Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City

ANNUAL AUDIT REPORT

on the

LBP LEASING CORPORATION
(A wholly-owned subsidiary of Land Bank of the Philippines)

For the year ended December 31, 2013

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of **LBP Leasing Corporation** (a wholly-owned subsidiary of Land Bank of the Philippines), which comprise the statement of financial position as at December 31, 2013, 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 audit opinion.

Opinion

In our opinion the financial statements present fairly, in all material respects, the financial position of **LBP Leasing Corporation** as at December 31, 2013 and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

COMMISSION ON AUDIT

ROSALINDA T. SILAGAN
State Auditor IV

August 6, 2014

LBP LEASING CORPORATION
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENT OF FINANCIAL POSITION
December 31, 2013
(In thousand pesos)

	Note	2013	2012
ASSETS			
Current assets			
Cash and cash equivalents	6	23,047	44,594
Loans and receivables	8	1,146,999	645,012
Other assets	13	10,296	6,633
		1,180,342	**696,239**
Non-current assets			
Loans and receivables	8	2,406,292	2,319,316
Investment property	9	7,254	2,314
Equipment and other property for lease	10	14,524	7,060
Property and equipment	11	33,118	35,170
Non-current assets held for sale	12	6,254	7,441
Other assets	13	1,824	2,245
Deferred tax asset	14	62,716	62,547
		2,531,982	**2,436,093**
TOTAL ASSETS		**3,712,324**	**3,132,332**
LIABILITIES AND EQUITY			
LIABILITIES			
Current liabilities			
Bills payable	16	1,509,378	1,122,700
Deposit on lease contracts	17	104,808	87,325
Accrued taxes and other expenses	18	63,142	68,784
Other liabilities	19	29,420	36,297
		1,706,748	**1,315,106**
Non-current liabilities			
Bills payable	16	594,968	444,185
Deposit on lease contracts	17	133,925	160,962
		728,893	**605,147**
		2,435,641	**1,920,253**
Equity			
Capital stock	22.1	599,523	599,523
Retained earnings	22.3	682,476	618,381
Accumulated other comprehensive losses	22.4	(5,316)	(5,825)
		1,276,683	**1,212,079**
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY		**3,712,324**	**3,132,332**

The Notes on pages 8 to 63 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, 2013
(In thousand pesos)

	Note	2013	2012
INTEREST INCOME	8		
Leases		344,227	322,998
Loans		108,904	137,588
Deposits in banks		145	240
Others		120	1,054
		453,396	461,880
INTEREST EXPENSE			
Borrowed funds	16	74,288	86,772
NET INTEREST INCOME		379,108	375,108
OTHER INCOME			
Operating leases	23	45,907	48,572
Other income	24	7,329	9,511
		53,236	58,083
DIRECT EXPENSES			
Security, messengerial, janitorial and contractual services	23	128,721	108,478
Provision for impairment losses	15	13,000	49,200
Compensation and fringe benefits - Marketing operations	25	10,522	10,795
Documentary stamp used		8,292	8,115
Insurance		6,322	6,920
Repairs and maintenance		5,269	5,530
Transfer mortgage and registration fees		1,031	1,002
Depreciation-equipment and other property for lease	10	959	1,077
		174,116	191,117
		258,228	242,074
GENERAL AND ADMINISTRATIVE EXPENSES			
Taxes and licenses	26	21,303	24,665
Compensation and fringe benefits	25	17,149	16,139
Depreciation/amortization	11	3,010	2,605
Litigation/assets acquired expenses		1,366	99
Insurance		432	342
Other expenses	27	11,813	11,894
		55,073	55,744
NET INCOME BEFORE INCOME TAX		203,155	186,330
Provision for income tax	28	44,421	40,739
NET INCOME		**158,734**	**145,591**
OTHER COMPREHENSIVE INCOME			
Remeasurement gain on retirement plan	22.4	**509**	**0**
TOTAL COMPREHENSIVE INCOME		**159,243**	**145,591**

The Notes on pages 8 to 63 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, 2013
(In thousand pesos)

	Note	Issued Capital	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Gains/(Losses)	Total
Balance, 1 January 2012		485,552	113,971	536,397	(5,825)	1,130,095
Declaration of cash dividend				(63,607)		(63,607)
Comprehensive income for the year				145,591		145,591
Balance, 31 December 2012		**485,552**	**113,971**	**618,381**	**(5,825)**	**1,212,079**
Declaration of cash dividend	22.2			(94,683)		(94,683)
Prior period adjustment				44		44
Comprehensive income for the year				158,734	509	159,243
Balance, 31 December 2013		**485,552**	**113,971**	**682,476**	**(5,316)**	**1,276,683**

The Notes on pages 8 to 63 form part of these financial statements.

LBP LEASING CORPORATION
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENT OF CASH FLOWS
For the year ended December 31, 2013
(In thousand pesos)

	Note	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		454,416	485,364
Other income received		7,046	4,066
Service charges and fees received		0	249
Net cash paid to clients		(589,969)	(62,133)
Cash paid to settle expenses		(246,488)	(215,408)
Interest paid		(73,548)	(87,583)
Income taxes paid		(15,608)	(24,269)
Net cash (used in)/generated from operating activities		(464,151)	100,286
CASH FLOWS FROM INVESTING ACTIVITIES			
Net acquisitions/ disposal of property and equipment		(174)	(2,169)
Net cash used in investing activities		(174)	(2,169)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings under line of credit agreement		2,224,300	1,843,800
Payment of long term debt		(1,686,839)	(1,853,689)
Cash dividends paid	22.2	(94,683)	(63,607)
Net cash provided by/(used in) financing activities		442,778	(73,496)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(21,547)	24,621
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		44,594	19,973
CASH AND CASH EQUIVALENTS AT END OF YEAR	6	**23,047**	**44,594**

The Notes on pages 8 to 63 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 thousand pesos, unless otherwise stated)

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 Authorization for issuance of Financial Statements

The financial statements of LBP Leasing Corporation for the year ended December 31, 2013 were authorized for issue in accordance with the resolution of the Board of Directors on March 26, 2014 under Board Resolution No. 14-043.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Financial Statements Preparation

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

The financial statements of the Corporation have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). 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.

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

b. Basis of Measurement

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

c. Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1 (Revised 2007), *Presentation of Financial Statements*. The Corporation presents all items of income and expenses in a single statement of comprehensive income.

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

d. Functional and Presentation Currency

These financial statements are presented in Philippine peso, the Corporation's functional and presentation currency, and all values are rounded to the nearest thousand (P'000) except when otherwise indicated.

