2017 Annual Report

LBP Leasing and Finance Corporation

CORPORATE PROFILE

LBP Leasing and Finance Corporation is a wholly owned subsidiary of Land Bank of the Philippines (LBP) and was registered in SEC on March 17, 1983. The Corporation was created to complement the services offered by LBP particularly in providing leasing facilities to government and private enterprises

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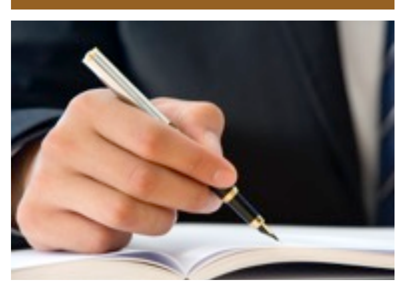
VISION

To provide accessible, affordable and responsive non-bank financial services to government offices and LBP borrowers in support of the National Government Agenda.

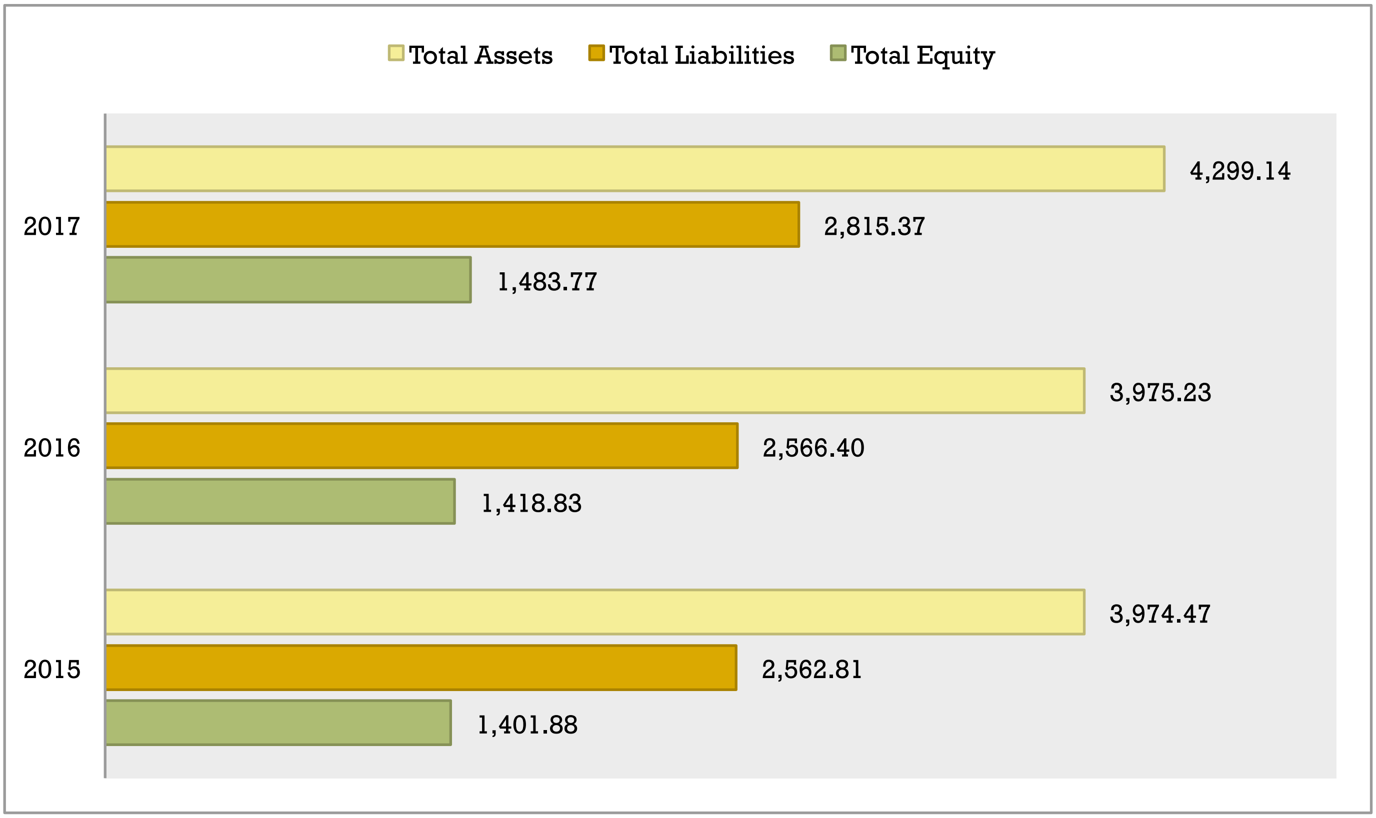
MISSION

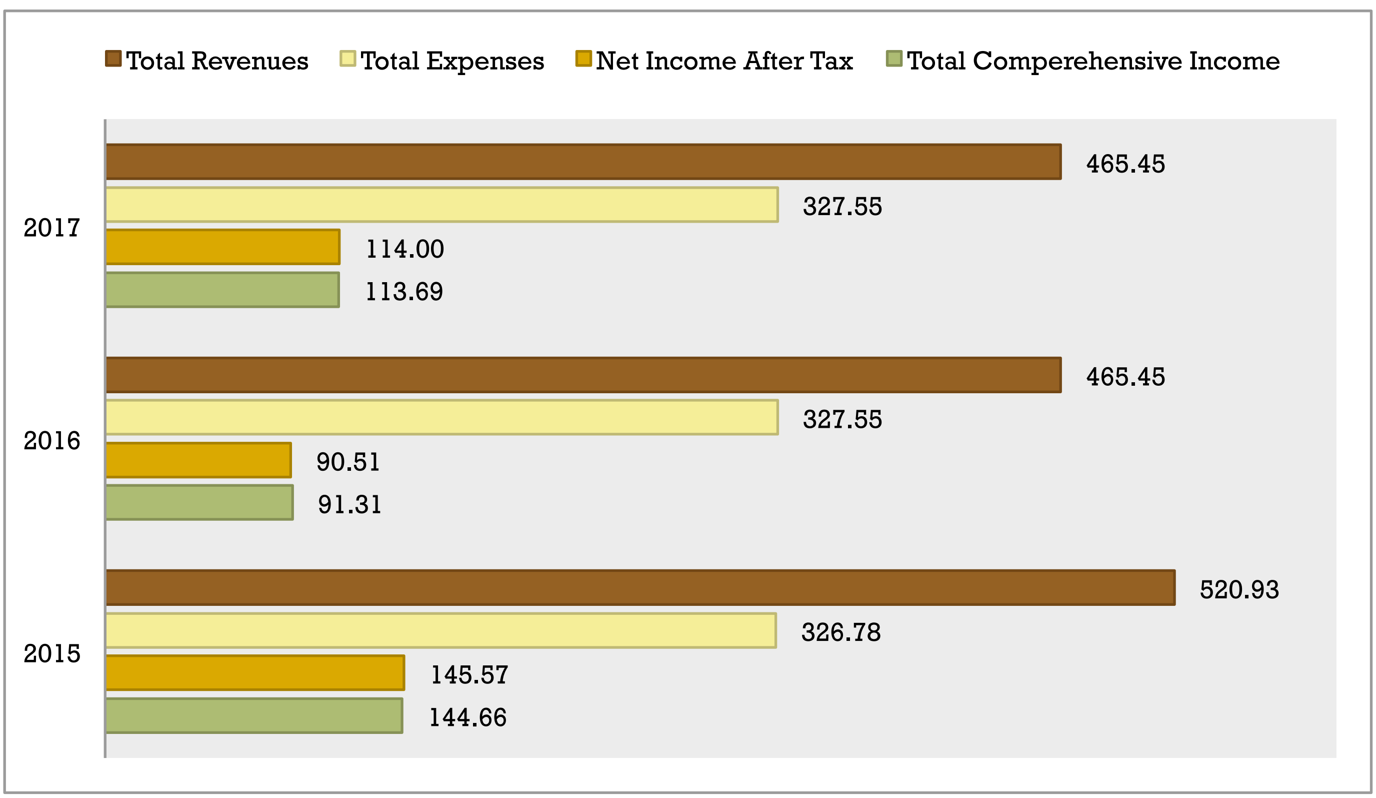
To be among the top 5 biggest leasing and finance companies in the country by 2022.



OPERATIONAL HIGHLIGHTS

(amount in Millions)





LBP Leasing and Finance Corporation is committed to maintain a strong corporate governance culture across the organization by adhering to good governance practices. LLFC has fully complied with the Code of Corporate Governance issued by GCG which is operationalized through its Manual of Corporate Governance. The Board of Directors, Management, employees and shareholders believe that corporate governance is a necessary component to its enhance its long-term value to its stakeholders and improve financial performance of the Corporation.

CORPORATE GOVERNANCE

GOVERNANCE STRUCTURE

BOARD OF DIRECTORS

Composition

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

Independence of Directors

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

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

Appointment of Directors

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

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

Responsibilities

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

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

Meetings and Attendance

The BOD holds regular meeting. In 2017, there were nine (9) BOD meetings conducted to evaluate and approve various matters related to LLFC's operations.

During its March 31, 2017 meeting, the BOD held a meeting without the President/CEO present.

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

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

The 2017 Annual Performance Scorecard included the Corporation's Vision, Mission and Strategies which was reviewed and approved by BOD prior toe submission to GCG.

