



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Diliman, Quezon City

CORPORATE GOVERNMENT SECTOR
CLUSTER A – FINANCIAL

INDEPENDENT AUDITOR'S REPORT

The Board of Directors

LBP Leasing Corporation
15th Floor, SSHG Law Center
105 Paseo de Roxas St.,
Legaspi Village, Makati City

Report on the Financial Statements

We have audited the accompanying financial statements of **LBP Leasing Corporation** (a wholly-owned subsidiary of Land Bank of the Philippines), which comprise the balance sheet as at December 31, 2011 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International 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.

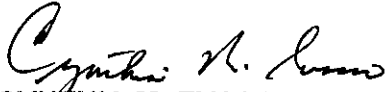
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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 opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **LBP Leasing Corporation** as at December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

COMMISSION ON AUDIT



CYNTHIA M. EVASCO
Supervising Auditor

March 13, 2012

LBP LEASING CORPORATION
(A wholly-owned subsidiary of Land Bank of the Philippines)
BALANCE SHEET
December 31, 2011
(In thousand pesos)

	Note	2011	2010
ASSETS			
Current assets			
Cash and cash equivalents	6	19,973	67,395
Loans and receivables, net	8	862,714	566,549
Other assets	13	7,910	8,877
		890,597	642,821
Non-current assets			
Loans and receivables	8	1,957,004	1,962,821
Investment property	9	13,567	17,158
Equipment and other property for lease	10	8,137	16,097
Property and equipment	11	35,210	37,174
Non-current assets held for sale	12	2,714	6,169
Other assets	13	51,471	34,004
		2,068,103	2,073,423
TOTAL ASSETS		2,958,700	2,716,244
LIABILITIES AND STOCKHOLDER'S EQUITY			
LIABILITIES			
Current liabilities			
Bills payable	15	1,437,567	1,110,300
Deposit on lease contracts	16	61,097	36,612
Accrued taxes and other expenses	17	50,376	55,957
Other liabilities	18	39,700	49,974
		1,588,740	1,252,843
Non-current liabilities			
Bills payable	15	139,206	308,650
Deposit on lease contracts	16	100,659	96,908
		239,865	405,558
TOTAL LIABILITIES		1,828,605	1,658,401
Stockholder's equity			
Capital stock	21.1	599,523	599,523
Retained earnings	21.3	536,397	464,145
Accumulated other comprehensive losses	7, 21.4	(5,825)	(5,825)
		1,130,095	1,057,843
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY		2,958,700	2,716,244

The Notes on pages 7 to 60 form part of these financial statements.

LBP LEASING CORPORATION
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2011
(In thousand pesos)

	Note	2011	2010
INTEREST INCOME			
Leases	8	322,375	261,296
Loans	8	120,999	109,360
Deposits in banks	8	76	163
Others	8	76	255
		443,526	371,074
INTEREST EXPENSE			
Borrowed funds	15	79,310	83,342
NET INTEREST INCOME		364,216	287,732
OTHER INCOME			
Operating leases	22	49,799	50,905
Other income	23	4,912	17,169
		54,711	68,074
DIRECT EXPENSES			
Security, messengerial, janitorial and contractual services	22	111,864	103,663
Compensation and fringe benefits - marketing operations	24.1	9,347	10,057
Depreciation-equipment and other property for lease	9	6,873	6,632
Repairs and maintenance		6,725	5,774
Documentary stamp used		6,471	7,239
Insurance		6,038	5,779
Transfer mortgage and registration fees		1,051	582
		148,369	139,726
		270,558	216,080
GENERAL AND ADMINISTRATIVE EXPENSES			
Provision for impairment losses	14	61,408	28,020
Taxes and licenses	25	20,686	19,717
Compensation and fringe benefits	24.1	15,015	14,365
Depreciation / amortization	9	2,187	2,429
Litigation / assets acquired expenses		297	425
Insurance		335	287
Other expenses	26	12,475	10,278
		112,403	75,521
NET INCOME BEFORE INCOME TAX		158,155	140,559
Provision for income tax	27	31,521	32,173
NET INCOME		126,634	108,386

The Notes on pages 7 to 60 form part of these financial statements.

LBP LEASING CORPORATION
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2011
(In thousand pesos)

	Note	Issued Capital	Additional Paid-In Capital	Retained Earnings	Accum. Other Comprehen- sive Losses	Total Equity
Balance, 1 January 2010		463,482	90,759	401,041	(5,825)	949,457
Declaration of stock dividend	21.2	22,070	23,212	(45,282)	-	-
Comprehensive income for the year		-	-	108,386	-	108,386
Balance, 31 December 2010		485,552	113,971	464,145	(5,825)	1,057,843
Declaration of cash dividend	21.2	-	-	(54,382)	-	(54,382)
Comprehensive income for the year		-	-	126,634	-	126,634
Balance, 31 December 2011		485,552	113,971	536,397	(5,825)	1,130,095

The Notes on pages 7 to 60 form part of these financial statements.

LBP LEASING CORPORATION
(A wholly-owned subsidiary of Land Bank of the Philippines)
CASH FLOW STATEMENT
For the year ended December 31, 2011
(In thousand pesos)

	Note	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		493,493	433,843
Other income received		4,844	16,398
Service charges and fees received		138	1
Net cash paid to clients		(324,163)	(415,006)
Cash paid to settle expenses		(226,556)	(205,144)
Interest paid		(79,958)	(83,461)
Income taxes paid		(18,460)	(6,748)
Net cash used in operating activities		(150,662)	(260,117)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net acquisitions of property and equipment		(130)	(1,556)
Net loss from sale of property and equipment		(71)	(1)
Net cash used in investing activities		(201)	(1,557)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings under line of credit agreement		1,583,396	1,944,000
Payment of long term debt		(1,425,573)	(1,638,033)
Cash dividends paid	21.2	(54,382)	-
Net cash provided by financing activities		103,441	305,967
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(47,422)	44,293
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		67,395	23,102
CASH AND CASH EQUIVALENTS AT END OF YEAR	6	19,973	67,395

The Notes on pages 7 to 60 form part of these financial statements.

LBP LEASING CORPORATION
(A wholly-owned subsidiary of Land Bank of the Philippines)
NOTES TO FINANCIAL STATEMENTS
(All amounts in thousands of pesos)

1. CORPORATE INFORMATION

1.1 Incorporation and Operations

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

- (a) To engage in direct leasing or financial leasing and to arrange or underwrite and administer leases of all kinds of equipment, machines, vehicles, facilities, appliances and all types of personal and real property;
- (b) To engage in the business of financing merchandise particularly but not limited to appliance, automobile, and truck retail sales, agricultural machinery and equipment and to engage in the business of commercial, agricultural and industrial financing, factoring and/or leasing, in all other various forms, within and without the Republic of the Philippines;
- (c) To extend credit facilities for and otherwise assist in the establishment, operation, development, expansion and/or reorganization of industrial, commercial, agricultural and other productive or profitable enterprises; and
- (d) To make loans with or without such security, as the Board of Directors may think fit within the limits allowed by law.

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

1.2 Approval of Financial Statements

The financial statements of LBP Leasing Corporation (LBP Lease/ LLC) for the year ended December 31, 2011 were authorized for issue in accordance with a resolution of the Board of Directors on April 3, 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

- (a) *Statement of Compliance with Philippine Financial Reporting Standards*

The financial statements of the Corporation have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations Committee (PIC)/Standard Interpretations Committee (SIC)/International Financial Reporting Interpretations Committee (IFRIC) interpretations which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

(b) Basis of Measurement

The financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) investments (Note 2.3 b(ii)) and investment property (Note 2.8).

(c) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1 (Revised 2007), *Presentation of Financial Statements*. The Corporation presents all items of income and expenses in a single statement of comprehensive income; and its statement of financial position broadly in order of liquidity. Analysis regarding recoveries (asset) or settlement (liability) within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 19.

