CONTINGENCY FUNDING PLAN

Liquidity Crisis Indicators and Benchmark Levels
Signaling Implementation

I. OBJECTIVES

The DBP Leasing Corporation (DBPLC) or the "Company" Contingency Funding Plan (CFP) serves to outline the procedures that shall be followed when adverse market conditions arise that could disrupt the company's ability to fund some or all of its needs.

This contingency plan also serves to identify and monitor events or indicators that shall trigger the implementation of the CFP.

This document provides senior management and the Finance group with procedures to follow when the contingency plan is officially in effect in order to:

- Ensure minimal disruptions in treasury operations;
- Ensure that all possible means are exhausted to mitigate, if not altogether avoid, any losses from disruption of normal operations; and
- Identify and take advantage of opportunities while under the adverse or crisis conditions.

II. COMPOSITION OF THE LIQUIDITY CRISIS MANAGEMENT TEAM (LCMT)

The LCMT composition includes:

a.	President & CEO	-	Chairperson
b.	Head – Finance Group	-	Vice Chairperson
c.	Head – Accounts Management Group	-	Member
d.	Head – Operations Group	-	Member
e.	Head – Legal & Collection Group	-	Member
f.	Head – Administrative Services Group	-	Member
g.	Marketing Team Leaders/ Senior Account Officer	-	Member
h.	Officer/Staff	-	Minutes Taker

The Team may designate other members, as they deem necessary. The LCMT shall meet in the DBPLC conference room or at an alternative site to be designated and announced by its Chairperson, or in his absence, the Vice Chairperson.

III. ROLES AND RESPONSIBILITIES OF THE LCMT

A Directory containing the addresses and complete contact details of all personnel shall always be kept with the LCMT members.

The Finance Group will provide the LCMT with the following information:

a. Expected amount of collections per week/per month
b. List of Receivables and other liquid assets that may readily be disposed of or sold to parent DBP and other buyers. Lease and Loan Receivables to be sold shall include the CA and Credit Report as approved.
c. Details of bank credit facilities and available or drawable balances.
d. Details and status of liquidity funding facility thru loans, sale or equity infusion with DBP.
e. List of repossessed assets with net book values that can be disposed.

The Finance Group shall provide the LCMT with developments as often as necessary until the liquidity problem is contained.

- Manpower and logistics shall be mobilized as directed by the Chairperson and/or Vice Chairperson of the LCMT.

- The Company shall adhere to the following guidelines and policies as directed by the LCMT, which shall depend on the gravity of the crisis situation:

    - Liquidity shall be the utmost priority. The desired liquidity levels, as determined by the LCMT shall be carried out by the Finance Group and/or LCMT.

    - Treasury transactions shall be limited to collections, debt service and other commitments prescribed by the Finance Group. Maturing short term credit lines are to be rolled over as much as possible. Outflows to be reduced to a minimum level.

    - All Account officers and the Head of Accounts Management Group (AMG) shall communicate with their respective clients and assure them that the appropriate steps are being undertaken. The communication shall be coordinated with the DBP Head of Corporate Communications and the DBPLC President. AMG's priority is to ensure that clients will continue to honor their payments to DBPLC.

    - Finance Group will provide the LCMT with feedback regarding the developments and any problem with respect to funding some or all of its activities for proper action.

    - Finance Group shall follow the recovery procedures on Systems Failure should any of the relevant systems not be working in the offsite premise.

IV. EARLY WARNING SIGNALS : BENCHMARK INDICATORS

The normal financial condition of DLC are as follows:

1. Full availability of approved credit lines from creditor banks
2. Monthly collection efficiency of 90%
3. Past due level of 5%
4. Positive maximum cumulative outflow

On a monthly basis, the Finance Group must monitor and report the following indicators to senior management in deciding whether or not to put in motion the immediate implementation of the Contingency Funding Plan, ("CFP"). Below are the early warning signals:

1. At least 30% Decline In Collections for Three (3) Continuous Months

   Because the Company's day to day operations and debt servicing can be largely sustained by an efficient collection, a substantial decline in collection will have a detrimental impact on its core activities. Collections are payments from clients coming from deposits of post dated checks.

2. At least 50% Reduction and/or Cancellation of the Company's Credit Lines

   The Company's primary sources of funds used in its lending operations are the credit facilities extended by banks. On a daily basis, the Finance Group monitors the amount of available balances from each of these sources, and the type of lending transactions the funds will be utilized on. For prudential considerations, the company must not rely excessively on these credit lines and must need to understand the various conditions, such as drawdown lead times, that could affect the Company's ability to quickly access such lines.

   Any significant changes made by the Company's creditors (e.g., total available credit lines are reduced by at least 50% or the imposition of additional requirements) that would hinder our ability to draw sufficient amount from our credit lines should be a cause for concern and should trigger a decision whether or not to put in motion the CFP.

   The Company must at once determine the creditors' reasons for such changes and must immediately adopt or implement actions that would address the creditors' concern. Other indicators such as increased interest rates, more stringent repayment terms and collateral requirements also need to be addressed as they could reflect a negative outlook towards the Company.