Summary of Board of Directors Attendance for the Year 2017:

Name	Position	No. of Meetings Attended
Alex V. Buenaventura	Chairman	9
Silvestre M.C. Punsalan	Vice-Chairman	9
Manuel H. Lopez	Member	8
Julio D. Climaco Jr.*	Member	3
Edward John T. Reyes	Member	9
Carel D. Halog**	Member	9
Francisco C. Leonor Jr.	Member	9
Joel R. Caminade	Member	9
Fritz M. Salazar	Member	8
John E. Ayudtud***	Member	7
Roberto U. Teo	Member	6
Conrado S. Miñano	Member	5

**replaced by Conrado S. Miñano*

***replaced by Roberto U. Teo*

****resigned May 15, 2018*

Self-Assessment

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

The members of the Board conduct an annual self-rating to measure the performance of the Board and Management by accomplishing the Board Self-Assessment Questionnaire.

Chairman of the Board shall provide parameters for the assessment of the President and CEO.

The Board performance criteria are as follows:

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

Likewise, by virtue of GCG MC No. 2014-03 the Board also performs the Performance Evaluation for Directors wherein they perform Self-Appraisal and Peer Appraisal as well as appraisal of the Chairman. GCG generates the rating forms submitted and provides the Board Chairperson with the rating for each Director.

Access to Information

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

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

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

Remuneration of the Board

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

BOARD COMMITTEES

To aid in complying with the principles of good corporate governance, the Board constituted five (5) Board Committees – the Executive Committee, Audit Committee, Corporate Governance Committee, Risk Management Committee and Related Party Transaction Committee.

The composition and the roles of each committee including their meetings and attendance during the year are presented below:

Executive Committee

Composition

Chairperson	:	*Joel R. Caminade**
Members	:	*Manuel H. Lopez*
		*Silvestre Manuel C. Punsalan Jr.***
		Edward John T. Reyes
		Francisco J. Leonor Jr.

**elected as Chairperson May 27, 2017*
***ExCom Chairperson until May 2017.*

Committee Role

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

Meetings and Attendance for the Year

The Committee met twelve (12) times during the year 2017. Dir. Caminade, Dir. Lopez, Dir. Punsalan and Dir. Leonor are present in all meetings while Dir. Reyes attended 11 meetings.