(d) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, and all values are rounded to the nearest thousand (P'000) except otherwise indicated.

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

2.2 Adoption of New Interpretations, Revisions and Amendments to PFRS

(a) Effective in 2011 that are relevant to the Corporation

- (i) PAS 24 (Revised), *Related Party Disclosures* (effective from January 1, 2011). The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The adoption has no significant impact on the Corporation's financial statements.
- (ii) Philippine Interpretation IFRIC 14, PAS 19 – The Limit on a defined Benefit Asset, Minimum Funding Requirements and their interaction (Amendment) (effective from January 1, 2011). The amendment corrects an unintended consequence of Philippine Interpretation IFRIC 14. Without the amendments, entities are not permitted to

recognize as an asset some voluntary prepayments for minimum funding contributions. This was not intended when Philippine Interpretation IFRIC 14 was issued, and the amendment corrects this. The amendment should be applied retrospectively to the earliest comparative period presented. The adoption has no significant impact on the Corporation's financial statements.

(iii) **Improvements in PFRS**

The omnibus amendments to PFRS were issued primarily with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes in accounting policies but did not have any significant impact on the financial position or performance of the Corporation.

- **PFRS 7, *Financial Instruments: Disclosures*.** The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the International Accounting Standards Board (IASB) amended and removed existing disclosure requirements. The amendments are effective for annual periods beginning on or after January 1, 2011.
- **PAS 1, *Presentation of Financial Statements*.** The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income is also required to be presented, but may be presented either in the statement of changes in equity or in the notes. The amendments are effective for annual periods beginning on or after January 1, 2011.

(b) ***Effective in 2011 that are not relevant to the Corporation***

- (i) PAS 32 (Amendment), *Financial Instruments: Presentation – Classification of Rights Issues* (effective from February 1, 2010).
- (ii) Philippine Interpretation IFRIC19, *Extinguishing Financial Liabilities with Equity Instruments* (effective July 1, 2010)
- (iii) *Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters (Amendment to PFRS 1)* (effective July 1, 2010)

(c) ***New Standards and Interpretations Not Yet Adopted***

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2011, and have not been applied in preparing these financial statements. None of these are expected to have significant effect on the financial statements except for PFRS 9 Financial Instruments, which becomes mandatory in 2013 financial statements and could change the classification and measurement

of financial assets. The Corporation does not plan to adopt this standard early and the extent of the impact has not been determined.

The Corporation will adopt the following new or revised standards, amendments to standards and interpretations in the respective effective dates:

To be Adopted on January 1, 2012

- (i) *Disclosures - Transfers of Financial Assets (Amendments to PFRS 7)*, require additional disclosures about transfers of financial assets. The amendments require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets. Entities are required to apply the amendments for annual periods beginning on or after July 1, 2011. Earlier application is permitted. Entities are not required to provide the disclosures for any period that begins prior to July 1, 2011.
- (ii) *Deferred Tax: Recovery of Underlying Assets (Amendments to PAS 12)* introduces an exception to the current measurement principles of deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with *PAS 40, Investment Property*. The exception also applies to investment properties acquired in a business combination accounted for in accordance with *PFRS 3, Business Combinations* provided the acquirer subsequently measure these assets applying the fair value model. The amendments integrated the guidance of *Philippine Interpretation SIC-21, Income Taxes - Recovery of Revalued Non-Depreciable Assets into PAS, 12 Income Taxes*, and as a result *Philippine Interpretation SIC-21* has been withdrawn. The effective date of the amendments is for periods beginning on or after January 1, 2012 and is applied retrospectively. Early application is permitted.

To be Adopted on January 1, 2013

- (iii) *PFRS 13, Fair Value Measurement*

PFRS 13 replaces the fair value measurement guidance contained in individual PFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other PFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does

it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

(iv) *PAS 19, Employee Benefits (amended 2011)*

The amended PAS 19 includes the following requirements:

- actuarial gains and losses are recognized immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which is currently allowed under PAS 19; and
- expected return on plan assets recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation.

(v) *PFRS 9, Financial Instruments*

Standard issued in November 2009 [PFRS 9 (2009)]

PFRS 9 (2009) is the first standard issued as part of a wider project to replace PAS 39. PFRS 9 (2009) retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in PAS 39 on impairment of financial assets and hedge accounting continues to apply.

2.3 Financial Assets

(a) Initial recognition and measurement

Financial assets are classified into the following categories: financial assets at fair value through profit or loss (FVPL), loans and receivables, held-to-maturity (HTM) investments and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired and, where allowed and appropriate, such designation is re-evaluated at every statement of financial position date.

All financial assets are initially recognized at fair value plus transaction costs, except for financial instruments at FVPL.

Regular purchases and sales of financial assets are recognized on their trade date.

The Corporation's financial assets include cash and cash equivalents, loans and other receivables and available-for-sale investments. As of December 31, 2011 and 2010, the Corporation had no financial assets at FVPL and HTM investment.

(b) Subsequent measurement

The subsequent measurement of financial assets relevant to the Corporation depends on their classification as described below:

(i) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Corporation provides money, goods or services directly to the debtor with no intention of trading the receivables.

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

The Corporation's financial assets categorized as loans and receivables are presented as "Loans and Receivables" in the balance sheet. Loans and receivables also include the aggregate rental of finance lease transactions. Unearned income of finance lease transactions is shown as deduction from "Financial Lease Receivables".

(ii) Available-for-sale Financial Assets

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

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

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as "Other Income" in the statement of income. Where the Corporation holds more than one investment in the same security, these are deemed to be disposed of on a first-in first-out basis. Interest earned on holding AFS debt investments are reported as "Interest Income" using EIR in the statement of income.

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

Losses arising from impairment of such investments are recognized as "Provision for Credit and Impairment Losses" in the statement of income.

Available-for-sale Financial Assets are presented as a separate line item in the balance sheet.

(c) Derecognition of 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 (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred the control of the asset.

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

2.4 Loans and Receivables

(a) Financial Lease Receivables

When assets are held subject to finance leases, the present value of the lease payments is recognized as finance lease receivable. Finance lease receivables are presented at the outstanding balance less allowance for probable losses. Finance lease receivables are classified as non-accruing when principal amortizations are overdue for more than three months, or when, in the opinion of management, collection is doubtful.

(b) Loans and Receivables Financed

Loans and receivables financed are presented at the outstanding balance less allowance for probable losses. Loans and receivables financed are classified as non-accruing when principal amortizations are overdue for more than three months, or when, in the opinion of management, collection is doubtful.

(c) Allowance for Probable Losses

Allowance for probable losses are maintained at a level considered adequate to cover potential losses on finance lease receivables, loans and receivables financed, and other risk assets. The level of allowance is estimated based on Management's evaluation of potential losses, any evaluation made by the BSP, historical receivable loss experience, current economic conditions, subsequent and probable collections, and other risk factors applied on the review of the current status of the existing receivables.

The allowance for probable losses is established by provisions charged against current operations and reduced by charge-offs and reversals. Receivables are written off against the allowance when management believes that the collectibility of the principal is unlikely.

2.5 Leases

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

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

- There is a substantial change to the asset.

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

Company as lessor

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 and Discounts in the statement of comprehensive income.

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

2.6 Residual Value of Leased Assets

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 lease deposit of the lessee when the lessee decides to buy the leased asset.

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

Property and equipment and EOPL are carried at acquisition cost less accumulated depreciation and amortization and any impairment in value.

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

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

performance, the expenditures are capitalized as an additional cost of property and equipment and EOPL.

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

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

Property and Equipment	Estimated Useful Life
Buildings	10-20 years
Transportation Equipment (motor vehicle)	7 years
Office, Equipment, Furniture and Fixtures	5-10 years
Other Property and Equipment	5 years

Per the same COA Circular, the residual value of property and equipment is fixed at ten per cent (10%) 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 income.

