. Accrual for donations for 2014 that were paid in 2015; and
- f. Reversal of over accrual for income tax payable.

*Reconciliation of statement of financial position*

|  | December 31, 2014      |                       |             |
|--|------------------------|-----------------------|-------------|
|  | As Previously Reported | Effect of Restatement | As Restated |
| <b>ASSETS</b>                                    |                        |                       |             |
| Investment properties                            | 6,758,382              | (133,253)             | 6,625,129   |
| Equipment and other property for lease           | 383,766,537            | (157,224)             | 383,609,313 |
| Deferred tax asset                               | 59,078,677             | (1,313,443)           | 57,765,234  |
| <b>LIABILITIES</b>                               |                        |                       |             |
| Trade and other payables*                        | 94,283,889             | 2,000,000             | 96,283,889  |
| Income tax payable**                             | 14,845,155             | (179,440)             | 14,665,715  |
| Retirement liability***                          | 1,400,828              | 8,388,255             | 9,789,083   |
| <b>EQUITY</b>                                    |                        |                       |             |
| Retained earnings                                | 743,970,605            | (12,619,413)          | 731,351,192 |
| Unrealized loss on available for sale securities | (5,825,000)            | 1,747,500             | 4,077,050   |
| Re-measurement of retirement benefit obligation  | 589,964                | (940,822)             | (350,858)   |

\* Sum of accrued and other expenses and other liabilities after deducting Income tax payable and Retirement liability.

\*\* Previously lodged in accrued and taxes and other expenses

\*\*\* Previously lodged in miscellaneous liabilities reported under other liabilities

*Reconciliation of statement of comprehensive income*

|   | December 31, 2014      |                       |             |
|---|------------------------|-----------------------|-------------|
|   | As Previously Reported | Effect of Restatement | As Restated |
| <b>Direct Expenses</b>                                |                        |                       |             |
| Depreciation – Equipment and other property for lease | 5,038,052              | 157,224               | 5,195,276   |
| <b>General and Administrative Expenses</b>            |                        |                       |             |
| Retirement expense****                                | 1,824,590              | 9,448                 | 1,834,038   |
| Depreciation and amortization                         | 170,333                | 133,253               | 303,586     |

| December 31, 2014  |                           |                          |             |
|--|---------------------------|--------------------------|-------------|
|  | As Previously<br>Reported | Effect of<br>Restatement | As Restated |
| <b>Income Tax Expense</b>                                |                           |                          |             |
| Deferred income tax - net                                | 3,602,971                 | 1,249,138                | 4,852,109   |
| <b>Other Comprehensive Income</b>                        |                           |                          |             |
| Re-measurement of retirement benefit obligation          | (81,111)                  | 535,792                  | 454,681     |
| <i>****Lodged under compensation and fringe benefits</i> |                           |                          |             |

*b. Reclassification*

The following accounts have been reclassified on the face of the statements of financial position so as to conform to the current year's financial statement presentation:

|   | Accrued<br>taxes and<br>other<br>expenses | Other<br>liabilities | Trade and<br>other<br>payables | Income tax<br>payable | Retirement<br>liability |
|---|---|----------------------|--------------------------------|-----------------------|-------------------------|
| Reclassified from:  |   |                      |                                |                       |                         |
| Accrued taxes and other expenses to Trade and other payables and Income tax payable | (54,573,867)                              |                      | 39,728,712                     | 14,845,155            |                         |
| Other Liabilities to Trade and other payables                                       |   | (54,555,177)         | 54,555,177                     |                       |                         |
| Other Liabilities to Retirement Liability   |   | (1,400,828)          |                                |                       | 1,400,828               |

In addition to the above reclassifications, the sub-classifications within the capital stock and retained earnings accounts have been broken down on the face of the statements of financial position.

### **30. EVENTS AFTER THE FINANCIAL REPORTING DATE**

On March 23, 2016, the Board of Directors of LBP Leasing and Finance Corporation approved the declaration of cash dividends amounting to P80,500,000 or P1.658 per share on the 48,555,254 common stocks held by all stockholders of date of record, December 31, 2015.