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

2.2 Adoption of New Interpretations, Revisions and Amendments to PFRS

a. Effective in 2013 that are relevant to the Corporation

PAS 1, Presentation of Items of Other Comprehensive Income – Amendments to PAS 1 – The amendments to PAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendments affect presentation only and have no significant impact on the Corporation's financial position or performance.

PAS 19. Employee Benefits (Amendment) - These range from fundamental changes such as removing corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

PFRS 7, Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments) - These amendments require an entity to disclose information about rights to set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

a. The gross amounts of those recognized financial assets and recognized financial liabilities;
b. The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
c. The net amounts presented in the statement of financial position;
d. The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
   i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
   ii. Amounts related to financial collateral (including cash collateral); and
e. The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments to PFRS 7 are to be retrospectively applied for annual periods beginning on or after January 1, 2013. These amendments affect disclosures only and will not impact the Corporation's financial position or performance.

PFRS 13, Fair Value Measurement - PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The standard becomes effective for annual periods beginning on or after January 1, 2013.

2009-2011 Annual Improvements to PFRSs

The Annual Improvements to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS, which are effective for annual period beginning on or after January 1, 2013. Among those improvements, the following amendments are relevant to the Corporation but management does not expect a material impact on Corporation's financial statements:

PAS 1, Presentation of Financial Statements – Clarification of the requirement for comparative information. The amendment clarifies the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative periods do not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendment has no impact on the Corporation's disclosure, financial position or performance since the Corporation has no retrospective restatement or reclassification which will result to a third balance sheet.

PAS 16, *Property, Plant and Equipment – Classification of servicing equipment.* The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property plant and equipment and should be recognized as inventory if otherwise. The amendment will not have any significant impact on the Corporation's financial position or performance.

PAS 32, *Financial Instruments: Presentation – Tax effect of distribution to holders of equity.* This amendment clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with PAS 12 Income Taxes. The Corporation expects that this amendment will not have any impact on its financial position or performance.

b. Standards issued but not yet effective

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

PAS 32, Financial Instruments - Offsetting Financial Assets and Financial Liabilities (Amendments). These amendments clarify the meaning of "currently has a legal enforceable right to set-off". The amendments also clarify the application of the PAS 32 offsetting criteria to settlement systems which apply to gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on the net assets of the Corporation, any changes in the offsetting is expected to impact leverage ratios and regulatory capital requirements. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Corporation is currently assessing impact of amendments to PAS 32.

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

2.3 Financial Instruments – Initial Recognition and Subsequent Measurement

a. Date of recognition

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

b. Initial recognition of financial instruments

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

As of December 31, 2013 and 2012, the Corporation has no financial assets and liabilities at FVPL and HTM investments.

c. *Determination of fair value*

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

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

d. Day 1' difference

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

Loans and receivables

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

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

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 comprehensive income.

Bills payable and other borrowed funds
Bills payable and other borrowed funds, which are not designated at FVPL, are classified as liabilities under 'Bills payable' and other appropriate accounts in the statement of financial position, where the substance of the contractual arrangements results in the Corporation having an obligation either to deliver cash or another financial asset for a fixed number of own equity shares.

After initial measurement, bills payable and other similar financial liabilities not qualified as and not designated as at FVPL, are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are integral part of the EIR.

e. Derecognition of Financial Assets and Liabilities

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

- the rights to receive cash flows from the asset has expired;
- the Corporation retains the right to receive cash flows from the asset, but

has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Corporation has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset or (b) has neither transferred nor retained the risks and rewards of the asset, but has transferred control of the asset.

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

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

f. *Impairment of Financial Assets*

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

Loans and receivables
For loans and receivables carried at amortized cost, the Corporation first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Corporation determines that no objective evidence of impairment exists for individually assessed asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics (by product type and industry) and collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's

ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, continues to be, recognized are not included in a collective assessment for impairment.

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

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

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

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.

g. *Offsetting Financial Instruments*

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial condition if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

2.4 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.

Corporation 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.

2.5 Residual Value of Leased Assets and Deposits on Lease Contracts

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

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

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

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

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

Depreciation is computed using the straight-line method over the estimated useful life of the depreciable assets. Government agencies are guided by the revised estimated useful life of property and equipment prescribed under Annex A of COA Circular

No. 2003-007 dated December 11, 2003, with selected property and equipment applicable to the Corporation as follows:

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

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

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

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

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

2.7 **Investment Properties**

Investment properties acquired in exchange of loans are recorded at the fair value of the properties on acquisition dates. Fair value is supported by market evidence and is determined by appraisers with sufficient experience with respect to both location and the nature of the investment property.

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

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are charged against current operations in the year in which costs are incurred.

2.8 Non-Current Assets Held for Sale

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

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

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

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

2.9 Impairment of Non-financial Assets

An assessment is made at each reporting date whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its fair value less costs to sell.

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

An impairment loss is charged against income in the year in which it arises, unless the asset is carried at a revalued amount in which case the impairment loss is charged against the revaluation increment of the said asset. A previously recognized impairment loss is reversed only if there has been a change in estimates used to determine the recoverable amount of an asset, but not to an amount that would have been determined (net of any depreciation) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited to current operations, unless the asset is carried at a revalued amount in which case the reversal of the impairment loss is credited to revaluation increment of the said asset.

2.10 Provisions

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

2.11 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.

2.12 Equity

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

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

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

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

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

2.13 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*

Income on loans and receivables financed with short-term maturities is recognized using the EIR method. Interest and finance fees on finance lease and loans and receivables financed with long-term maturities and the excess of the aggregate lease rentals plus the estimated residual value of the leased equipment over its cost are credited to unearned 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.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

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 income*

Interest income is recognized as the interest accrues.

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. *Expense Recognition*

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

g. Borrowing Costs

Borrowing costs are recognized as expenses in the year in which these costs are incurred. Borrowing costs consist of interest and other costs that the Corporation incurs in connection with borrowing of funds. It is calculated using the effective interest method in accordance with PAS 39.

2.14 Employee Benefits

a. Retirement Benefit Obligations

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

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.

2.15 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.

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

2.16 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.

2.17 Related Party Relationships and 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.

2.18 Events After the Reporting Date

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

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

3.1 Judgments

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

a. *Finance 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 P344.228 million and P322.997 million in 2013 and 2012, 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 P45.907 million and P48.572 million in 2013 and 2012, respectively (see Note 23).

c. *Fair Value of Financial Instruments*

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 2.10 and in Note 2.11 for contingencies. Relevant disclosures of contingencies are presented in Note 31.