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

2.8 Investment Properties

Investment properties are initially measured at fair value including transaction costs. This also includes properties acquired by the Corporation from defaulting borrowers not held for sale in the next twelve months. For these assets, the cost is recognized initially at the fair market value. Investment properties except land are depreciated on a straight-line basis over a period of 10 years.

Subsequent to initial recognition, investment property is stated at cost less accumulated depreciation and any impairment in value.

The Corporation adopted the cost model in measuring its investment properties, hence, these are carried at cost less accumulated depreciation and any impairment in value. Depreciation and impairment loss are recognized in the same manner as in Property and Equipment.

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss in the year of retirement or disposal.

2.9 Non-Current Assets Held for Sale

Non-current assets held for sale are carried at the lower of its carrying amount and fair value less costs to sell. At balance sheet date, 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.

2.10 Impairment of Financial Assets

The Corporation assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Corporation about certain loss events, including, among others: significant financial difficulty of the issuer or debtor; a breach of contract, such as a default or delinquency in interest or principal payments; it is probable that the borrower will enter bankruptcy or other financial reorganization; the disappearance of an active market for that financial asset because of financial difficulties; or, observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

(a) Loans and Other Receivables

For loans and other receivables carried at amortized cost, The Corporation first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant. If the Corporation determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Corporation includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. These characteristics are relevant to the estimation of future cash flows for groups of such 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 of impairment.

If there is objective evidence that an impairment loss on loans and other receivables carried at amortized cost has been incurred, 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 (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of income. Interest income continues to be accrued based on the original EIR of the asset. Loans and receivables, 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 subsequently, the amount of the estimated credit losses decreases because of an event occurring after the impairment was recognized, the previously recognized credit loss is reduced by adjusting the allowance account. If future write-off is later recovered, any amounts formerly charged are credited to the "Provision for Losses" account in the statement of income.

The present value of the estimated future cash flows is discounted at the financial assets' original EIR. If a loan has a variable interest rate, the discount rate for measuring any credit 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.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and 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 observable data to reflect the effects 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 flows for groups of assets should reflect and be consistent with changes in related observable data from period to period. The methodologies 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.

(b) Available-for-Sale 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 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.

2.11 Impairment of Non-financial Assets

The Corporation's property and equipment, EOPL, investment properties and other assets are subject to impairment testing.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. Impairment loss is charged pro-rata to the other assets in the cash generating unit.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

2.12 Financial Liabilities

(a) *Initial recognition and subsequent measurement*

The Corporation classifies its financial liabilities in the following categories: (a) at fair value through profit or loss (including financial liabilities held for trading and those that are designated at fair value); (b) other financial liabilities at amortized cost. The Management determines the classification of its financial liabilities at initial recognition.

All financial liabilities are measured initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs and subsequently measured at amortized cost using the EIR method.

Financial liabilities of the Corporation include mainly bills payable, accounts payable, dividends payable, lease deposits and other liabilities.

(b) *Derecognition of financial liabilities*

Financial liabilities are derecognized from the balance sheet only when the obligations are extinguished either through discharge, cancellation or expiration. Where an existing financial liability is replaced by another from the same lender of 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 statement of income.

2.13 Provisions

Provisions are recognized when present obligations (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount of obligation. Provision are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in provision due to the passage of time is recognized as an interest expense.

2.14 Contingent Assets and Contingent Liabilities

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

2.15 Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

2.16 Fair Value of Financial Instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deductions for transaction costs. When current bid price 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 financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions
- Reference to the current fair value of another instruments that is substantially the same
- A discounted cash flow analysis or other valuation models

2.17 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.

Treasury shares are stated at the cost of reacquiring such shares.

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

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

2.18 Revenue and Expense Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured. The following specific recognition criteria of income and expenses must also be met before revenue is recognized.

(a) *Income on direct financing leases, loans and receivables financed*

Interest and finance fees on finance lease and loans and receivables financed and the excess of the aggregate lease rentals plus the estimated residual value of the leased equipment over its cost are credited to unearned finance income and amortized over the term of the note or lease using the EIR method. Unearned income ceases to be amortized when receivables become past due.

(b) Income from operating lease

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

(c) Interest and discounts

Interest income are recognized in profit or loss for all instruments measured at amortized cost using the EIR method. When calculating the effective interest rate, the Corporation estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(d) Service fees

Fees related to the administration and servicing a loan are recognized as revenue as the services are rendered. Service fees are recognized when earned or accrued when there is a reasonable degree to its collectibility.

(e) Other income

Other income is recognized when earned.

(f) Expenses

Expenses are recognized in the year they are incurred.

2.19 Employee Benefits

(a) Retirement Benefit Obligations

The Corporation plans to adopt an unfunded, noncontributory defined benefit retirement plan covering substantially all its employees. For the year 2011 and 2010 the accrued retirement benefit of the Corporation amounted to P6.93 million and P5.63 million, respectively (see Note 24). Computation of the accrued retirement obligation was based on the approved retirement benefit plan for LBP Subsidiaries.

(b) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of each reporting period. They

are included in Accrued Other Expenses Payable account at the undiscounted amount that the Corporation expects to pay as a result of the unused entitlement.

2.20 Income Taxes

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

(a) Current Tax

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

(b) Deferred Tax

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

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

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

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

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

2.21 Earnings Per Share (EPS)

Basic earnings per common share is determined by dividing net income by the weighted average number of common shares subscribed and issued during the year, adjusted retroactively for any stock dividend, stock split or reverse stock split

declared during the current period. The Corporation does not have dilutive common shares.

2.22 Related Party Transactions

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

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

3.1 Judgements

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

(a) Finance leases

The Corporation entered into finance leases. The Corporation has determined that it has transferred all the significant risks and rewards of ownership of the properties which are leased out on finance lease arrangements. Interest earned on finance lease arrangements amounted to P322.375 million and P261.296 million in 2011 and 2010, respectively (see Note 8).

(b) Operating leases

The Corporation entered into operating leases. The Corporation has determined that it retains all the significant risks and rewards of ownership over the properties which are leased out on operating lease arrangements. The Corporation's rent income on operating lease arrangements amounted to P49.799 million and P50.905 million in 2011 and 2010, respectively (see Note 22).

(c) Fair Value of Financial Assets and Liabilities

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Corporation used judgments in assessing the significance of a particular input to the fair value measurements in its entirety, considering factors specific to the asset or liability.

In accordance with the amendments to PFRS 7, disclosures about the level of fair value hierarchy are required in which the fair value measurements are categorized for assets and liabilities measured in the statement of financial position. The Corporation used judgment in assessing the significance of a particular input to the fair value measurements in its entirety, considering factors specific to the asset or liability.

(d) Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provisions are discussed in Note 2.13 and in Note 2.14 for contingencies. Relevant disclosures of contingencies are presented in Note 30.

3.2 Estimates

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

(a) Credit Losses on Loans and Other 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.

As of December 31, 2011 and 2010, allowance for credit losses on Loans and Receivables amounted to P164.141 million in 2011 and P107.103 million in 2010 in the Corporation (see Note 8).

(b) Impairment losses on AFS Investments

The Corporation determines that AFS investments are impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. In addition, the Corporation

evaluates when there is evidence of deterioration in the financial health of the investee, industry and sector performance and operational and financing cash flows.

As December 31, 2011 and 2010, 100 per cent allowance on impairment losses of AFS investments has been recognized against its carrying value of P5.82 million (see Note 7).

(c) Impairment of EOPL, Property and Equipment, Investments Property and Non-Current Assets Held for Sale

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

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

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

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

	2011	2010
Investment property (Note 9)	13,567	17,158
EOPL (Note 10)	8,137	16,097
Property and equipment (Note 11)	35,210	37,174
Non-current assets held for sale (Note 12)	2,714	6,169

Allowance for impairment losses on Investment Property amounted to P2.392 million and P1.231 million as of December 31, 2011 and 2010, respectively, while Allowance for impairment losses on Non-Current Assets Held for Sale amounted to P3.294 million and P0.185 million in 2011 and 2010, respectively. There are no impairment losses on EOPL and Property and Equipment for years 2011 and 2010.