   Upon the advice of the Finance Group of the occurrence of such an event, the President in coordination with the Finance Group shall at once convene the ManCom/Liquidity Crisis Management Team in order to assess the situation and determine the proper course of action should the situation lead to a liquidity crisis. The Finance Group shall be the lead implementor of the course/s of actions decided by the ManCom/LCMT.

3. Past Due Rate of 30% and Higher

   This has direct correlation and impact on collections. Non-repayment of scheduled payments will cause a spike in collection efficiency. Past due as defined by the BSP.

4. Breach in maximum cumulative outflow exceeds to all the available credit lines as of end of the month. A negative MCO would signal funding requirements.

   Frequency of monitoring of these indicators should be done monthly by the Finance Group and reported to senior management.

Therefore, the Company's shall consider such early warning signals as clear calls for immediate management attention and determination if the CFP needs to be put in motion particularly if the problem is deemed to be caused by any or all of the following events:

1. A present or imminent political/social upheaval or disorder that could compromise market's trust and confidence in DBPLC.

2. Country-wide or global financial crisis that could lead to serious concerns about the solvency of important industries, especially financial institutions (the contagion effect)

3. Sudden change in market sentiments in dealing with non-bank financial institutions as a result of regulatory or interest rate changes.

Provided that, the determination of the presence, or effect, of any or all the aforegoing events, shall, prima facie, be determined by the President/CEO of DBPLC; Provided, further, that the President and CEO's determination of these events shall be submitted to, and ratified by, the Company's Board of Directors prior to the application of such measures as are necessary to protect the interest and viability of DBPLC.

Provided, finally, that the Board of Director's, subsequent to its decision respecting the presence of any or all of these events shall, in turn, require the President, in coordination with the Finance Group, to convene the ManCom/Liquidity Crisis Management Team to determine the proper course of action to take if such events and collection decline are expected to persist.

V. LIQUIDITY STRESS TEST

1. The Company's analysis of liquidity requires the measurement of its liquidity position on an ongoing basis and how funding requirements are likely to evolve under different scenarios, especially during adverse conditions. Hence, the Company must conduct a liquidity stress test as a matter of policy.

2. The general policy is to ensure that the Company has sufficient funds and sources of funds to ride through a liquidity crisis. The term “stress condition” is normally used in relation to a short-term crisis specific to a company’s operation. However, a bigger condition covering a general industry crisis in the country is also simulated for risk management purposes.

3. The determination of the Company’s cash flow based on collection and an assessment of its capacity to borrow provide an efficient way of managing day-to-day liquidity under normal conditions. For this reason, the Company may consider to stop lending and create liquidity from collections. It may also request liquidity assistance from the parent bank (DBP) via loans, additional equity or sale of receivables on a without resource basis.

The monitoring tools that will be used for liquidity are as follows: cash position report and collection report. The Finance Specialist or Treasury Officer will be the persons responsible in performing a stress test.

The Company, in coordination with DBP’s Enterprise Market Risk Management, shall use the following assumptions in its liquidity crisis scenarios:

A. Company Specific Liquidity Crisis Consisting of the Four (4) Early Warning Signals

The Company assumes at the minimum, a 30% decline in regular collections for three (3) consecutive months and at least a 50% bank-initiated reduction in credit lines, 30% past due level and as maximum cumulative outflow exceeding all available credit lines. At least three (3) liquidity indicators must be present to conclude a company specific liquidity crisis. This crisis scenario is assumed to be temporary, i.e., expected to last no more than 90 days.

B. Other Events

The Company shall perform simulation given a general market crisis scenario, triggered by political or international crisis or extreme national calamities where collections decline by at least 60% and at least 80% of bank credit lines are inaccessible. This simulation assumes a longer term crisis period and expected to persist for more than ninety (90) days.

Other events may also occur that would significantly affect DLC’s overall liquidity position as determined by the DLC Board, DLC Senior Management or Risk Management.

VI. LIQUIDITY STRESS SCENARIOS

Procedures during a liquidity stress scenario consist of the following:

- **Activation of the CFP** involves the convening of the LCMT and the initiation of the CFP through the authority of DLC Board or Senior Management, guided by the results of the monitoring of early warning signals.

- **Internal Communication** consists of regular meetings of the LCMT, close coordination of LCMT and key business units within DLC, more frequent reports on liquidity risk indicators from DLC's risk management personnel and status updates on actions taken to address liquidity stress scenarios.

Since each liquidity stress scenario is unique, specific strategies, or a combination of strategies, for raising funds (such as asset disposal, additional borrowings or capital infusion) that are suitable to a particular stress scenario must be provided in detail for easy implementation of the plan.

- **External Communication** involves informing parties outside of DLC, such as DBP Corporate Affairs, Office of the Chief Compliance Officer, SPR and ERMS.