3.2 Estimates

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

a. *Impairment Losses on Loans and 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, 2013 and 2012, allowance for credit losses on Loans and Receivables amounted to P202.899 million and P212.087 million in 2013 and 2012, respectively (see Note 8).

b. *Impairment losses on AFS Investments*

The Corporation determines that AFS investment are impaired when there has been a significant or prolonged decline in the fair value below 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, 2013 and 2012, 100% allowance on impairment losses of AFS investments has been recognized against its carrying value of P5.825 million.

c. *Impairment of EOPL, Property and Equipment, 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:

	2013	2012
Investment property (Note 9)	7,254	2,314
EOPL (Note 10)	14,524	7,060
Property and equipment (Note 11)	33,118	35,170
Non-current assets held for sale (Note 12)	6,254	7,441

Allowance for impairment losses on Investment Property amounted to P3.062 million and P2.392 million as of December 31, 2013 and 2012, respectively, while Allowance for impairment losses on Non-Current Assets Held for Sale amounted to P3.094 million and P1.907 million in 2013 and 2012, respectively. There are no impairment losses on EOPL and Property and Equipment for years 2013 and 2012. (See Note 15)

d. Recognition of Deferred Tax Assets

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

As of December 31, 2013 and 2012, deferred tax assets recognized amounted to P60.662 million and P62.547 million (see Note 14), respectively.

e. Estimated useful lives of EOPL and property and equipment

The Corporation reviews on an annual basis the estimated useful lives of EOPL and property and equipment based on expected asset utilization as anchored on business plans and strategies that also consider expected future technological developments and market behaviour. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives would increase the recorded depreciation expense and decrease noncurrent assets. The estimated useful lives of depreciable assets are disclosed in Note 2.6.

4. FINANCIAL RISK AND CAPITAL MANAGEMENT

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

- Credit Risk
- Interest Rate Risk

- Liquidity Risk

Risk Management Framework

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

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

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

The Corporations' risk management policies are summarized below:

4.1 Credit Risk

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

a. *Credit Risk Management*

The Corporation manages credit risk by implementing adequate credit evaluation and approval processes as well as setting limits for individual borrowers, group of borrowers and industry segments. The Corporation maintains a general policy of avoiding excessive exposure in any particular sector of the Philippine economy. The Corporation actively seeks to increase its exposure to priority sector as its Parent Bank's industry sector which it believes possess attractive growth opportunities. Conversely, it actively seeks to reduce its exposure in industry sectors where growth potential is minimal. Although the Corporation's leasing and financing portfolio is composed of transactions with 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.

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:

	2013	2012
Secured		
Property under finance lease	1,815,134	1,862,879
Real estate mortgage	339,653	208,723
Chattel mortgage	783,798	662,930
	2,938,585	2,734,532
Unsecured	715,569	384,307
	3,654,154	**3,118,839**

c. *Impairment Assessment*

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

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

The LLC's assets that are exposed to credit risk are as follows:

	2013	2012
Cash and cash equivalents	23,047	44,594
Available for sale financial asset	5,825	5,825
Loans and Other Receivables	3,756,190	3,176,415
Other Asset - accounts receivables	553	474

The above table represents the maximum credit risk exposure of the Corporation at December 31, 2013 and 2012, 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 Corporation does not have significant exposure to any individual customer or counter-party nor does it have any major concentration of credit risk related to any financial instrument. The credit exposure granted to Republic of the Philippines and/or its agencies/departments/bureaus are considered non-risk and not subject to any ceiling in accordance with BSP Circular No. 514.

The Corporation maintains its Cash in bank with its Parent Bank and 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, 2013				
	Cash and Cash Equivalents	Available for sale Securities	Loans and Receivables	Other Asset (accounts receivable)
Agriculture, fishing and forestry	0	0	35,747	0
Wholesale and retail trade	0	0	320,619	0
Manufacturing	0	0	81,486	0
Public utilities	0	0	109,540	0
Services	0	0	936,455	0
Banks & other financial institutions	23,047	5,825	537,299	0
Real estate	0	0	394,954	0
Public sector	0	0	985,356	0
Others	0	0	354,734	553
Allowance for probable losses	0	(5,825)	(202,899)	0
	23,047	**0**	**3,553,291**	**553**

As at December 31, 2012				
	Cash and Cash Equivalents	Available for sale Securities	Loans and Receivables	Other Asset (accounts receivable)
Agriculture, fishing and forestry	0	0	42,164	0
Wholesale and retail trade	0	0	485,356	0
Manufacturing	0	0	86,557	0
Public utilities	0	0	156,703	0
Services	0	0	698,648	0
Banks & other financial Institutions	44,594	5,825	351,321	0
Real estate	0	0	231,731	0
Public sector	0	0	1,022,735	0
Others	0	0	101,200	474
Allowance for probable losses	0	(5,825)	(212,087)	0
	44,594	**0**	**2,964,328**	**474**

f. *Credit Quality of Financial Assets*

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

	2013	2012
Neither past due nor impaired	3,389,994	2,800,192
Past due but not impaired	0	0
Impaired	264,160	318,647
	3,654,154	**3,118,839**

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

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

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

4.2 Interest Rate Risk

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

4.3 Liquidity Risk

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

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

Analysis of financial liabilities by remaining contractual maturities

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

	As at December 31, 2013			
	Up to 1 year	**Over 1 up to 3 years**	**Over 3 years**	**Total**
Liabilities				
Bills payable	1,509,378	0	594,968	2,104,346
Deposit on lease contracts	104,808	107,120	28,805	240,733
Accrued Other expenses	41,041	0	0	41,041
Other liabilities	28,290	0	0	28,290
	1,683,517	107,120	623,773	2,414,410

	As at December 31, 2012			
	Up to 1 year	**Over 1 up to 3 years**	**Over 3 years**	**Total**
Liabilities				
Bills payable	1,122,700	23,334	420,851	1,566,885
Deposit on lease contracts	87,325	100,641	60,321	248,287
Accrued other expenses	53,691	0	0	53,691
Other liabilities	35,231	0	0	35,231
	1,298,947	123,975	481,172	1,904,094

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

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

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 P10.0 million. The Corporation has no branches requiring additional capital requirement.

The Corporation is 100%-owned by its Parent Bank, a domestic bank. As at December 31, 2013 and 2012, 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, 2013 and 2012 are computed as shown below:

	2013	2012
Total equity	1,275,915	1,212,079
Cash and cash equivalents	(23,047)	(44,594)
Net Capital	**1,252,868**	**1,167,485**
Bills payable	2,104,346	1,566,885
Deposit on lease contracts	238,733	248,287
Total equity	1,275,915	1,212,079
Overall Financing	**3,618,994**	**3,027,251**
Capital-to-overall financing ratio	**1 : 2.89**	**1 : 2.59**

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.