(d) Recognition of Deferred Tax Assets

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

Deferred tax assets recognized amounted to P50.379 million and P32.910 million (see Note 27) as of December 31, 2011 and 2010, respectively.

4. FINANCIAL RISK AND CAPITAL MANAGEMENT

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

- Credit Risk
- Interest Rate Risk
- Liquidity Risk

Risk Management Framework

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

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

The Audit Committee oversees how management monitors and ensures compliance with the risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks face by the Corporation.

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 sector as its Parent Bank's industry sector which it believes poses 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 a wide variety of businesses, the results of operation and financial condition of the Corporation may be diversely affected by any downturn in these sectors as well as the Philippine economy in general.

The Corporation assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. In the Corporation's rating scale, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are reviewed and upgraded as necessary. The Corporation regularly validates the performance of the rating and their predictive power with regard to default events. Clients of the Corporation are segmented into the following standard of the Bangko Sentral ng Pilipinas (BSP) classifications.

- **Unclassified** – these are loans and receivables that do not have a greater-than-normal risk and do not possess the characteristics of loans classified below. The counterparty has the ability to satisfy the obligation in full and therefore no loss in ultimate classification is anticipated.
- **Loans especially mentioned** – these are loans and receivables that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase the credit risk of the Corporation.
- **Substandard** – these are loans and receivables which appear to involve a substantial and unreasonable degree of risk to the Corporation because of unfavourable record or unsatisfactory characteristics. Further, these are loans with well-defined weaknesses which may include adverse trends or development of financial, managerial, economic or political nature, or a significant deterioration in collateral.
- **Doubtful** – these are loans and receivables which have the weaknesses similar with those of the Substandard classification with added characteristics that existing facts, conditions, and values make

collection or liquidation in full highly improbable and which substantial loss is probable.

- Loss – these are loans and receivables which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value.

(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 Company 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:

	2011	2010
Secured		
Property under finance lease	1,593,894	1,532,760
Real estate mortgage	293,463	123,525
Chattel mortgage	733,634	669,940
	2,620,991	2,326,225
Unsecured	332,147	279,340
	2,953,138	2,605,565

The credit quality of financial assets, net of unearned lease income, interest and discount but gross of allowance for credit losses, is managed by the Corporation through internal credit evaluation. The table below show the credit quality by class of asset for loan-related statement of financial position lines.

	2011	2010
Neither past due nor impaired	2,655,008	2,130,251
Past due but not impaired	-	36
Not past due but impaired	37,708	45,954
Past due and impaired	260,422	429,324
	2,953,138	2,605,565

(c) Impairment and Provisioning Policies

As described in Note 4.1(a), the Corporation's credit-quality mapping on loans and receivables is based on the standard BSP classification. For financial reporting purposes, however, impairment provisions are recognized for losses that have been incurred at the reporting date based on objective evidence of impairment (see Note 2.10(a)).

The table shows the percentage of the Corporation's loans and receivables and the related allowance for impairment:

	2011		2010	
	Loans and Receivables (%)	Impairment Provision (%)	Loans and Receivables (%)	Impairment Provision (%)
Unclassified	89.90	-	82.62	-
Loans especially mentioned	2.85	3.18	12.49	15.38
Substandard	2.00	17.67	1.09	2.67
Doubtful	2.40	30.10	0.99	12.23
Loss	2.85	49.05	2.81	69.72
	100.00	100.00	100.00	100.00

(d) Maximum exposure to credit risk before collateral held or other credit enhancements

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

	2011	2010
Cash and cash equivalent	19,973	67,395
Available for sale financial assets	5,825	5,825
Loans and other receivables	2,983,859	2,636,473
Other asset - accounts receivables	462	444

The above table represents the maximum credit risk exposure to the Corporation at December 31, 2011 and 2010, 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 balance sheet.

The credit quality of the financial assets was determined as follows:

Finance Assets	Basis of Credit Quality (In Thousands of Pesos)
Cash and cash equivalent and Other assets	Nature of the counterparty and the Corporation's internal rating
Loans and other receivables	BSP classification described in

The Corporation does not have significant exposure to any individual customer or counterparty 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, 2011	Cash and Cash Equivalents	Available for Sale Securities	Loans and Receivables	Other Assets (Accounts Re'cble)
Agriculture, fishing and forestry			48,395	
Wholesale and retail trade			487,409	
Manufacturing			112,059	
Public utilities			319,653	
Sevices			345,700	
Banks & other fin'l. institutions	19,973	5,825	374,660	
Real estate			179,845	
Public sector			1,027,340	
Others			88,797	462
Allowance		(5,825)	(164,140)	
	19,973	-	2,819,718	462

As at December 31, 2010	Cash and Cash Equivalents	Available for Sale Securities	Loans and Receivables	Other Asset (Accounts Re'cble)
Agriculture, fishing and forestry			51,512	
Wholesale and retail trade			244,195	
Manufacturing			21,008	
Public utilities			348,258	
Sevices			340,410	
Banks & other fin'l. institutions	67,395	5,825	394,704	
Real estate			52,829	
Public sector			1,076,829	
Others			106,728	444
Allowance		(5,825)	(107,103)	
	67,395	-	2,529,370	444

4.2 Interest Rate Risk

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

4.3 Liquidity Risk

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

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

Analysis of financial liabilities by remaining contractual maturities

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

As at December 31, 2011	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
Liabilities				
Bills payable	1,437,567	38,889	100,317	1,576,773
Deposit on lease contracts	61,097	55,665	44,994	161,756
Accrued other expenses	34,547	-	-	34,547
Other liabilities*	37,853	-	-	37,853
	1,571,064	94,554	145,311	1,810,929
As at December 31, 2010	Up to 1 year	Over 1 up to 3 years	Over 3years	Total
Liabilities				
Bills payable	1,110,300	142,100	166,550	1,418,950
Deposit on lease contracts	36,612	96,782	126	133,520
Accrued other expenses	41,686	-	-	41,686
Other liabilities*	47,862	-	-	47,862
	1,236,460	238,882	166,676	1,642,018

*Other liabilities identified as financial liabilities do not include accrued taxes and licences and withholding taxes payable.

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

4.4 Capital Management

The objective of the Corporation's capital management is to maintain healthy capital ratios like debt-equity, return on equity and return on asset, in order to support its business and protect shareholder value. The Corporation manages its capital structure and makes adjustment to it in light of changes in economic conditions.

The Corporation has complied with the capital requirements under RA No. 8556, the *Financing Company Act*, which states that financing companies shall have a paid-up capital of not less than P10 million. The Corporation has no branches requiring additional capital requirement.

The Corporation is 100 per cent owned by its Parent Bank, a domestic bank. As at December 31, 2011 and 2010, the level of capital of the Corporation more than meets the minimum required capital.

The Corporation's capital to overall financing as of December 31, 2011 and 2010 are computed as shown below:

	2011	2010
Total equity	1,130,095	1,057,843
Cash and cash equivalent	(19,973)	(67,395)
Net Capital	1,110,122	990,448
Bills payable	1,576,773	1,418,950
Deposit on lease contracts	161,756	133,520
Total equity	1,130,095	1,057,843
Overall Financing	2,868,624	2,610,313
Capital-to-overall financing ratio	1 : 2.58	1 : 2.63

5. Fair Value Measurement

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

	2011		2010	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	19,973	19,973	67,395	67,395
Available for sale financial asset	5,825	-	5,825	-
Loans and other receivables	2,983,860	2,819,718	2,636,474	2,529,370
Bills payable	1,576,773	1,576,773	1,418,950	1,418,950
Accrued taxes and other expenses	50,376	50,376	55,957	55,957
Other liabilities	39,700	39,700	49,974	49,974
Deposit on lease contracts	161,756	161,756	133,520	133,520

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

(a) *Cash and cash equivalents*

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

(b) *Available-for-sale financial assets*

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

(c) *Loans and 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.