Audit Committee

Composition

*Chairperson : John E. Ayudtud**

*Members : Fritz M. Salazar**

Carel D. Halog

*Joel R. Caminade***

*Silvestre M.C. Punsalan***

**elected as member of AuditCom on May 2017.*

***replaced by Dir. Ayudtud and Dir. Salazar*

Committee Role

The Audit Committee shall be responsible for overseeing senior management in establishing and maintaining adequate, effective and efficient internal control framework. It shall ensure that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of assets.

The Audit Committee shall also be responsible for the assessment of the reports from external auditors and regulatory agencies, and ensure that management judiciously and appropriately acts on recommendations on significant deficiencies and/or material weaknesses identified.

The Audit Committee in the exercise of their functional supervision of the Internal Audit Unit and Compliance Management Unit endorses to the Board the appointment or removal of the IAU and CMU Heads as well as appraise their performance.

For the year 2017, the Audit Committee has reviewed and assessed the adequacy of the Corporation's internal controls, risk management systems and regulatory compliance that were found to be adequate and acceptable.

Meetings and Attendance for the Year

The Committee had five (5) meetings in 2017. During the 1st 2 meetings, Dir. Caminade acted as the Chairperson of the AuditCom before he was replaced by Dir. Ayudtud as Chairperson on May 2017. Dir. Halog is present on all the 5 meetings. Dir. Ayudtud and Dir. Salazar attended three (3) meetings after their election as members of the AuditCom while Dir. Caminade and Dir. Punsalan attended two (2) meetings before they were replaced in the AuditCom.

Corporate Governance Committee

Composition

*Chairperson : John E. Ayudtud**

Members : Francisco J. Leonor Jr.

*Silvestre M.C. Punsalan***

Manuel H. Lopez

*Julio D. Climaco, Jr.****

**elected as member and Chairman on May 2017*

***elected as member on May 2017*

****replaced*

Committee Role

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

The Committee shall also establish a formal and transparent procedure for developing a policy on remuneration of officers to ensure that their compensation is consistent with the Corporation's culture, strategy and business environment in which it operates.

During the year 2017, the Committee discussed and endorsed to the BOD the Proposed Reorganization Plan and Five-Year Targets in accordance with GCG Memo Circular No. 2015-04 and the GCG Guidebook, LLFC 2016 Annual Scorecard/Monitoring Report and the grant of Yr2016 Performance-Based Bonus (PBB); Interim Freedom of Information (FOI) Manual in compliance with EO 2 s. 2016; LLFC Directors' and Officers' Liability Fund (DOLF); LLFC Quality Policy and Quality Objectives; LLFC Adoption of Modified SSL under EO 201, EO36, and GCG MC No. 2017-03 among others. The Committee also discussed and noted the result of Yr2016 Board Self-Assessment.

Meetings and Attendance for the Year

The Committee met four (4) times during the year 2017, Dir. Climaco was present in one (1) meeting which he chaired prior to his resignation. Dir. Lopez and Dir. Leonor are present in all the meetings Dir. Ayudtud and Dir. Punsalan were able to attend three (3) meeting after they were elected as member of the CorpGov Committee.

Risk Management Committee

Composition

Chairperson	:	*Edward John T. Reyes**
Members	:	*Roberto U. Teo***
		Joel R. Caminade
		*Carel D. Halog***
		*Julio D. Climaco, Jr.***

**elected as Chairperson on May 2017*

***elected as member of RiskCom on June 2017*

****replaced*

Committee Role

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

For the year 2017, the RiskCom were discussed and reviewed the 2016 Risk Management Committee Accomplishment Report, 2017 Risk Management Committee Plans and Programs; Results of Impairment Testing; 2017 Risk Control Self-Assessment Matrix; 2017 Information Risk Asset Register & Risk Treatment Register, Concentration of Risks; Report on Top Borrowers and Restructured Accounts; Report on Repricing Gap; Status and Updates on Accounts Endorsed to Remedial Accounts Management Unit; Report on Credit Ratings of Existing Accounts; Updates on Legal Risk Exposures; Designation of Data Protection Officer; Report on Sources and Uses of Funds and the 2018 Risk Control Self-Assessment Matrix. The RiskCom also endorsed the approval of the following manuals: (1) Proposed Revised Treasury Manual; (2) Proposed Revised Information Technology (IT) Manual and (3) Proposed Revised Business Continuity Plan Manual.

Meetings and Attendance for the Year

The Committee met four (4) times in 2016. Dir. Climaco and Dir. Reyes are present in all meetings while Dir. Halog only became a member of RiskCom in April 2016.

Internal Audit

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

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

External Audit

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

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

Risk Management System

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

The Corporation maintains a risk register that identifies the material risks and the internal controls in place to manage and mitigate the risks.

The risk register is reviewed annually by the Risk Management Committee.

The Risk Officer reports directly to the Risk Management Committee.

Compliance and Anti-Money Laundering

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

The Compliance Officer reports directly to the Audit Committee.

Whistleblowing Policy

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

Code of Ethics and Conduct

The Corporation institutionalizes the highest ethical standards through the strict implementation of the provisions of RS 6713, An Act Establishing a Code of Conduct and Ethical Standards for Public Officials and Employees. Board and Officers and Employees of LBP Leasing and Finance Corporation are among the Public Officials defined in the aforementioned law. In addition, the Corporation also adopts a Code of Conduct and Employees Discipline to ensure the maintenance of administrative discipline among its officers and employees based on the principle that discipline is fundamental to its success as an organization and as a business concern. As such everyone are required to fully comply with the Code of Conduct and Employees Discipline. The Admin Unit monitors compliance of employees in the Code of Conduct by preparing regular reports (i.e. tardiness, among others) and offenses are properly sanctioned on a timely basis.