	2013		2012	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Cash and cash equivalents	23,047	23,047	44,594	44,594
Available for sale financial asset	5,825	0	5,825	0
Loans and other receivables	3,756,190	3,553,291	3,176,415	2,964,328
Bills payable	2,104,346	2,104,346	1,566,885	1,566,885
Accrued taxes and other expenses	63,142	63,142	68,784	68,784
Other liabilities	29,420	29,420	36,297	36,297
Deposit on lease contracts	238,733	238,733	248,287	248,287

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.

<u>*Fair Value Hierarchy*</u>

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

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

6. CASH AND CASH EQUIVALENTS

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

This account consists of:

	2013	2012
Checks and other cash items	0	25
Petty cash fund	20	20
Deposits in bank	23,027	44,549
	23,047	**44,594**

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:

	2013	2012
Available for sale securities shares-listed	5,825	5,825
Accumulated market losses	(5,825)	(5,825)
	0	**0**

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 were booked as Available-for-sale securities.

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

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

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

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

8. LOANS AND RECEIVABLES

Current portion consists of:

	2013	2012
Financial lease receivables	376,958	133,364
Financial lease receivables - LBP	5,332	101,425
Loans and receivables financed	664,708	354,616
	1,046,998	589,405
Accounts receivables	96,371	51,591
Allowance for probable losses	(2,014)	(1,960)
	94,357	49,631
Accrued interest receivables	5,184	5,287
Allowance for probable losses	(21)	(9)
	5,163	5,278
Sales contract receivables	481	698
	1,146,999	**645,012**

Non-current portion consists of:

	2013	2012
Financial lease receivables	1,545,702	1,611,457
Allowance for probable losses	(28,853)	(26,259)
	1,516,849	1,585,198
Financial lease receivables – LBP	209,296	14,916
Allowance for probable losses	0	0
	209,296	14,916
Loans and receivables financed	852,158	903,061
Allowance for probable losses	(172,011)	(183,859)
	680,147	719,202
	2,406,292	**2,319,316**

As of December 31, 2013, 42 per cent of the Corporations' Finance lease and Loans receivables are subject to interest re-pricing. The remaining loans earn annual fixed interest rates ranging from 9 per cent to 16.50 per cent in 2013.

Finance Lease Receivables

The analysis of the LBP Lease's finance lease receivables as at December 31, 2013 and 2012 is presented as follows:

	2013	2012
Finance lease receivables:		
Within 1 year	441,015	110,333
Beyond 1 year but not beyond 5 years	435,182	370,074
Beyond 5 years	1,824,756	2,210,582
	2,700,953	2,690,989
Residual value of lease assets:		
Within 1 year	100,972	28,602
Beyond 1 year but not beyond 5 years	85,200	120,149
Beyond 5 years	139,336	142,598
	325,508	291,349
Total minimum lease payments receivables	3,026,461	2,982,338
Less: Unearned lease income		
Within 1 year	165,029	5,570
Beyond 1 year	1,015,832	1,314,347
	1,180,861	1,319,917
Net investment in finance lease receivables	1,845,600	1,662,421
Past due receivables	0	370
Restructured accounts	36,476	42,873
Past due - restructured	8,053	8,053
Items in litigation	43,682	43,682
	88,211	94,978
Less: Unearned lease income	11,151	12,578
	77,060	82,400
	1,922,660	**1,744,821**
Finance lease receivables - LBP:		
Within 1 year	11,529	63,403
Beyond 1 year but not beyond 5 years	298,962	27,277
Beyond 5 years	137,586	0
	448,077	90,680
Residual value of lease assets:		
Within 1 year	284	90,104
Beyond 1 year but not beyond 5 years	5,653	5,653
	5,937	95,757
Total minimum lease payments receivables	454,014	186,437
Less: Unearned lease income		
Within 1 year	6,481	52,082

Beyond 1 year	232,905	18,014
	239,386	70,096
Net investment in finance lease receivables - LBP	**214,628**	**116,341**

Loans and Receivables Financed

The breakdown of loans and receivables financed as of December 31, 2013 and 2012 are as follows:

	2013	2012
Loans and Receivables Financed:		
Due within 1 year	664,708	354,616
Due beyond 1 year	572,198	583,088
	1,236,906	937,704
Less: Unearned Income	0	0
	1,236,906	937,704
Past Due Receivables	132,109	140,610
Restructured Accounts	59,054	53,109
Past Due - Restructured	19,026	58,454
Items in Litigation	74,187	75,275
	284,376	327,448
Less: Unearned Income	4,416	7,475
	279,960	319,973
	1,516,866	**1,257,677**

Summary of Loans and Receivables

Loans and Lease Receivables

	2013	2012
Financial Lease Receivables	1,922,660	1,744,821
Financial Lease Receivables - LBP	214,628	116,341
Loans and Receivables Financed	1,516,866	1,257,677
	3,654,154	**3,118,839**

Other Receivables:

	2013	2012
Accounts Receivables	96,371	51,591
Accrued Interest Receivables	5,184	5,287
Sales Contract Receivables	481	698
	102,036	**57,576**

Accounts Receivables amounting to P93.008 million and P48.007 million represent the amounts due from Parent Bank for financial lease and operating lease transactions for 2013 and 2012, respectively.

Interest and Discounts on Receivables

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

	2013	2012
Lease contract receivables	344,227	322,997
Loans receivables	108,904	137,589
Sales contract receivables	120	1,054
Cash and cash equivalents	145	240
	453,396	**461,880**

Reconciliation of credit losses

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

2013				
	Lease Contracts Receivables	**Loans and Finance Receivables**	**Other Receivables**	**Total**
At January 1, 2013	26,259	183,859	1,969	212,087
Provisions during the year	2,892	10,042	66	13,000
Write-off during the year	(298)	(18,690)	00	(18,988)
Foreclosure and adjustments	0	(2,013)	0	(2,013)
Reallocation to other properties acquired	0	(1,187)	0	(1,187)
At December 31, 2013	28,853	172,011	2,035	202,899
Individual impairment	28,853	156,494	2,035	187,382
Collective impairment	0	15,517	0	15,517
Total impairment	28,853	172,011	2,035	202,899
Gross amount of loans Individually determined to be impaired, before deducting any individually assessed credit losses	51,735	282,615	2,107	336,457

2012				
	Lease Contracts Receivables	**Loans and Finance Receivables**	**Other Receivables**	**Total**
At January 1, 2012	6,438	156,329	1,374	164,141
Provisions during the year	19,821	27,530	595	47,946
At December 31, 2012	26,259	183,859	1,969	212,087
Individual impairment	26,259	167,582	1,969	195,810
Collective impairment		16,277		16,277
Total impairment	26,259	183,859	1,969	212,087
Gross amount of loans individually determined to be impaired, before deducting any				

individually assessed credit losses	43,387	275,260	3,336	321,983

BSP Reporting

Details of finance lease receivable as to industry/economic sector and collateral type at December 31, 2013 are as follows:

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

	2013	2012
Agriculture, fishing and forestry	1.08	1.35
Wholesale and retail trade	9.64	15.55
Manufacturing	2.44	2.76
Public utilities	3.29	4.98
Services	28.14	22.31
Banks & other financial institutions	13.36	9.73
Real estate	11.88	7.42
Public sector	28.91	32.74
Others	1.26	3.16
	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

	2013	2012
Secured		
Property under finance lease	1,815,135	1,862,879
Real estate mortgage	339,653	208,723
Chattel mortgage	783,797	662,930
	2,938,585	2,734,532
Unsecured	715,569	384,307
	3,654,154	**3,118,839**

BSP Circular No. 351 allows nonbanks 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, 2013 and 2012, nonperforming loans (NPLs) not fully covered by allowance for credit losses follow:

	2013	2012
Total NPLs	219,170	263,256
Less NPLs fully covered by allowance for credit losses	(107,507)	(105,930)
	111,663	**157,326**

As of December 31, 2013 and 2012, secured and unsecured NPLs follow:

	2013	2012
Secured	122,524	131,398
Unsecured	96,646	131,858
	219,170	**263,256**

9. INVESTMENT PROPERTY

These include acquired lands that are held to earn rentals, or for capital appreciation, or both. The movements of this account are presented below:

Cost	
At January 1, 2013	5,376
Additions	4,940
At December 31, 2013	10,316
Accumulated depreciation and impairment	
At January 1, 2013	3,062
At December 31, 2013	3,062
Net book value, December 31, 2013	**7,254**
Net book value, December 31, 2012	**2,314**

The aggregate market value of investment properties as of December 31, 2013 and 2012 amounted to P11.996 million and P7.056 million, respectively. Fair value has been determined based on valuations made by in-house appraisers or accredited independent appraisers. Valuations were derived on the basis of information on the prevailing market value of similar/ comparable real properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuation were made.

10. EQUIPMENT AND OTHER PROPERTY FOR LEASE

The Corporation entered into sale and leaseback transactions classified as financial lease with various lessees, involving various equipment with terms ranging from 24 to 60 months. 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 memorandum 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, 2013 and 2012 follow:

	2013	2012
Finance lease	6,962	0
Operating lease	53,627	52,167
Accumulated Depreciation - Operating lease	(46,065)	(45,107)
	14,524	**7,060**

Depreciation charges for the year amounting to P0.959 million is included as part of Depreciation/amortization account under Direct Expenses in the statement of comprehensive income.

11. PROPERTY AND EQUIPMENT

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

	Building and Improvements	Furniture and Fixtures	Transportation Equipment	Total
Cost				
January 1, 2013	42,566	12,723	1,567	56,856
Additions	0	398	0	398
Disposals/Adjustment	0	(139)	0	(139)
December 31, 2013	42,566	12,982	1,567	57,115
Accumulated Depreciation				
January 1, 2013	11,917	8,276	1,494	21,687
Depreciation	1,256	1,021	0	2,277
Disposals/Adjustment	0	33	0	33
December 31, 2013	13,173	9,330	1,494	23,997
Net Book Value, December 31, 2013	**29,393**	**3,652**	**73**	**33,118**
Net Book Value December 31, 2012	**30,649**	**4,448**	**73**	**35,170**

As of December 31, 2013 and 2012, the gross carrying amount of fully depreciated property and equipment still in use by the Corporation amounted to P0.825 million and P0.569 million, respectively.

Depreciation charges for the year are included as part of Depreciation/amortization account under General and Administrative Expenses of the statement of comprehensive income. The composition of the depreciation and amortization for the year is as follows:

	2013	2012
Investment property	0	5
Equipment and other properties for lease	959	1,077
Property and equipment	2,277	2,138
Property and equipment (ROPA)	0	191
Other assets (Intangibles)	733	271
	3,969	**3,682**

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, 2013	6,262	156	1,023	7,441
Impairment	(638)	0	(549)	(1,187)
Balance at December 31, 2013	**5,624**	**156**	**474**	**6,254**
Balance at December 31, 2012	**6,262**	**156**	**1,023**	**7,441**

The changes in allowance for impairment are as follows:

	2013	2012
Balance at January 1	1,907	3,294
Provision during the year	1,187	1,675
Reclassification	0	(3,062)
Balance at December 31	**3,094**	**1,907**

The Corporation recognized gain from sale of non-current assets held for sale amounting to P0.784 million in CY 2013 and P4.656 million in CY 2012.

13. OTHER ASSETS

Current and non-current classification of other assets as at December 31, 2013 and 2012 are as follows:

	2013		
	Due within one year	Due beyond one year	Total
Miscellaneous assets	4,907	1,127	6,034
Prepaid expense	3,987	0	3,987
Intangibles	733	681	1,414
Accounts receivables	553	0	553
Stationeries and supplies unissued	116	0	116
Other investments	0	16	16

	10,296	**1,824**	**12,120**

	2012		
	Due within one year	**Due beyond one year**	**Total**
Miscellaneous assets	4,779	1,075	5,854
Prepaid expense	1,924	0	1,924
Intangibles	721	1,154	1,875
Accounts receivables	474	0	474
Stationeries and supplies unissued	101	0	101
Other investments	0	16	16
	7,999	2,245	10,244
Less: Allowance for probable loss	1,366	0	1,366
	6,633	**2,245**	**8,878**

14. DEFERRED TAX ASSET

This account consists of deferred tax asset due beyond one year from reporting date amounting to P62,716 and P62,547 as of December 31, 2013 and 2012, respectively.

15. ALLOWANCE FOR CREDIT AND IMPAIRMENT LOSSES

Changes in the allowance for probable losses are as follows:

	2013	**2012**
Balance as at January 1		
Financial Lease Receivables	26,259	6,438
Loans and Receivables Financed	183,859	156,329
Accounts Receivables - clients	1,960	1,321
Accrued Interest Receivables	9	53
Investment Property	3,062	2,392
Non-current Assets held for sale	1,907	3,294
Other Assets	1,366	1,566
	218,422	171,393
Provisions for the year	13,000	49,200
Accounts charged off and others	(22,367)	(2,171)
Balance as at December 31	**209,055**	**218,422**

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

	2013	**2012**
Balance as at December 31		
Financial Lease Receivables	28,853	26,259
Loans and Receivables Financed	172,011	183,859
Accounts Receivables - clients	2,014	1,960
Accrued Interest Receivables	21	9
Investment Property	3,062	3,062
Non-current Assets held for sale	3,094	1,907
Other Assets	0	1,366

	209,055	**218,422**

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

16. BILLS PAYABLE

This account represents peso borrowings from various banks.