(d) *Bills payable*

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

(e) *Accrued taxes and other expenses*

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

(f) *Other liabilities*

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

(g) Deposits on Lease Contracts

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

Fair Value Hierarchy

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

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

6. CASH AND CASH EQUIVALENTS

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

This account consists of:

	2011	2010
Checks and other cash items	-	43,654
Deposits in bank	19,953	23,721
Petty cash fund	20	20
	19,973	67,395

Cash in bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of LBP Lease, and earn interest at the respective short-term deposit rates.

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account consists of:

	2011	2010
Available for sale securities shares-listed	5,825	5,825
Accumulated market losses	(5,825)	(5,825)
	-	-

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

In 2001, LBP Lease 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 was booked as Available-for-sale securities.

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

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

As of December 31, 2011 trading on the shares of EIB remains suspended and the purchase by another bank has not been finalized.

8. LOANS AND RECEIVABLES

Current portion consists of :

	2011	2010
Financial lease receivables	140,064	89,236
Financial lease receivables - LBP	124,759	118,495
Loans and receivables financed	568,544	329,186
	833,367	536,917
Accounts receivables	24,187	27,974
Allowance for probable losses	(1,321)	(1,224)
	22,866	26,750
Accrued interest receivables	5,498	2,665
Allowance for probable losses	(53)	(53)
	5,445	2,612
Sales contract receivables	1,036	270
	862,714	566,549

Non-current portion consists of :

	2011	2010
Financial lease receivables	1,315,928	1,265,122
Allowance for probable losses	(6,438)	(5,302)
	1,309,490	1,259,820
Financial lease receivables - LBP	8,470	56,116
Loans and receivables financed	795,373	747,409
Allowance for probable losses	(156,329)	(100,524)
	639,044	646,885
	1,957,004	1,962,821

As of December 31, 2011 and 2010, 28 per cent of the Corporations' Finance Lease and Loans Receivables are subject to interest repricing. The remaining loans earn annual fixed interest rates ranging from 9 per cent to 19 per cent in 2011 and 2010.

Finance Lease Receivables

An analysis of the LBP Lease's finance lease receivables as at December 31, 2011 and 2010 is presented as follows:

	2011	2010
Finance Lease Receivables:		
Within 1 year	319,999	249,816
Beyond 1 year but not beyond 5 years	164,685	51,972
Beyond 5 years	2,159,609	2,421,586
	2,644,293	2,723,374
Residual Value of Lease Assets:		
Within 1 year	12,478	13,361
Beyond 1 year but not beyond 5 years	62,497	27,085
Beyond 5 years	139,265	145,740
	214,240	186,186
Total minimum lease payments receivables	2,858,533	2,909,560
Less: Unearned Leasing Income		
Within 1 year	192,413	173,940
Beyond 1 year	1,261,381	1,437,714
	1,453,794	1,611,654
Net Investment in Finance Lease Receivables	1,404,739	1,297,906
Past Due Receivables	370	49,928
Restructured Accounts	49,264	1,641
Past Due - Restructured	9,524	9,645
	59,158	61,214
Less: Unearned Leasing Income	7,905	4,761
	51,253	56,453
	1,455,992	1,354,359

Finance Lease Receivables - LBP:		
Within 1 year	182,295	144,043
Beyond 1 year but not beyond 5 years	20,860	200,172
Beyond 5 years	-	-
	203,155	344,215
Residual Value of Lease Assets:		
Within 1 year	89,748	-
Beyond 1 year but not beyond 5 years	4,550	94,432
Beyond 5 years	-	-
	94,298	94,432
Total minimum lease payments receivables	297,453	438,647
Less: Unearned Leasing Income		
Within 1 year	147,284	25,548
Beyond 1 year	16,940	238,488
	164,224	264,036
Net Investment in Finance Lease Receivables - LBP	133,229	174,610

Loans and Receivables Financed

The breakdown of loans and receivables financed as of December 31, 2011 and 2010 are as follows:

	2011	2010
Loans and receivables financed:		
Due within 1 year	568,544	329,186
Due beyond 1 year	321,206	306,486
	889,750	635,672
Past due receivables	183,288	322,313
Restructured accounts	221,866	72,782
Past due - restructured	63,877	31,288
Items in litigation	28,010	22,690
	497,041	449,073
Less: Unearned income	22,874	8,149
	474,167	440,924
	1,363,917	1,076,596

Summary of Loans and Receivables

Loans and Lease Receivables

	2011	2010
Financial lease receivables	1,455,992	1,354,358
Financial lease receivables - LBP	133,229	174,611
Loans and receivables financed	1,363,917	1,076,596
	2,953,138	2,605,565

Other Receivables:

	2011	2010
Accounts receivables	24,187	27,974
Accrued interest receivables	5,498	2,665
Sales contract receivables	1,036	270
	30,721	30,909

Accounts Receivables amounting to P22.751 million and P25.751 million represent the amounts due from Parent Bank for financial lease and operating lease transactions for 2011 and 2010, respectively.

Interest and Discounts on Receivables

Interest and discounts in the statements of comprehensive income consists of interest on:

	2011	2010
Lease contract receivables	322,375	261,296
Loans receivables	120,999	109,360
Sales contract receivables	76	255
Cash and cash equivalents	76	163
	443,526	371,074

Reconciliation of Credit Losses

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

CY 2011	Lease Contracts Receivables	Loans and Finance Receivables	Other Receivables	Total
At January 1, 2011	5,302	100,524	1,277	107,103
Provisions during the year	1,136	55,805	97	57,038
At December 31, 2011	6,438	156,329	1,374	164,141
Individual impairment	6,438	156,329	1,374	164,141
Gross amount of loans individually determined to be impaired, before deducting any individually assessed credit losses	7,665	290,465	1,374	299,504

CY 2010	Lease Contracts Receivables	Loans and Finance Receivables	Other Receivables	Total
At January 1, 2010	4,391	72,660	1,610	78,661
Provisions during the year	911	29,095	-	30,006
Accretion	-	-	(333)	(333)
Reallocation to other properties acquired	-	(1,231)	-	(1,231)
At December 31, 2010	5,302	100,524	1,277	107,103
Individual impairment	5,302	100,524	1,277	107,103
Gross amount of loans individually determined to be impaired, before deducting any individually assessed credit losses	56,453	418,825	1,374	476,652

BSP Reporting

Details of finance lease receivable as to industry/economic sector and collateral type at December 31, 2011 are as follows:

(a) As to industry/economic sector (in %)

	2011	2010
Agriculture, fishing and forestry	1.64	1.98
Wholesale and retail trade	16.50	9.37
Manufacturing	3.79	0.81
Public utilities	10.82	13.36
Services	11.71	13.06
Banks and other financial institutions	11.92	14.16
Real estate	6.09	2.03
Public sector	34.79	41.33
Others	2.74	3.90
	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

	2011	2010
Secured		
Property under finance lease	1,593,894	1,532,760
Real estate mortgage	293,463	123,525
Chattel mortgage	733,634	669,940
	2,620,991	2,326,225
Unsecured	332,147	279,340
	2,953,138	2,605,565

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

As of December 31, 2011 and 2010, nonperforming loans (NPLs) not fully covered by allowance for credit losses are as follows:

	2011	2010
Total NPLs	270,391	470,234
Less NPLs fully covered by allowance for credit losses	(101,814)	(61,894)
	168,577	408,340

As of December 31, 2011 and 2010, secured and unsecured NPLs follow:

	2011	2010
Secured	168,875	370,159
Unsecured	101,516	100,075
	270,391	470,234

9. INVESTMENT PROPERTY

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

	Land	Building	Total
At Cost			
At January 1, 2011	17,114	2,658	19,772
Reclassification	(2,406)	-	(2,406)
At December 31, 2011	14,708	2,658	17,366

Accumulated Depreciation and Impairment

At January 1, 2011	1,231	1,383	2,614
Depreciation	-	31	31
Reclassification	-	(7)	(7)
Impairment	1,161	-	1,161
At December 31, 2011	<u>2,392</u>	<u>1,407</u>	<u>3,799</u>
Net book value - December 31, 2011	<u>12,316</u>	<u>1,251</u>	<u>13,567</u>
Net book value - December 31, 2010	<u>15,883</u>	<u>1,275</u>	<u>17,158</u>

The aggregate market value of investment properties as of December 31, 2011 and 2010 amounted to P15.399 million and P11.385 million, respectively. Fair value has been determined based on valuations made by in-house appraisers or accredited independent appraisers. Valuations were derived on the basis of information on the prevailing market value of similar/comparable real properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuation were made.