Stakeholders' Interest

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

Customers

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

2017 EMPLOYEE TRAINING AND DEVELOPMENT

Particulars	Venue	Date of Seminar	Participants		Organizer	No. of Training Hour
			Male	Female		
Effective Prospecting and Converting Leads into Sales Opportunities Seminar	Lourdes Suites, Makati	March 16, 2017	0	3	Harry Pound Consultants & Training for Less	8 hours
Problem Accounts Handling and Negotiation for Credit and collection professionals	Heritage Hotel Manila	February 22, 2017	0	1	Harry Pound Consultants	8 hours
GFA Re-Orientation and Walk through	The Bayleaf Intramuros	March 10, 2017	0	3	PS-PhilGEPS	5 1/2 hours
Prof. Collection Skills & Enahncement Workshop	Holiday Inn	March 24, 2017	1	1	Harry Pound	8 hours
Time Management for Effective Job Performance	Makati City	May 12, 2017	1	5	Training for Less	4 hours
Real Estate Appraiser on Property Measurement Standard	CityLand Tower 1, Salcedo Village Makati City	May 27 & 28, 2017; June 3 & 4, 2017; June 10 & 11, 2017	1	0	Philipine Association of Realty Appraiser, Inc	48 hours
Real EstateAppraisers Update Seminars	LBP Plaza/NCCP Q.C.	May 11 & 12, 2017; May 20 &21, 2017; May 27 &28, 2017	2	0	Insat. Of Phil. Real Estate Appraisers (IPREA)	48 hours
Seminar on Sexual Harassment	LLFC Conference Room	July 17, 2017	16	30	CSG	4 hours
Seminars of DDP & KSS	PICPA Bldg	August 11,22,23,24,25 & 29, 2017	1	1	PICPA	48 hours
Effective Inventory Planning and Control	RCBC Plaza Makati	August 24, 2017	0	1	Powermax Consulting Group	8 hours
PFRS Updates -KSS	PICPA Bldg	September 9, 2017	1	0	PICPA	8 hours
Compliance to IRR of Data Privacy Act & Implementation Best Practice	Manila Marriott Hotel, Pasay City	September 20, 2017	0	2	The Center for Global Practices	8 hours
PICPA NMMC Seminars of LMN	PICPA Bldg	October 4,5,6,11,12,18,19,20,25 & 26, 2017	0	1	PICPA	80 hours
BIR CAS Seminar	EDSA Shangri-La, Mand. City	October 6, 2017	0	2	Center for Global Best Practices	8 hour
Pag-IBIG's Employers' Forum	Max Restaurant, Jupiter Makati City	October 12, 2017	2	0	Pag-IBIG	
AMLA Update Seminar 2017 Morning Session	LLFC Conference Room	October 20, 2017	16	30	LBP Compliance Mgmt. Group-AML Dept.	8 hours
Gender Analysis and Harmonized Gender and Development Guidelines for LBP	LBP, Malate	October 23-24, 2017	1	0	LBP ERD	16 hours
Data Privacy Act	LLFC Conference Room	November 15, 2017	20	36	LBP-Risk Mgmt-Sofia C. Ladores c/o RLG	2 hours
PFA IFRS Seminar	Ateneo Professional Schools, Rockwell Center, Makati City	November 24, 2017	1	1	PFA	8 hours
Enterprise Content Management Training	Microsoft Phils, Ayala Tower	November 27,28 &29, 2017	0	1	Tech One Global	21 hours
Seminar/Briefing to Large Taxpayers under RDO 125 on Year-End Tax Reminders and Tax Updates.	BIR, QC	December 1, 2017	1	0	BIR	4 hours

Employees

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

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

__Community and Environment__

The Corporation is an active partner of Manila Bay S.U.N.S.E.T. Partnership Program Inc., that promote and implement sustainable and supplementary efforts to improve the environmental quality of Manila Bay. This activity develops environmental awareness as well as reinforces commitment to corporate social responsibility. LLFC has committed to make annual contribution to help facilitate the implementation of projects and programs by the Manila Bay S.U.N.S.E.T. Partnership Program Inc. and encourages its employees to actively participate in the clean-up programs.

Various groups /units of the Corporation have also conducted outreach program for their teambuilding activities in 2017. They visited various organizations that take care of elderly people to provide for some of their needs and to bring smile on their faces knowing that there are those who continue to cares.


MANILA BAY SUNSET
PARTNERSHIP PROGRAM INC.
SIGNING OF MEMORANDUM OF
AGREEMENT FOR NEW PARTNERS


Villar SIPAG
MANILA BAY SUNSET


L L F C's

BOARD OF DIRECTORS

ALEX V. BUENAVENTURA
Chairman

Alex Valdez Buenaventura, 65 years old, assumed as LANDBANK's 9th President and CEO in November 2016. In February 2017, he was nominated and elected by the LBP Leasing and Finance Corporation Board of Directors as Chairman of the Board.

Mr. Buenaventura has 36 years of rural banking experience, dealing with small entrepreneurs, agro-industrial enterprises, farmers, cooperatives and other key economic players.

Before joining LANDBANK, he was the President and Director of One Network Bank (ONB), the country's largest rural bank in terms of assets, network of branches and net income. ONB is known to be a proponent of inclusive banking and a leading player in Mindanao. During his tenure at ONB, he focused on serving the unbanked and underbanked rural areas in southern Philippines.

A veteran banker, Mr. Buenaventura is the former president of the Rural Bankers Association of the Philippines (RBAP) and Executive Director of the Rural Bankers Research and Development Foundation Inc.