	2013	2012
Current:		
Promissory Note	1,509,378	1,122,700
Non-Current		
Promissory Note	587,190	420,851
Retail Countryside Fund	7,778	23,334
	594,968	444,185
	2,104,346	**1,566,885**

Interest rates on bills payable follow:

	2013	2012
Promissory Note	3.20% - 7.75%	5.00% - 8.00%
Retail Countryside Fund	4.00%	4.00% - 5.49%

Bills payable are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances as of December 31, 2013 and 2012 are partially secured with terms of maturity ranging from 90 days to 10 years. Interest Expense on borrowings amounted to P74.288 million and P86.772 million for the years ending December 31, 2013 and 2012, respectively.

As at December 31, 2013, there are no defaults and breaches on these promissory notes.

17. DEPOSITS ON LEASE CONTRACTS

This account represents deposits on:

	2013	2012
Financial leases	238,607	238,240
Operating leases	126	10,047
	238,733	**248,287**

Breakdown of deposits on finance leases by contractual settlement dates as at December 31, 2013 and 2012 is as follows:

	2013	2012
Due within 1 year	104,808	87,325
After 1 year up to maturity	133,925	160,962
	238,733	**248,287**

18. ACCRUED TAXES AND OTHER EXPENSES

This account consists of:

	2013	2012
Accrued Other Expenses Payable	35,775	49,164
Accrued Income Tax Payable	18,826	13,235
Accrued Interest Payable	5,266	4,526
Accrued Other Taxes and Licenses Payable	3,275	1,859
	63,142	**68,784**

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

19. OTHER LIABILITIES

This account consists of the following:

	2013	2012
Withholding tax payable	1,127	1,062
Accounts payable – Others	1,796	966
Accounts payable – Suppliers	63	11,735
Philhealth payable	11	10
Pag-ibig fund payable	8	24
Fringe benefit tax payable	3	3
SSS payable	1	9
Miscellaneous liabilities	26,411	22,488
	29,420	**36,297**

The account balances comprising this account will mature within the next 12 months from respective reporting dates.

Of the total miscellaneous liabilities as of December 2013 and 2012, the amounts of P13.980 million and P11.340 million, respectively, represent payments made by several loan/lease accounts with request for restructuring or waiver of penalties. These accounts are temporarily booked as Miscellaneous Liabilities – Unapplied Payments pending evaluation and action on the respective requests of the concerned accounts.

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

20. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

	2013			2012		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Assets						
Cash and cash equivalents	23,047	0	23,047	44,594	0	44,594
Loans and receivables	1,146,999	2,406,292	3,553,291	645,012	2,319,316	2,964,328
	1,170,046	2,406,292	3,576,338	689,606	2,319,316	3,008,922
Non-Financial Assets						
Investment Property	0	7,254	7,254	0	2,314	2,314
Equipment and other properties for lease	0	14,524	14,524	0	7,060	7,060
Property and Equipment	0	33,118	33,118	0	35,170	35,170
Non-Current Assets Held for Sale	0	6,254	6,254	0	7,441	7,441
Other Assets	10,296	64,540	74,836	6,633	64,792	71,425
	10,296	125,690	135,986	6,633	116,777	123,410
Total	1,180,342	2,531,982	3,712,324	696,239	2,436,093	3,132,332
Financial Liabilities						
Accrued taxes and other expenses	63,142	0	63,142	68,784	0	68,784
Other liabilities	29,420	0	29,420	36,297	0	36,297
Bills payables	1,509,378	594,968	2,104,346	1,122,700	444,185	1,566,885
Deposits on lease contracts	104,808	133,925	238,733	87,325	160,962	248,287
Total	1,706,748	728,893	2,435,641	1,315,106	605,147	1,920,253

21. EARNINGS PER SHARE

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

The following reflects the basic earnings per share computations:

	2013	2012
Net income (a)	158,734	145,591
Weighted average number of shares (b)	48,555	48,555
Basic earnings per share (a/b)	**3.27**	**3.00**

There were no treasury shares and outstanding dilutive potential common shares as of December 31, 2013 and 2012.

22. EQUITY

The Corporation calculates its capital as equity as shown in the statement of financial position.

22.1 Capital Stock

Details of Capital Stock at December 31, 2013 and 2012 follow:

	2013	2012
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	463,482	90,759	554,241
Stock Dividends Issued				
May 11, 2010	1,053	10,534	11,019	21,553
July 31, 2010	1,154	11,537	12,192	23,729
At January 1, 2013	48,555	485,553	113,970	599,523
At December 31, 2013	**48,555**	**485,553**	**113,970**	**599,523**

22.2 Dividend Declaration

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

For the year 2012, the Board of Directors of LBP Leasing Corporation, in its February 21, 2013 meeting, approved the declaration of cash dividends amounting to P94.683 million or P1.95 per share on the 48.555 million common stocks held by all stockholders of record as of December 31, 2012. The payment of the cash dividends will reduce the Corporation's Retained Earnings from P618.381 million to P523.698 million.

For the year 2013, the Board of Directors of LBP Leasing Corporation in its March 26, 2014 meeting, approved the declaration of cash dividends amounting to P72.153 million or P1.486 per share on the 48.555 million common stocks held by all stockholders of record as of December 31, 2013. The payment of the cash dividends will reduce the Corporation's Retained Earnings from P681.708 million to P609.555 million.

22.3 Retained Earnings

	2013	2012
Beginning balance	618,381	536,397
Prior period adjustment	44	0
Income for the year	158,734	145,591

Declaration of dividends	(94,683)	(63,607)
Ending Balance	**682,476**	**618,381**

22.4 Accumulated Other Comprehensive Losses

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

	2013	2012
Net unrealized gains/ (losses) on AFS	(5,825)	(5,825)
Remeasurement gains/(losses) on Retirement fund	509	-
Ending Balance	**(5,316)**	**(5,825)**

23. LEASES

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

The Corporation also entered into operating leases on certain motor vehicles. These operating leases are from periods ranging from 6 to 60 months with equal monthly rental payments as set forth in the lease agreement. Operating lease income presented under Other Income in the Corporation's statements of comprehensive income for the years ended December 31, 2013 and 2012 amounted to P45.907 million and P48.572 million, respectively. The carrying amount of lease deposits payable to lessee amounted to P0.126 million and P10.047 million as of December 31, 2013 and 2012, respectively.