### **31. INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE (BIR)**

#### **A. REVENUE REGULATIONS (RR) No. 15-2010**

On November 25, 2010, the BIR issued Revenue Regulations (RR) No. 15-2010 which prescribes additional procedural and/or documentary requirements in connection with the preparation and submission of financial statements accompanying the tax returns. Under the said RR, companies are required to disclose, in addition to the disclosures mandated under PFRS and such other standards and/or conventions that may heretofore be adopted, in the Notes to the Financial Statements, information on taxes, duties and license fees paid or accrued during the taxable year. In compliance with the requirements set forth by RR No. 15-2010, hereunder are the information on taxes,

duties and license fees paid or accrued during the taxable year.

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

In compliance, LLFC 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. LLFC withheld corresponding taxes on payments of compensation of employees, fees to directors and cost or purchase price to contractors and suppliers of goods.

2. The documentary stamp taxes paid/accrued on loans availed and renewed during the year totalled P4,383,067.

3. Other taxes paid during the year are the following:

|                            |            |
|----------------------------|------------|
| a. Local                   |            |
| Real estate taxes          | 288,086    |
| Business tax               | 21,534,299 |
| Licenses                   | 1,348,534  |
| Community tax certificates | 13,000     |
| Others                     | 500        |
|                            | 23,184,419 |
| b. National                |            |
| Fringe benefit tax         | 32,019     |

4. The amount of withholding taxes paid for the year amounted to:

|                            |            |
|----------------------------|------------|
| Compensation and benefits  | 3,667,543  |
| Expanded withholding taxes | 15,823,955 |
|                            | 19,491,498 |

5. The Corporation has no pending tax court cases nor tax assessment notices from the BIR.

## **B. REVENUE REGULATIONS (RR) Nos. 19-2011 and 2-2014**

RR No. 2-2014 prescribes the new income tax forms to be used for income tax filing and starting with calendar year 2013. Pursuant to Section 244, in relation to Sections 6(H), 51(A)(1) and 51(A)(2) of the National Internal Revenue Code of 1997 (Tax Code), as amended, these Regulations are issued to prescribe the use of revised income tax forms with bar codes, and to reflect the changes in information required from said forms. This will also enable the said forms to be read by an optical character reader for ease in scanning.



In the case of corporations using BIR Form 1702, the taxpayer is now required to include as part of its notes to the audited financial statements, which will be attached to the income tax return (ITR), the schedules and information on taxable income and deductions to be taken.

1. Sales/Receipts/Fees

|                     | Regular Rate            |                |
|---------------------|-------------------------|----------------|
|                     | Creditable Tax Withheld | Taxable Amount |
| Sale of Services    | 9,863,500               | 483,200,670    |
| Lease of Properties | 3,933,644               | 45,236,905     |
|                     | 13,797,144              | 528,437,575    |

2. Cost of Sales/Services

|   | Amount under Special Rate | Amount under Regular Rate |
|---|---------------------------|---------------------------|
| Direct Charges - Salaries, Wages and Benefits | 0                         | 11,753,160                |
| Direct Charges – Depreciation                 | 0                         | 7,630,917                 |
| Direct Charges - Outside Services             | 0                         | 131,687,061               |
| Direct Charges – Others                       | 0                         | 100,541,931               |
|   | 0                         | 251,613,069               |

3. Non-Operating and Taxable Other Income

| Nature of Income           | Special Rate            |                | Regular Rate            |                |
|----------------------------|-------------------------|----------------|-------------------------|----------------|
|                            | Creditable Tax Withheld | Taxable Amount | Creditable Tax Withheld | Taxable Amount |
| Gain on Sale               | 0                       | 0              | 0                       | 1,589,491      |
| Miscellaneous income - net | 0                       | 0              | 0                       | 6,188,219      |
|                            | 0                       | 0              | 0                       | 7,777,710      |

4. Optional Standard Deduction (OSD)

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 RR No. 16-2008 was presented as a deduction from the gross revenue.

5. Taxes and licenses

The documentary stamp taxes paid/accrued on loans availed and renewed during the year totalled P4,383,067.

Other taxes paid during the year are the following:

|                            |            |
|----------------------------|------------|
| <hr/>                      |            |
| a. <u>Local</u>            |            |
| Realty taxes               | 288,086    |
| Business tax               | 21,534,299 |
| Licenses                   | 1,348,534  |
| Community tax certificates | 13,000     |
| Others                     | 500        |
|                            | <hr/>      |
|                            | 23,184,419 |
| b. <u>National</u>         |            |
| Fringe benefits tax        | 32,019     |
|                            | <hr/>      |
|                            | 23,216,438 |
|                            | <hr/>      |