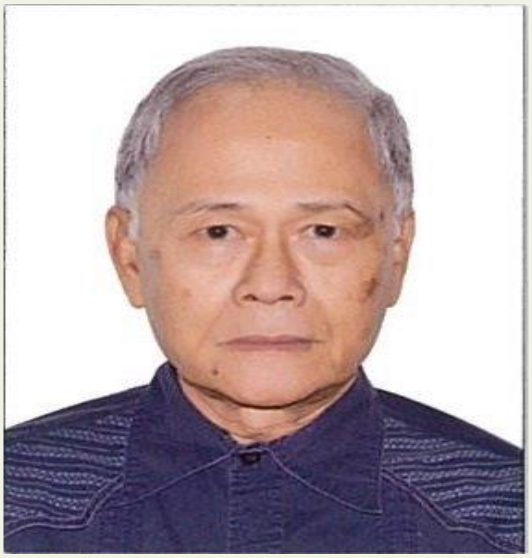
He also served as Chairman of the Board of Trustees of Ateneo de Davao University and trustee of Holy Cross of Davao College Inc. and Davao del Norte State College in Panabo City.

From 1995 to 1998, he was the Private Sector Representative for Mindanao of the Small and Medium Enterprises Development (SMED) National Council.

Mr. Buenaventura also served the local government of Panabo City as Chairman of the Municipal Industrialization Task Force and Director of the Municipal Water District from 1994 to 1996.

An academic achiever, he graduated with honors from elementary to his post-graduate studies. He took up AB Economics Honors Program at the Ateneo de Manila University and completed his Master's in Business Administration at the Catholic University of Louvain in Belgium.

BOARD OF DIRECTORS



SILVESTRE MANUEL C. PUNSALAN JR.
Vice Chairman

Mr. Silvestre Manuel C. Punsalan Jr., 78 years old, has been a member of the Board since August 2001. He was elected as Vice Chairman of the Board of the Corporation in May 2003. He is a member of the Audit Committee and also the Chairman of the Related Party Transaction.

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

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

MANUEL H. LOPEZ
President and CEO

Mr. Manuel H. Lopez, 62 years of age, joined the Corporation in 1996 as General Manager. He was appointed as President and CEO in May 2003 simultaneously with his appointment as a Director in the Board.

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

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

BOARD OF DIRECTORS

EDWARD JOHN T.REYES
Director

Mr. Edward John T. Reyes, 60 years old, was appointed to the Board in May 2011. He was the former Executive Vice President and Head of Agrarian Development and Lending Sector of Land Bank of the Philippines (LBP). Mr. Reyes joined LBP in 1994 and has held various executive positions in the Bank. He was also became a Board Director of the GM Bank of Luzon, Inc.

Before joining LBP, Mr. Reyes worked at the Development Bank of the Philippines (DBP) from 1988 to 1994 where he held various executive positions.

Mr. Reyes graduated from the University of the Philippines in Diliman with a degree in BS Civil Engineering. He also earned units in MS Civil Engineering from UP.

FRANCISCO J. LEONOR, JR.
Director

Francisco J. Leonor, Jr. 49 years of age, was appointed as a Member of the Board Directors of LBP Leasing and Finance Corporation on November 28, 2016.

Mr. Leonor is a businessman with extensive experience in managing two companies. Since 1995, he has been the General Manager/Director of F.R. Leonor & Sons, Inc., a family corporation. Since 2014, he has been the President of another firm he owns, 380 DC Realty.

Mr. Leonor went to De La Salle University from 1986-1991 to take up AB Psychology.

BOARD OF DIRECTORS

JOEL R. CAMINADE
Director

Joel R. Caminade, 53 years old, was appointed as a Member of the Board of Directors of LBP Leasing and Finance Corporation on 16 December 2016.

Concurrently, Mr. Caminade is the Board Regent of Visayas State University. He was the General Manager of Tres Ninas Printing from 1996 to 2016. He is the past Governor and presently the President of Zone 3 District 3860 of Rotary Club of Tacloban. He is also the Chairman of Disaster Risk Management of the Rotary Club of Tacloban. He is the Vice President for PDP Laban- Region 8 and President of PDP Laban-Tacloban City Chapter. Mr. Caminade is also the Vice-Chair of the Livelihood Community for Visayas. He is also the Director of the Philippine Chamber of Commerce and Industry-Leyte Chapter and Cebu Organization of Printing Industry. He is a Partner in the Office of Participatory Governments. He is a consultant of Digital Printing.

Mr. Caminade is a graduate of Bachelor of Science in Mechanical Engineering from San Jose-Recoletos in 1986.

FRITZ M. SALAZAR
Director

Fritz M. Salazar, 44 years old, was appointed as a Member of the Board of Directors of LBP Leasing and Finance Corporation on 16 March 2017.

Mr. Salazar hails from Tacloban City and a franchisee of Sam's Everything On Sticks, a foodcart business which serves a variety of street foods. His past employment includes working as BOO in Metrobank from 1989 to 2010.

Mr. Salazar graduated from Saint Paul Business School of Tacloban (now known as Saint Paul School of Professional Studies) with a degree of Bachelor of Science in Commerce.

BOARD OF DIRECTORS

JOHN E. AYUDTUD
Director

John E. Ayudtud, 65 years old, was appointed as a Member of the Board of Directors of LBP Leasing and Finance Corporation on 10 May 2017.

Mr. Ayudtud, also a Senior Pastor, is currently involved in various projects and programs including WPCC Ang Ating Church, Apostolic Catholic Church Without Walls International wherein he is an Archbishop. He also chairs CADRE Movement, We Parallel Government Integration, Association for Christian Change, SuperMindsSystems PowerMath Training, Inc. and Barangay University.

Mr. Ayudtud authored books including The Barangay Book, The Values Formation Book, Arresting The Youth, Actualize Your Personal Potential and The Spirit of Noah and Manual for LGU Workers.

Mr. Ayudtud graduated from Philippine Christian Academy with a degree of Business Management.

As of May 15, 2018, Dir. Ayudtud resigned as member of LLFC Board of Directors

CONRADO S. MIÑANO
Director

Conrado S. Miñano, 64 years old, was appointed as a Member of the Board of Directors of LBP Leasing and Finance Corporation on 02 June 2017.