Operating lease commitments

Future minimum rental receivables under non-cancelable operating leases as of December 31, 2013 and 2012 are as follows:

	2013	2012
Due within 1 year	21,644	874
After 1 year up to maturity	93	370
	21,737	**1,244**

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:

	2013	2012
Finance lease	104,432	87,769
Operating lease	24,289	20,709
	128,721	**108,478**

24. OTHER INCOME

This account consists of:

	2013	2012
Gain from Sale/Derecognition of Non-financial assets	784	4,656
Income from Assets Acquired	0	611
Service charge	0	249
Loss from assets sold/exchanged	8	(24)
Miscellaneous income	6,537	4,019
	7,329	**9,511**

25. EMPLOYEE BENEFITS

25.1 Compensation and Fringe Benefits

Expenses recognized for salaries and employee benefits are presented below:

	2013	2012
Salaries and wages	14,806	13,545
Bonuses	7,244	6,069
Retirement	871	1,576
Social security costs	708	718
Other benefits	2,184	2,222
Total employees benefits	**25,813**	**24,130**
Directors' remuneration	1,858	2,804
Total compensation and fringe benefits	**27,671**	**26,934**

Employee benefits include annual salaries, paid sick leave, profit sharing and bonuses, and other non-monetary benefits. Total accrued compensated absences as at December 31, 2013 and 2012 are P3.792 million and P3.376 million, respectively.

25.2 Retirement Benefits

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

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

The following tables summarize the components of retirement expense recognized in the consolidated statements of income and pension liability/assets recognized in the consolidated statements of financial position for the existing retirement plan. The tables present components of retirement costs for the year 2013 only, in as much as the actuarial valuation for the Corporation became available only on April 2013. Further, the Retirement Trust Fund account was with LBP Trust Banking Group (LBP-TBG) was opened on November 28, 2012. Prior to the opening of Retirement Trust Fund account with LBP and the availability of the Funding Actuarial Valuation report, the Corporation accrues Retirement Costs based on actual services rendered by the employees and Article V of the LBP Subsidiaries Retirement Benefit Plan which defines the percentage of entitlement of incumbents to retirement benefits.

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

The components of retirement costs included in "General and Administrative expenses" account in the statements of comprehensive income are as follows:

	2013
Current service cost	638
Past service cost	156
Net interest cost	77
	871

For the year 2012, LLC has recognized Contribution to Retirement in the statement of comprehensive income the amount of P1.576 million representing additional retirement obligations.
The amount of re-measurement gains on retirement plan recognized in the consolidated statements of comprehensive income is as follows:

	2013
Plan assets	104
Defined benefit obligation	623
	727

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

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

	2013
Present value of defined benefit obligations	8,817
Fair value of plan assets	9,125
	308

As of December 31, 2012 accrued retirement benefit lodged in Miscellaneous Liability amounted to P1.505 million.

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

	2013
Balance at beginning of the year	8,411
Current service cost	638
Interest cost	391
Re-measurement (gains)/losses arising from:	
Financial Assumptions	(623)
	8,817

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

	2013
Balance at beginning of the year	6,750
Contributions	1,957
Interest income	314
Re-measurement (gains)/losses arising from:	
Return on plan assets	104
	9,125

The Corporation's plan assets are comprised of the following:

	2013	2012
Debt instruments		
Government securities	9,004	6,814
Cash and cash equivalents		
Special deposit account	145	0
Deposit in banks	1	9
Total Plan assets	**9,150**	**6,823**

The carrying amount of the plan assets approximates its fair value.

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

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

Discount rate	4.65%
Future salary increases	7%
Expected average remaining working lives of employees	
Male	46
Female	358

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

The Corporation expects to pay P0.711 million in contributions to its defined benefit plans in 2014.

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

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

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

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

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

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

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

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

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

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

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

LBP LEASING CORPORATION
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
December 31, 2013

ASSETS	
Deposits in bank	
Savings account – own bank	793.76

Due from BSP		
Special deposit account	145,000.00	
Interest receivable, Special deposit account - BSP	177.32	145,177.32
Available-for-Sale (AFS) Financial Assets		
AFS Debt Securities – Government Securities		
Investment in GS – Coupon (MTM)	8,752,907.57	
Interest Receivable – Domestic GV	66,231.58	
Accumulated market gains/(losses) coupons	230,139.53	
Accumulated premium amortization-investment in GS Coupon	(45,205.75)	9,004,072.93
TOTAL ASSETS		**9,150,044.01**
LIABILITIES		
Withholding tax payable		13,282.19
Trust fee payable		11,676.73
NET ASSETS AVAILABLE FOR BENEFITS		9,125,085.09
Present value of benefits		
Vested benefits	8,817,196.55	
Non-vested benefits	307,888.54	9,125,085.09
EXCESS/(DEFICIT) OF NET ASSETS OVER BENEFITS		**0**

26. TAXES AND LICENSES

This account consists of:

	2013	2012
Gross Receipts Tax	19,669	21,504
Business License	1,310	2,683
Real Estate Tax	288	439
Annual Fees (SEC)	13	13
Barangay Clearance	12	12
Registration of Vehicles	10	13
Annual Non-VAT Registration Fee	1	1
	21,303	**24,665**

a. *Relevant Tax Regulations*

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

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

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

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

The amounts relating to such information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRSs. The following are the tax information required for the taxable year ended December 31, 2013:

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

	2013	2012
a. Documentary stamp tax	8,292	8,115
b. Local		
Real estate taxes	288	439
Mayor's permit	1,322	2,681
c. National		
BIR annual registration	1	1
Percentage taxes	19,619	21,949
d. Others		
LTO registration fees	11	13
SEC annual registration fees	12	13
	29,545	**33,211**

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

	2013	2012
i. Tax on compensation	3,522	3,632
ii. Fringe benefit tax/es	13	12
iii. Expanded creditable withholding tax/es	5,244	4,228
iv. Percentage tax/es	2,368	2,764
v. Final withholding tax/es	9,268	6,852
vi. Corporate Income tax/es	44,721	52,922
	65,136	**70,409**

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

		CY 2013		
	Exempt	**Special Rate**	**Regular/ Normal Rate**	**Total**
Sale of Services	0	0	503,305	503,305

CY 2012				
	Exempt	Special Rate	Regular/ Normal Rate	Total
Sale of Services	0	0	522,520	522,520

(a) Cost of Services

CY 2013				
	Exempt	Special Rate	Regular/ Normal Rate	Total
Cost of Services				
Direct charges - salaries, wages and benefits	0	0	10,522	10,522
Direct charges -depreciation	0	0	959	959
Direct charges - outside Services	0	0	128,721	128,721
Direct charges - others	0	0	114,164	114,164
	0	**0**	**254,366**	**254,366**