The Corporation recognized loss from sale of non-current assets amounting to P1.332 million and P2.186 million in 2011 and 2010, respectively. Gain from foreclosure of investment property amounting to P1.762 million in 2010 (nil for 2011), recorded in the statement of comprehensive income under Other Income – Gain (loss) from Sale/Derecognition of Non-Financial Assets.

The composition of the Corporation's depreciation and amortization in the statement of comprehensive income follows:

	2011	2010
Investment property	31	31
Equipment and other properties for lease (Note 10)	6,873	6,632
Property and equipment (Note 11)	2,084	2,332
Other assets (Intangibles) (Note 13)	72	65
	<u>9,060</u>	<u>9,060</u>

10. EQUIPMENT AND OTHER PROPERTY FOR LEASE

The Corporation entered into sale and leaseback transactions classified as financial lease with various lessees, with terms ranging from 24 to 60 months, involving various equipment. The equipment is 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.

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

The gross carrying amount and accumulated depreciation of the subject equipment as of December 31, 2011 and 2010 are as follows:

	2011	2010
Finance lease	-	1,085
Operating lease	52,167	52,169
Accumulated depreciation - Operating lease	(44,030)	(37,157)
Equipment and other property for lease	8,137	16,097

The Corporation disposed certain transportation equipment with carrying value of P0.002 million resulting in gain on sale of P0.439 million in 2011; and carrying value of P0.181 million resulting in gain on sale of P0.194 million in 2010. The gain is included as part of Other Income – Profit from asset sold/exchanged in the statement of comprehensive income.

Depreciation charges for the year amounting to P6.873 million is included as part of Depreciation/amortization account under Direct Expenses of the statement of comprehensive income.

11. PROPERTY AND EQUIPMENT

The composition and movement of this account are as follows:

	Building & Improvements	Furnitures & Fixtures	Transportation Equipment	Total
Cost				
January 1, 2011	42,702	12,311	1,567	56,580
Additions	53	168		221
Disposals	-	(1,153)		(1,153)
December 31, 2011	42,755	11,326	1,567	55,648
Accumulated depreciation				
January 1, 2011	9,430	8,482	1,494	19,406
Depreciation	1,262	821	-	2,083
Disposals		(1,051)		(1,051)
December 31, 2011	10,692	8,252	1,494	20,438
Net Book Value -				
December 31, 2011	32,063	3,074	73	35,210
Net Book Value - December				
31, 2010	33,272	3,829	73	37,174

As of December 31, 2011 and 2010, gross carrying amount of fully depreciated property and equipment still in use by the Corporation amounted to P0.536 million and P0.606 million, respectively.

Depreciation charges for the year are included as part of Depreciation/amortization account under General and Administrative Expenses of the statements of comprehensive income.

12. NON-CURRENT ASSETS HELD FOR SALE

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

	Land	Building	Equipment	Total
Balance at January 1, 2011	5,811	12	346	6,169
Addition	1,663	909	-	2,572
Disposal	(1,663)	(909)	(346)	(2,918)
Impairment	(3,109)	-	-	(3,109)
Balance at December 31, 2011	2,702	12	-	2,714
Balance at December 31, 2010	5,811	12	346	6,169

The changes in allowance for impairment are as follows:

	2011	2010
Balance at January 1	185	-
Provision during the year	3,109	185
Balance at December 31	3,294	185

13. OTHER ASSETS

Current and non-current classification of other assets as at December 31, 2011 and 2010 are as follows:

	Due within one year	2011 Due beyond one year	Total
Deferred tax assets	-	50,379	50,379
Miscellaneous assets	6,098	1,076	7,174
Prepaid expense	2,764	-	2,764
Accounts receivables	462	-	462
Stationeries and supplies unissued	95	-	95

Other investments	-	16	16
Other assets	3	-	3
	9,476	51,471	60,947
Allowance for probable losses	(1,566)	-	(1,566)
	7,910	51,471	59,381

	2010		Total
	Due within one year	Due beyond one year	
Deferred tax assets	-	32,910	32,910
Miscellaneous assets	7,168	1,078	8,246
Prepaid expense	2,623	-	2,623
Accounts receivables	444	-	444
Stationeries and supplies unissued	120	-	120
Intangibles	85	-	85
Other investments	-	16	16
Other asset - Prepaid expense	3	-	3
	10,443	34,004	44,447
Allowance for probable losses	(1,566)	-	(1,566)
	8,877	34,004	42,881

14. ALLOWANCE FOR CREDIT AND IMPAIRMENT LOSSES

Changes in the allowance for probable losses are as follows:

	2011	2010
Balance as at January 1		
Financial lease receivables	5,302	4,391
Loans and receivables financed	100,524	72,660
Accounts receivables - clients	1,224	1,557
Accrued interest receivables	53	53
Investment property	1,231	-
Non-current assets held for sale	185	-
Other assets	1,566	1,566
	110,085	80,227
Provisions for the year	61,408	28,000
Accounts charged off and others	(100)	1,858
	171,393	110,085

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

	2011	2010
Balance as at December 31, 2011		
Financial lease receivables	6,438	5,302
Loans and receivables financed	156,329	100,524
Accounts receivables - clients	1,321	1,224
Accrued interest receivables	53	53
Investment property	2,392	1,231
Non-current assets held for sale	3,294	185
Other assets	1,566	1,566
	171,393	110,085

With the foregoing level of allowance for probable losses, Management believes that LBP Lease 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.

	2011	2010
Current		
Promissory Note	1,437,567	1,110,300
Non-Current		
Promissory Note	100,317	254,206
Retail Countryside Fund	38,889	54,444
	139,206	308,650
	1,576,773	1,418,950

Interest rates on bills payable are as follows:

	2011	2010
Promissory Note	5.00% - 8.00%	5.50% - 8.00%
Retail Countryside Fund	4.50% - 5.46%	5.46% - 5.49%

Bills payable are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances as of December 31, 2011 and 2010 are partially secured with terms of maturity ranging from 90 days to 10 years. Interest Expense on borrowings amounted to P79.310 million and P83.342 million for the years December 31, 2011 and 2010, respectively.

As at December 31, 2011, there are no defaults and breaches on these promissory notes.

16. DEPOSITS ON LEASE CONTRACTS

This account represents deposits on:

	2011	2010
Financial Leases	151,811	123,584
Operating Leases	9,945	9,936
	161,756	133,520

Breakdown of deposits on finance leases by contractual settlement dates as at December 31, 2011 and 2010 is as follows:

	2011	2010
Due within 1 year	61,097	36,612
After 1 year up to Maturity	100,659	96,908
	161,756	133,520

17. ACCRUED TAXES AND OTHER EXPENSES

This account consists of:

	2011	2010
Accrued income tax payable	13,760	11,915
Accrued interest payable	5,338	5,986
Accrued other taxes and licenses payable	2,069	2,356
Accrued other expenses payable	29,209	35,700
	50,376	55,957

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

18. OTHER LIABILITIES

	2011	2010
Accounts payable - suppliers	4,784	12,490
Withholding tax payable	1,844	2,089
Accounts payable - others	1,399	1,183
Fringe benefit tax payable	3	23
Pag-ibig fund payable	22	21
SSS payable	24	16
Philhealth payable	9	10
Miscellaneous liabilities	31,615	34,142
	39,700	49,974

As at December 31, 2011 and 2010, the account balances comprising this account will mature within the next 12 months from respective balance sheet dates.