Mr. Miñano is a retired General of the Philippine National Police where he handled various law enforcement posts. Among the positions he held were as Deputy Director of the Northern Police District in Caloocan City and as Director of the Communications and Electronics in Camp Crame from 2007 to 2009. He received several commendations from civic, religious and military organizations.

Mr. Miñano graduated from the Philippine Military Academy, Class of 1977. He is an L.L.B. undergraduate of Jose Rizal University.

BOARD OF DIRECTORS

ROBERTO U. TEO
Director

Roberto U. Teo, 68 years old, was appointed as a Member of the Board of Directors of LBP Leasing and Finance Corporation on 02 June 2017.

Mr. Teo served as Assistant City Administrator for Operations of Davao City, Assistant City Administrator for Admin and Economic Enterprise Manager. He was also Chief of the Davao City Investments Promotions Center. He is a Board Member of the Tourism Infrastructure and Enterprise Zone Authority (TIEZA) representing the travel and tours enterprises.

Mr. Teo graduated with a degree of BS Chemical Engineering in De La Salle College in 1971. He completed his Masters in Business Management degree in Asian Institute of Management in 1974. He also completed Program for Executive in Carnegie Mellon University in Pennsylvania, USA and Economics Fall Program in Pennsylvania State University in 1978.

LETICIA V. DAMASCO
Director

Leticia Villamoran Damasco, 68 years old, was appointed as LLFC Director on 24 January 2018. On 28 February 2018, she was nominated and elected as member of the Risk Management Committee and Corporate Governance Committee.

Ms. Damasco has 32 years of banking experience which she gained from Land Bank of the Philippines. Her last Landbank post was as Department Manager III which she held until her retirement in 2013. She was a Director of Philippine Postal Bank from 2 June 2017 to 11 January 2018 and of the Rural Bank of Sta. Rosa (Nueva Ecija), Inc. from 2019 to 2011. She was a College Instructor at the Manuel V. Gallego Foundation Colleges (formerly CLEC) from June 1973 to October 1981.

Ms. Damasco graduated from the Philippine Women's University in 1971 with a degree in Bachelor of Arts major in Economics. In 1996, she earned her Master of Arts in Psychology from the Philippine Statesman College.

Dir. Damasco was elected as member of LLFC Board of Directors on February 2018.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **LBP LEASING AND FINANCE CORPORATION** is responsible for the preparation of the financial statements as at December 31, 2017 and 2016, including the additional components attached thereto in accordance with the prescribed financial reporting framework indicated therein. The responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material statement whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements before such statements are issued to the regulators, creditors and other users.

The Commission on Audit has audited the financial statements of **LBP LEASING AND FINANCE CORPORATION** in accordance with the International Standards of Supreme Audit Institutions and has expressed its opinion on the fairness of presentation upon completion of such audit, in its report to the Board of Directors.

Signature: ______________________

ALEX V. BUENAVENTURA
Chairman of the Board
Date signed: May 16, 2018

Signature: ______________________
KENNETH S. STA. ROSA
Chief, Comptroller
Date signed: May 16, 2018

Signature: ______________________
MANUEL H. LOPEZ
President/CEO
Date signed: May 16, 2018

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the accompanying financial statements of **LBP Leasing and Finance Corporation (LLFC)** (a wholly-owned subsidiary of Land Bank of the Philippines), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of the report, the accompanying financial statements present fairly, in all material respects, the financial position of the LLFC as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Qualified Opinion

The interest expense on borrowed fund for the acquisition of land amounting to P12.335 million for CY 2017 and P27.830 million for CYs 2014 to 2016 were capitalized to the Equipment and Other Properties for Lease (EOPL) account although all the conditions for a qualifying asset were not met, contrary to Philippine Accounting Standard 23. Had the borrowing cost been recognized as an expense, the EOPL and Retained Earnings accounts would have decreased by P40.165 million and P27.830 million as at December 31, 2017 and P27.830 and P15.432 million as at December 31, 2016. On the other hand, Interest Expense account would have increased by P12.335 million and P12.398 million in 2017 and 2016, respectively.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAI). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the LLFC in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Philippine Public Sector, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

In our report dated May 9, 2017, we expressed an unmodified opinion on the CY 2016 financial statements of the LLFC as at December 31, 2016. As discussed in the Basis for Qualified Opinion section of the report, the borrowing costs incurred from 2014 to 2016 do not qualify for capitalization pursuant to PAS 23. Management was aware that as early as 2015, development activities on the land located at the Bonifacio Global City were already put on hold in view of some restrictions imposed by authorities concerned. Also, the parties to the agreement signified their withdrawal to the proposed project. Accordingly, our present opinion on the 2016 financial statements, as presented herein, is different from that expressed in our previous report.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, 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.

In preparing the financial statements, management is responsible for assessing the LLFC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the LLFC's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAI will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAI, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 LLFC's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Regulatory Requirements

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information in Note 32 to the 2017 financial statements is presented for the purpose of filing with the Bureau of Internal Revenue and is not a required part of the financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT

ROCHIE J. FELICES
Supervising Auditor

May 17, 2018

LBP LEASING AND FINANCE CORPORATION
(Formerly LBP Leasing Corporation)
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017 and 2016
(In Philippine Peso)