  As the parent company, DBP will be provided regular updates on the corrective actions undertaken by DLC to address the liquidity stress scenarios. In addition, DBP, being the parent company, may be considered as funder of last resort for the most critical liquidity stress scenarios. This course of action will trigger concerned DBP offices to perform their respective functions in relation to DLC's operations. Hence, it is crucial that DLC is able to identify the most critical liquidity stress scenarios and the detailed action plan for such situations.

- **Termination of the CFP** entails assessment from the LCMT if the early warning signals and liquidity risk indicators have returned to normal levels and the consequent dissolution of the LCMT.

- **Review of the CFP** includes periodic testing of the CFP, review of threshold values for the early warning signals and of the defined normal levels for the liquidity risk indicators and updates to the CFP.

VII. RISK MANAGEMENT POLICY ON LIQUIDITY CONTINGENCY PLAN

The company's policy is to anticipate and mitigate any adverse liquidity situations in order to respond appropriately.

The Company's ability to withstand both temporary and longer-term crisis scenarios will depend on the adequacy of its liquidity contingency plans, using extreme crisis scenarios of prolonged and adverse liquidity periods due to political instability, economic uncertainty or market-wide/global financial contagion.

The Company's liquidity contingency plan should address the following factors:

- Sizeable holdings of quality lease/loan receivables from reputable, high-grade clients that could be readily disposed of in the secondary market via sale without recourse. The sale should take into account the likelihood that it will not be possible to realize the full book value of the receivable sold given the crises/emergency.

  The ManCom shall recommend to the Board of Directors (henceforth, the "Board") which assets to dispose of first. Typically, assets that are least detrimental to business relationships and public perceptions about the Company's soundness (e.g. Government accounts) are the first to be sold.

The contingency plan should include maintaining sound relationships with creditors and borrowers, as relationships with these counterparties become crucial during adverse conditions. A fair, ethical and mutually beneficial relationships with counterparties during periods of relative calm can work wonders in securing preferential concessions (e.g. quick loan releases from creditors) under abnormal or crisis conditions.

- Details of bank credit facilities and the available balances. The details shall include terms and conditions for drawdowns, ascertaining that such conditions have been complied with to ensure unhampered and fast availment when the need arises.

- Under normal periods, the Company's credit facilities must be a sound combination of long term and short-term credits. Preference should be given to securing long-term funds to match its long-term loans and leases in order to minimize gaps. Ideally, the amount of available funds should be equal to at least three (3) times the projected funding needs.

- The Company must secure a committed liquidity crisis funding facility from parent DBP, ensuring that such funding mechanism is compliant with all banking laws and regulations. Such facility is intended as a "last recourse" liquidity mechanism in order to guarantee that the company has a ready and quick access to funds during extreme adverse scenarios.

- The Company should periodically test its ability to draw on all credit facilities (at least once every quarter), particularly those that are maintained only for liquidity back-up purposes.

- Establishment of a Liquidity Crisis Management Team (LCMT)

  The Company shall have a Liquidity Crisis Management Team ("LCMT") whose members shall include the President & CEO, as Chairperson, all other members of the ManCom (with the Head of Finance Group as Vice Chairperson) and the most senior Account Officer, together with a designated officer or staff to serve as notes taker and minutes writer. The roles and responsibilities of the members must be delineated so everyone knows what actions are expected from them during problem situations.

  Upon determination of the existence, or the imminent occurrence of a liquidity crisis, the President & CEO shall convene the Liquidity Crisis Management Team. The LCMT shall decide on the specific course/s of action to take and, if needed, shall promptly secure prior approval of the Board or, the president of its parent DBP, of the actions it will take to address the crisis.

  The LCMT shall, if necessary, meet at least once a week (even daily, when the severity of the situation so requires) and shall furnish the Board the minutes of its meetings.

- Public Relations Communication

  The LCMT, in the course of its crisis meeting, shall consider public relations strategy, specifically how the Company will deal with the press and broadcast media should negative information about the Company is publicized. If material adverse information about the Company becomes public, the LCMT should be prepared to immediately counter the bad publicity by announcing corrective actions that are being implemented. This sends a message to the public and to all stakeholders that the highest levels of management are attentive to the problems that exist.

- Coordinated Actions with DBP Corporate Affairs, Strategic Planning and Research (SPR) DBP Enterprise Risk Management Sector (ERMS).

VIII. MINIMUM LOGISTICS AND CONTACT INFORMATION

- In the event of disaster/crisis requiring implementation of the CFP:
    - At least two (2) essential personnel shall man the Finance Group together with the Finance Group Head or President & CEO or Senior Risk Officer (in close coordination with DBP's Market Risk Management) in order to ensure minimal disruption in operations.

- Inventory of Vital Documents/Reports/Excel Spreadsheets
    - Finance Group should keep soft and hard copies of the documents/reports in a secure place. Back-up copies of these files should also be made and updated weekly at the identified back-up site. In the event that the contingency plan is called into action, the respective units are expected to be able to readily produce these files, reports and documents.

- The Finance Group Head will be responsible for the updating and review of the plan.

- The Contingency Funding Plan will be reviewed and tested every First Quarter of each year.