Of the total Miscellaneous Liabilities as of December 2011 and 2010, P12.223 million and P17.046 million, respectively, represents payments made by several loan/lease accounts with request for restructuring or waiver of penalties. These accounts are temporarily booked as Miscellaneous Liabilities – Unapplied Payments pending evaluation and action on the respective requests of the concerned accounts.

As of January 2012, P10.975 million of unapplied payments were allocated to the receivables and penalty balance of the clients.

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

19. Maturity Analysis of Assets and Liabilities

	2011			2010		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Assets						
Cash and cash equivalents	19,973	-	19,973	67,395		67,395
Loans and receivables	862,714	1,957,004	2,819,718	566,549	1,962,821	2,529,370
	882,687	1,957,004	2,839,691	633,944	1,962,821	2,596,765
Non-Financial Assets						
Investment property		13,567	13,567		17,158	17,158
Equipment and other properties for lease		8,137	8,137		16,097	16,097
Property and equipment		35,210	35,210		37,174	37,174
Non-current asset held for sale		2,714	2,714		6,169	6,169
Other assets	7,910	51,471	59,381	8,877	34,004	42,881
	7,910	111,099	119,009	8,877	110,602	119,479
Total	890,597	2,068,103	2,958,700	642,821	2,073,423	2,716,244
Financial Liabilities						
Accrued taxes and other expenses	50,376		50,376	55,957		55,957
Other liabilities	39,700		39,700	49,974		49,974
Bills payables	1,437,567	139,206	1,576,773	1,110,300	308,650	1,418,950
Deposits on lease contracts	61,097	100,659	161,756	36,612	96,908	133,520
Total	1,588,740	239,865	1,828,605	1,252,843	405,558	1,658,401

20. EARNINGS PER SHARE

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

The following reflects the basic earnings per share computations:

	2011	2010
Net income (a)	126,634	108,386
Weighted average number of shares (b)	48,555	47,627
Basic earnings per share (a/b)	2.61	2.28

There were no treasury shares and outstanding dilutive potential common shares as of December 31, 2011 and 2010.

21. EQUITY

The Corporation calculates its capital as equity as shown in the balance sheet.

21.1 Capital Stock

Details of Capital Stock at December 31, 2011 and 2010 follow:

	2011	2010
Authorized Common Stocks, P10.00 par, 50,000,000 shares	500,000	500,000

	No. of Shares	Paid up Common stock	Additional Paid-in	Total
Issued and outstanding				
At January 1, 2010	46,348,198	463,482	90,759	554,241
Stock dividends issued -				
May 11, 2010	1,053,368	10,533	11,019	21,552
July 31, 2010	1,153,689	11,537	12,193	23,730
At January 1, 2011	48,555,255	485,552	113,971	599,523
Cash dividend	-	-	-	-
At December 31, 2011	48,555,255	485,552	113,971	599,523

21.2 Dividend Declaration

In compliance with Republic Act No. 7656, LBP Lease is required to declare and remit at least fifty per cent (50%) of its annual net earnings as cash, stock or property dividends.

On April 27, 2011, the BOD approved declaration of cash dividends amounting to P54.382 million or P1.120 per share on the 48.555 million shares outstanding at the date of declaration.

In 2010, LBP Lease opted to declare and issue stock dividends of 2,207,057 shares in lieu of cash dividends.

21.3 Retained Earnings

	2011	2010
Beginning balance	464,145	401,041
Income for the year	126,633	108,386
Declaration of dividends	(54,382)	(45,282)
Ending Balance	536,396	464,145

21.4 Accumulated Other Comprehensive Losses

This account represents the fair value changes on available for sale investments with accumulated market losses of P5.825 million as at December 31, 2011 and 2010.

22. LEASES

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

The Corporation also entered into operating leases on certain motor vehicles. These operating leases are for 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, 2011 and 2010 amounted to P49.799 million and P50.905 million, respectively. The carrying amount of lease deposits payable to lessee amounted to P9.945 million and P9.936 million as of December 31, 2011 and 2010. Interest expense accrued on such lease deposits included as part of Interest expense account in the Corporation's statement of comprehensive income amounted to P0.768 million in 2011 and P1.172 million in 2010.

Operating lease commitments

Future minimum rental receivables under non-cancelable operating leases as of December 31, 2011 and 2010 are as follows:

	2011	2010
Due within 1 year	1,706	22,210
After 1 year up to maturity	648	1,757
	2,354	23,967

Chauffeuring services related to lease on vehicles are presented under the Direct Expense – Security, Messengerial, Janitorial and Contractual Services on the Statement of Comprehensive Income. Details of which are as follows:

	2011	2010
Finance lease	88,480	82,731
Operating lease	23,384	20,932
	111,864	103,663

23. OTHER INCOME

This account consists of:

	2011	2010
Income from assets acquired	894	1,000
Profit from assets sold/exchanged	368	193
Service charge	138	1
Miscellaneous income	4,844	16,398
Gain from derecognition of financial assets	-	1,762
Loss from derecognition of non-financial assets	(1,332)	(2,185)
	4,912	17,169

24. EMPLOYEE BENEFITS

24.1 Compensation and Fringe Benefit

Expenses recognized for salaries and employee benefits are presented below:

	2011	2010
Salaries and wages	11,902	12,965
Bonuses	6,932	6,098
Retirement	1,519	1,234
Social security costs	631	678
Other benefits	1,649	2,108
Total employees benefits	22,633	23,083
Directors and committee membership fees / per diem	1,729	1,340
Total compensation and fringe benefits	24,362	24,423

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, 2011 and 2010 are P3.156 million and P2.814 million, respectively.

24.2 Retirement Benefits

The Corporation has noncontributory defined benefit retirement plan covering substantially all its employees.

The movements in the retirement liability as of December 31, 2011 and 2010 recognized in the statement of financial position are as follows:

	2011	2010
Balance at beginning of year	5,632	4,855
Retirement expense	1,520	1,229
Benefits paid	(220)	(452)
Balance at end of year	6,932	5,632

25. Taxes and Licenses

This account consists of:

	2011	2010
Gross receipts tax	19,457	18,578
Business license	900	798
Real estate tax	288	301
Annual fees (SEC)	12	12
Barangay clearance	12	12
Registration of vehicles	16	15
Annual non-Vat registration fee	1	1
	20,686	19,717

(a) Relevant Tax Regulations

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

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

(b) Supplementary Information Required by the Bureau of Internal Revenue

Bureau of Internal Revenue (BIR) requires certain information on taxes, duties and license fees paid or accrued during the taxable year to be disclosed as part of the notes to financial statements. The supplementary information is, however, not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards; it is neither a required disclosure under the Philippine Securities and Exchange Commission rules and regulations covering the form and content of financial statements under Securities Regulation Code Rule 68.