	Notes	2017	2016
ASSETS			
Current Assets			
Cash and Cash Equivalents	7	41,940,002	42,510,620
Loans and Receivables, net	8, 14	1,004,990,653	1,336,281,894
Other Current Assets, net	13	13,667,475	9,564,731
Total Current Assets		1,060,598,130	1,388,357,245
Non-Current Assets			
Loans and Receivables, net	8, 14	2,756,115,709	2,068,265,672
Investment Properties-net	9, 14	5,447,418	20,106,679
Equipment and Other Property for Lease, net	10	387,613,629	409,975,702
Property and Equipment, net	11	26,994,027	28,243,765
Non-Current Assets Held for Sale, net	12, 14	0	3,012,091
Deferred Tax Asset	23	60,498,851	55,772,204
Other Non-Current Assets, net	13	1,872,623	1,495,832
Total Non-Current Assets		3,238,542,257	2,586,871,945
Total Assets		4,299,140,387	3,975,229,190
LIABILITIES			
Current Liabilities			
Financial Liabilities	15	1,636,849,627	1,220,885,315
Deposit on Lease Contracts	21	84,813,670	121,878,183
Inter-Agency Payables	16	13,649,025	23,803,373
Other Payables	17	63,203,070	61,885,841
Total Current Liabilities		1,798,515,392	1,428,452,712
Non-Current Liabilities			
Financial Liabilities	15	792,384,039	998,434,167
Deposit on Lease Contracts	21	211,381,522	121,313,597
Retirement Liability	22(b)	13,090,546	8,199,927
Total Non-Current Liabilities		1,016,856,107	1,127,947,691
Total Liabilities		2,815,371,499	2,556,400,403
EQUITY			
Capital Stock	18(a)		
Issued Capital		485,552,550	485,552,550
Additonal Paid-in Capital		113,970,900	113,970,900
Treasury Stock		0	(30)
		599,523,450	599,523,420
Retained Earnings	18(b)		
Appropriated		600,000,000	600,000,000
Unappropriated		284,666,422	219,416,891
		884,666,422	819,416,891
Accumulated other comprehensive income/(loss)			
Remeasurement of Retirement Benefit Obligation	22(b)	(420,984)	(111,524)
Total Equity		1,483,768,888	1,418,828,787
Total Liabilities and Equity		4,299,140,387	3,975,229,190

The Notes on pages 9 to 73 form part of these financial statements.

LBP LEASING AND FINANCE CORPORATION
(Formerly LBP Leasing Corporation)
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016
(In Philippine Peso)

	Notes	2017	2016
INTEREST INCOME			
Leases	8, 21	**266,544,412**	273,905,140
Loans	8	**121,100,550**	120,728,188
Deposits in Banks	7	**108,237**	118,460
Others	7, 8	**0**	245,175
		387,753,199	394,996,963
INTEREST EXPENSE			
Borrowed Funds	15	**61,763,892**	61,468,508
NET INTEREST INCOME		**325,989,307**	333,528,455
OTHER INCOME			
Operating Leases	8, 21	**50,932,708**	46,140,175
Other Income	19	**32,628,712**	24,306,298
		83,561,420	70,446,473
DIRECT EXPENSES			
Security, Messengerial, Janitorial and Contractual Services	21	**136,923,823**	136,155,682
Provision for Credit and Impairment Losses	14	**17,500,000**	21,620,000
Compensation and Fringe Benefits - Marketing Operations	22(a)	**12,315,816**	11,874,293
Insurance		**7,202,963**	9,297,113
Depreciation-Equipment and Other Property for Lease	10	**7,563,236**	7,630,917
Repairs and Maintenance		**5,222,274**	6,505,927
Documentary Stamp Used		**6,796,870**	5,393,381
Transfer Mortgage and Registration Fees		**1,295,076**	1,382,738
		194,820,058	199,860,051
GROSS INCOME		**214,730,669**	204,114,877
GENERAL AND ADMINISTRATIVE EXPENSES			
Taxes, Insurance Premiums and Other Fees		**21,351,815**	22,226,746
Compensation and Fringe Benefits	22(a)	**22,228,566**	19,233,820
Depreciation/Amortization	11	**2,636,701**	2,926,942
Other Maintenance and Operating Expenses	20	**17,762,640**	21,828,700
		63,979,722	66,216,208
NET INCOME BEFORE TAX		**150,750,947**	137,898,669
Income Tax Expense	24	**36,749,416**	47,390,845
NET INCOME AFTER TAX		**114,001,531**	90,507,824
OTHER COMPREHENSIVE INCOME/(LOSS)			
Item that will not be reclassified to profit and loss			
Remeasurement (Loss)/Gain on Retirement Benefit Obligation	22(b)	**(309,460)**	798,082
TOTAL COMPREHENSIVE INCOME		**113,692,071**	91,305,906
EARNINGS PER SHARE	27	**P2.35**	P1.86

The Notes on pages 9 to 73 form part of these financial statements.

LBP LEASING AND FINANCE CORPORATION
(Formerly LBP Leasing Corporation)
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016
(In Philippine Peso)

	Issued Capital	Additional Paid-in Capital	Treasury Stock	Retained Earnings		Accumulated Other Comprehensive Income/(Loss)	Total
				Unappropriated	Appropriated		
		Note 18(a)		Note 18(b)		Note 18(c)	
BALANCE, 1 JANUARY 2016	485,552,550	113,970,900	(10)	209,409,067	600,000,000	(6,734,606)	1,402,197,901
CHANGES IN EQUITY FOR 2016							
Add/(Deduct):							
Declaration of Cash Dividend				(80,500,000)			(80,500,000)
Reacquisition of Common Stock			(20)				(20)
Net Income for the Year				90,507,824			90,507,824
Unrealized Loss on Available for Sale Securities (Note 19)						5,825,000	5,825,000
Remeasurement Gain on Retirement Benefit Obligation						798,082	798,082
BALANCE, 31 DECEMBER 2016	485,552,550	113,970,900	(30)	219,416,891	600,000,000	(111,524)	1,418,828,787
CHANGES IN EQUITY FOR 2017							
Add/(Deduct):							
Declaration of Cash Dividend				(48,752,000)			(48,752,000)
Reissuance of Common Stock			30				30
Net Income for the Year				114,001,531			114,001,531
Remeasurement Loss on Retirement Benefit Obligation						(309,460)	(309,460)
BALANCE, 31 DECEMBER 2017	485,552,550	113,970,900	0	284,666,422	600,000,000	(420,984)	1,483,768,888

The Notes on pages 9 to 73 form part of these financial statements.