CY 2012				
	Exempt	Special Rate	Regular/ Normal Rate	Total
Cost of Services				
Direct charges - salaries, wages and benefits	0	0	10,795	10,795
Direct charges -depreciation	0	0	1,077	1,077
Direct charges - outside Services	0	0	108,478	108,478
Direct charges - others	0	0	108,240	108,240
	0	**0**	**228,590**	**228,590**

(b) Non-Operating and Taxable Other Income

CY 2013				
	Exempt	Special Rate	Regular/ Normal Rate	Total
Interest income - Others	0	0	120	120
Miscellaneous income/(loss)	0	0	6,537	6,537
Loss on sale of assets	0	0	(2,391)	(2,391)
	0	**0**	**4,266**	**4,266**

CY 2012				
	Exempt	Special Rate	Regular/ Normal Rate	Total
Interest income - Others	0	0	1,054	1,054
Miscellaneous income/(loss)	0	0	4,019	4,019
Service charges	0	0	249	249
Gain on sale of assets	0	0	8,041	8,041
	0	**0**	**13,363**	**13,363**

27. OTHER EXPENSES

This account consists of:

	2013	2012
Power, light and water	1,755	1,852
Security, messengerial and janitorial services	1,870	1,772
Representation and entertainment	1,826	1,628
Transportation and travelling	1,353	1,155
Advertising and publicity	1,087	1,052
Stationeries and supplies issued	715	637
Postage, cables, telephone and telegram	635	636
Repairs and maintenance	581	652
Membership fees and dues	556	521
Management and other professional fees	508	1,073
Fuel and lubricants	306	358
Data processing charges	140	198
Information technology expense	99	84
Donation and other charitable contribution	50	5
Periodicals and magazines	19	19
Fringe benefit tax	13	12
Fines, penalties and other charges	4	0
Bank charges	1	1
Miscellaneous expenses	295	239
	11,813	**11,894**

28. INCOME TAX

The major components of income tax expense for the years ended December 31, 2013 and 2012 are:

	2013	2012
Current income tax expense	44,808	52,907
Deferred tax expense	5,703	569
Income tax benefit	(6,090)	(12,737)
	44,421	**40,739**

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

Income taxes include corporate income tax and final taxes paid at the rate of 20.00 per cent, which is a final withholding tax on gross interest income from deposits with banks. In addition, current tax regulations define expenses to be classified as entertainment, amusement and recreation (EAR) and set a limit for the amount that is deductible for tax purposes. Under the regulation, EAR expense allowed as a deductible expense for the Corporation, a service Corporation is limited to the actual EAR paid or incurred but not to exceed 1.00 per cent of net revenue (i.e. gross revenue less discounts). EAR of the Corporation charged against current operations, included under “Other Expenses” in the statement of comprehensive income amounted to P0.426 million and P0.201 million in 2013 and 2012, 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 five per cent to seven per cent on non-lending income.

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

Minimum Corporate Income Tax (MCIT) computed at two per cent of gross profit amounted to P4.969 million and P5.869 million 2013 and 2012, respectively.

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

Deferred income tax asset

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

	2013	2012
Allowance for Probable Loss	62,716	61,765
Estimated Retirement Fund	0	782
	62,716	**62,547**

29. RELATED PARTY DISCLOSURES

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

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

Accounts	Related Party	2013	2012
Cash and cash equivalents	Parent Company	17,335	36,806
Accounts receivables	Parent Company	93,009	48,007
Net investment on lease contract receivable	Parent Company	214,628	116,341
Bills payable	Parent Company	1,820,346	1,266,885
Deposit on lease contracts	Parent Company	2,041	46,684
Accrued interest payable	Parent Company	4,690	4,122
Miscellaneous liabilities	Parent Company	874	888
		2,152,923	**1,519,733**

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

Accounts	Related Party	2013	2012
Financial Lease Income	Parent Company	160,261	138,621
Operating Lease Income	Parent Company	45,907	48,572
Income from Deposits in Bank	Parent Company	119	212
Interest and Financing Charges	Parent Company	66,639	68,441
		272,926	**255,846**

a. Bills payable and Interest and Financing Charges

Interest rates on borrowings to related party ranges from 3.20 per cent to 7.75 per cent. The loans are partially secured by assignment of receivables with terms of maturity ranging from 90 days to 5 years.

b. Financial Lease Income

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

c. Operating Lease Income

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

d. Other Related Party Transactions

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

29.3 Compensation of Key Management

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

	2013	2012
Key management compensation		
Salaries and other benefits	8,928	8,176
Post-employment benefits	4,952	3,722
Actual Director's remuneration	3,358	2,804
	17,238	**14,702**

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

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

A Trust Agreement was made and entered into between LBP Leasing Corporation (LLC) and Land Bank of the Philippines – Trust Banking Group (LBP-TBG) on November 28, 2012, thereby appointing the latter as the Trustee of the LLC Employees' Retirement Trust Fund.

30. FINANCIAL PERFORMANCE

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

	2013	2012
Return on Average Assets	4.65	4.78
Return on Average Equity	12.80	12.44
Return on Investment	26.56	24.28
Debt to Equity	1.91:1	1.58:1
Solvency	1.52:1	1.63:1

31. CONTINGENCIES

Pending Case on the Transfer of Ownership of Property

A case against LLC for Preliminary Injunction is now pending before the Regional Trial Court of Manila. This stems from the company's purchase of a property for the account of a lease-to-own client. After the purchase however, but prior to the transfer, the owner of the adjoining lot claimed that the building constructed on the purchased property in fact encroached on their lot. The owner sued the former owner, LBP Lease and the DOLE as the occupant of the purchased property, claiming damages among others. The plaintiff likewise applied and was granted an Injunctive Order. Hence, LLC is unable to transfer the title of the property to the company's name during the pendency of the action.

As to the liability, it is most probable that LLC 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 LLC is a buyer in good faith. However, because of the delay in the transfer of ownership, LLC 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, 2013, management does not anticipate significant losses from these contingencies and commitments that would adversely affect the Corporation's financial position and results of operations.

Status of Account where there was Double Financing on Leased Equipment

In regard one account where there was double financing of the equipment under financial lease with LLC, appropriate legal actions have been taken by LLC. To secure the other remaining equipment which are possible sources of recovery of the exposure of LLC and the other affected leasing companies, arrangements are being made by the concerned leasing companies, acting as a consortium, for the transfer of the equipment to a more secure location.

In the event that the request for the transfer of the equipment is denied, a Replevin case will be immediately filed to regain custody of the equipment through a court order.