The amounts relating to such information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRS. The following is the tax information required for the taxable year ended December 31, 2011:

(i) Based on Revenue Regulations (RR) No. 15-2010

The Documentary Stamp Tax (DST) paid/accrued on the following transactions are:

Transaction	2011		2010	
	Amount	DST thereon	Amount	DST thereon
Loan instruments	4,561,000	6,471	4,267,800	7,239
Shares of stocks	0.03	0.003	45,282	226

Other Taxes and Licenses

	2011	2010
a. Local		
Real estate taxes	288	301
Mayor's permit	912	810
b. National		
BIR annual registration	1	1
Percentage taxes	19,457	18,578
c. Others		
LTO registration fees	16	15
SEC annual registration fees	12	12
	20,686	19,717

The amount of withholding taxes paid/accrued for the year amounted to:

	2011	2010
i. Tax on compensation	2,831	2,435
ii. Fringe benefit tax/es	11	96
iii. Expanded creditable withholding tax/es	4,587	21,121
iv. Percentage tax/es	2,482	2,514
v. Final withholding tax/es	6,838	20,318
vi. Corporate Income tax/es	47,494	38,891
	64,243	85,375

(ii) *Based on RR No. 19-2011*

CY 2011	Exempt	Special Rate	Regular/	Total
			Normal Rate	
Sale of Goods	-	-	-	-
Sale of Services	-	-	499,816	499,816
CY 2010				
Sale of Goods	-	-	-	-
Sale of Services	-	-	439,060	439,060

(a) **Cost of Services**

CY 2011	Exempt	Special Rate	Regular/	Total
			Normal Rate	
Cost of Services				
Direct charges - salaries, wages and benefits	-	-	9,347	9,347
Direct charges - materials, supplies and facilities	-	-	-	-
Direct charges - depreciation	-	-	6,873	6,873
Direct charges - rental	-	-	-	-
Direct charges - outside services	-	-	111,864	111,864
Direct charges - others	-	-	99,564	99,564
	-	-	227,648	227,648

CY 2010		Special	Regular/	
	Exempt	Rate	Normal	Total
			Rate	
Cost of Services				
Direct charges - salaries, wages and benefits	-	-	10,057	10,057
Direct charges - materials, supplies and facilities	-	-	-	-
Direct charges - depreciation	-	-	6,632	6,632
Direct charges - rental	-	-	-	-
Direct charges - outside services	-	-	103,663	103,663
Direct charges - others	-	-	102,648	102,648
	-	-	223,000	223,000

(b) Non-Operating and Taxable Other Income

CY 2011		Special	Regular/	
	Exempt	Rate	Normal Rate	Total
Interest income - others			76	76
Miscellaneous income / (loss)	-	-	4,844	4,844
Service charges	-	-	138	138
Gain on sale of asset	-	-	1,585	1,585
	-	-	6,643	6,643

CY 2010		Special	Regular/	
	Exempt	Rate	Normal Rate	Total
Interest income - others			255	255
Miscellaneous income / (loss)	-	-	16,398	16,398
Service charges	-	-	1	1
Gain on sale of asset	-	-	845	845
	-	-	17,500	17,500

26. Other Expenses

This account consists of:

	2011	2010
Power, light and water	1,736	1,730
Security, messengerial and janitorial services	1,484	986
Representation and entertainment	1,432	1,597
Management and other professional fees	1,130	1,135
Transportation and travelling	831	1,071

Advertising and publicity	706	655
Stationeries and supplies issued	641	584
Postage, cables, telephone and telegram	591	692
Membership fees and dues	545	518
Repairs and maintenance	513	380
Fuel and lubricants	360	282
Information technology expense	97	122
Data processing charges	73	82
Periodicals and magazines	19	19
Fringe benefit tax	11	96
Bank charges	1	2
Donation and other charitable contribution	2,000	-
Miscellaneous expenses	305	327
	12,475	10,278

27. Income Tax

The major components of income tax expense for the years ended December 31, 2011 and 2010 are:

	2011	2010
Current income tax expense	48,990	38,891
Deferred tax expense	27	246
Income tax benefit	(17,496)	(6,964)
	31,521	32,173

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 (GRT) and documentary stamp tax.

Income taxes include corporate income tax and final taxes paid at the rate of 20 per cent, which is a final withholding tax on gross interest income from deposits with banks. In addition, current tax regulations define expenses to be classified as entertainment, amusement and recreation (EAR) and set a limit for the amount that is deductible for tax purposes. Under the regulation, EAR expense allowed as a deductible expense for the Corporation, a service corporation, is limited to the actual EAR paid or incurred but not to exceed 1 per cent of net revenue (i.e. gross revenue less discounts). EAR of the Corporation charged against current operations, included under "Other Expenses" in the statement of comprehensive income amounted to P0.127 million and P0.435 million in 2011 and 2010, respectively.

Current tax regulations provide that the Regular Corporate Income Tax (RCIT) rate shall be 30 per cent and interest allowed as a deductible expense shall be reduced by an amount of 33 per cent of interest income subjected to final tax. It also provides for the change in GRT rate from 5 to 7 per cent on non-lending income.

The regulations also provide for Minimum Corporate Income Tax (MCIT) of 2 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.

MCIT computed at two per cent of gross profit amounted to P5.443 million and P4.321 million in 2011 and 2010, respectively.

Republic Act (RA) No. 9504, An Act Amending National Internal Revenue Code, provides that starting July 1, 2008, the optional standard deduction (OSD) equivalent to 40 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 Income Statement 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 Sec.4 of RA 16-2008 was presented as a deduction from the gross revenue.

Deferred income tax asset

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

	2011	2010
Allowance for probable losses	48,299	31,220
Estimated retirement fund	2,080	1,690
	50,379	32,910

28. RELATED PARTY DISCLOSURES

In the ordinary course of business, the Corporation enters into transactions with its Parent bank, Land Bank of the Philippines. Under the Corporation policy, these transactions are made substantially on the same terms as with other individuals and businesses of comparable risks.

28.1 The total amount of transactions which have been entered into with related parties for the relevant financial year is shown in the next page.

Accounts	Related Party	2011	2010
Cash and cash equivalents	Parent Company	16,362	21,427
Accounts receivables	Parent Company	22,751	25,757
Net investment on lease contract receivable	Parent Company	133,229	174,610
Bills payable	Parent Company	831,273	1,050,450
Deposit on lease contracts	Parent Company	46,259	46,219
Accounts payable	Parent Company	3	5,608
Accrued interest payable	Parent Company	2,855	4,791
Miscellaneous liabilities	Parent Company	288	1,859
		1,053,020	1,330,721

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

Accounts	Related Party	2011	2010
Financial lease income	Parent Company	138,883	127,342
Operating lease income	Parent Company	49,799	50,905
Income from deposits in bank	Parent Company	54	149
Interest and financing charges	Parent Company	50,646	65,850
		239,382	244,246

(a) Bills payable and Interest and Financing Charges

Interest rates on borrowings to related party ranges from 4.85% to 8.00%. The loans are partially secured by assignment of receivables with terms of maturity ranging from 90 days to 5 years.

(b) Financial Lease Income

The Corporation is leasing motor vehicles to its Parent bank for a period of five 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) Interest and Financing Charges

Interest rates on borrowings to related party ranges from 4.85 per cent to 8 per cent.

(e) **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.

28.3 Compensation of Key Management

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

	2011	2010
Key management compensation		
Salaries and other benefits	5,672	5,996
Post-employment benefits	3,099	2,569
Actual Directors' remuneration received	1,650	1,732
	10,421	10,297

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

29. FINANCIAL PERFORMANCE

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

	2011	2010
Return on Average Assets	4.50	4.10
Return on Average Equity	11.60	10.80
Return on Investment	21.10	18.80
Debt to Equity	1.62:1	1.57:1
Solvency	1.62:1	1.64:1

30. CONTINGENCIES

Pending Case on the Transfer of Ownership of Property

LBP Lease has a pending case on the transfer of ownership of a property it purchased for the account of a lease-to-own client. After the purchase of the property and prior to the transfer, the owner of the neighboring property filed a case for encroachment against the seller that the building erected by the seller encroaches on their property. Among the actions pursued was an injunction on the transfer of ownership from the seller to LBP Lease.

As to the liability, it is most probable that LBP Lease will not be principally liable because it has no notice of the alleged encroachment if indeed there is. The principal party who will be held liable would be the seller as LBP Lease is a buyer in good faith. However, because of the delay in the transfer of ownership, LBP Lease is unable to use the property as collateral.

In addition to those already mentioned in the preceding notes, 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, 2011, management does not anticipate significant losses from these contingencies and commitments that would adversely affect the Corporation's financial position and results of operations.