LBP LEASING AND FINANCE CORPORATION
(Formerly LBP Leasing Corporation)
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016
(In Philippine Peso)

	Note	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Inflows			
Interest Received		**315,386,577**	325,008,610
Other Income Received		**10,973,585**	30,879,380
Net Cash Received from Clients		**4,166,071,360**	4,441,064,626
Total Cash Inflows		**4,492,431,522**	4,796,952,616
Cash Outflows			
Net Cash Paid to Clients		**(4,355,393,644)**	**(4,336,880,039)**
Cash Paid to Settle Expenses		**(221,451,584)**	(272,888,074)
Interest Paid		**(74,957,786)**	(60,401,630)
Income Taxes Paid		**(51,052,465)**	(27,698,079)
Total Cash Outflows		**(4,702,855,479)**	(4,697,867,822)
Net Cash Generated From/(Used In) Operating Activities		**(210,423,957)**	99,084,794
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Inflows			
Disposal of Property and Equipment		**21,485,744**	249,101
Cash Outflows			
Acquisition of Property and Equipment		**(6,608,682)**	(95,210)
Net Cash Provided By Investing Activities		**14,877,062**	153,891
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Inflows			
Proceeds from Borrowings Under Line of Credit Agreement		**5,510,194,241**	2,024,220,000
Cash Outflows			
Payment of Long Term Debt		**(5,266,465,994)**	(2,043,425,128)
Reacquisition of Shares		**0**	(20)
Reissuance of Shares		**30**	0
Cash Dividends Paid		**(48,752,000)**	(80,500,000)
Total Cash Outflows		**(5,315,217,964)**	**(2,123,925,148)**
Net Cash Provided By/(Used In) Financing Activities		**194,976,277**	(99,705,148)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(570,618)**	(466,463)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7	**42,510,620**	42,977,083
CASH AND CASH EQUIVALENTS AT END OF YEAR	7	**41,940,002**	42,510,620

The Notes on pages 9 to 73 form part of these financial statements.

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

1. GENERAL INFORMATION

1.1 Corporate Information

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

LLFC's registered address is at the 15th Floor Sycip Law Center, No. 105 Paseo De Roxas, Makati City.

The principal activities of LLFC are as follows:

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

The Corporation is a wholly-owned subsidiary of Land Bank of the Philippines (LBP).

1.2 Issuance of financial statements

The Board of Directors (BOD), through Resolution No. 18-048, approved and authorized for issuance the Corporation's financial statements as of and for the years ended December 31, 2017 and 2016 on February 28, 2018.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

2.1 Basis of Preparation

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

2.2 Statement of Compliance

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of measurement

The financial statements have been prepared under the historical cost basis, except when otherwise stated.

Presentation of Financial Statements

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

The Corporation presents its statement of financial position broadly in order of liquidity. Analysis regarding recovery (asset) or settlement (liability) within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 25 to the financial statements.

Functional and Presentation Currency

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

Use of judgments and estimates

The preparation of financial statements in compliance with PFRS requires the use of certain critical accounting estimates. It also requires the management to exercise judgment in the most appropriate application of the accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and its effects are disclosed in Note 4.

Changes in accounting policies and disclosures

a. New standards and amendments issued and effective from January 1, 2017.

The following amendments became mandatory in the current year. Accounting policies adopted are consistent with those of the previous financial year except for the following new standards and amendments effective for the first time from January 1, 2017:

- Amendments to PAS 7, Disclosure Initiative:

The amendments clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The amendments require that liabilities arising from financing activities are disclosed, among others:

- changes from financing cash flows;
- changes arising from obtaining or losing control of subsidiaries or other businesses;
- the effect of changes in foreign exchange rates; and
- changes in fair values.

Liabilities arising from financing activities are defined as the cash flows, or future cash flows, classified in the statement of cash flows as cash flows from financing activities. The new disclosure requirements also relate to changes in financial assets if they meet the same definition.

Reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities is not required.

Finally, changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

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

- Amendments to PAS 12 — *Recognition of Deferred Tax Assets for Unrealized Losses*

  The amendments clarify the following aspects:

  - Unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
  - The carrying amount of an asset does not limit the estimation of probable future taxable profits.

- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.

An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilization of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

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

Annual Improvements to PFRSs 2014-2017 Cycle

- Amendments to PFRS 12 — *Disclosure of Interests in Other Entities*

  The amendments clarify the scope of the standard by specifying that the disclosure requirements in the standard, except for those disclosures needed in the summarized financial for subsidiaries, joint ventures and associates, apply to an entity's interests that are classified as held for sale, as held for distribution or as discontinued operations in accordance with PFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

The amendments have no impact on the Corporation's financial statements as the Corporation is neither a first time adopter of PFRS nor a venture capital organization. Furthermore, the Corporation does not have any associate or joint venture that is an investment entity.

b. New Accounting Standard Effective after the Reporting Period Ended December 31, 2017

The following is a summary of the new and revised PFRS that are not yet mandatorily effective for the year ending December 31, 2017 but early application is allowed.

- PFRS 16, *Leases.*

PFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard (finance or operating lease).

PFRS 16 replaces existing leases guidance including PAS 17, Leases, IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives and SIC-27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for entities that apply PFRS 15, Revenue from Contracts with Customers at or before the initial application of PFRS 16.

The Corporation's current operating leases as lessee are low-value and short-term. The Corporation assesses that the adoption of PFRS 16 will not have a significant impact on the financial statements.

- PFRS 9, *Financial Instruments.*

In July 2014, the final version of PFRS 9, *Financial Instruments,* was issued. The final version reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting.

PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early, application permitted. Retrospective application is required but comparative information is not compulsory.

The management is still evaluating the impact of PFRS 9 on the Corporation's financial assets and liabilities as of the reporting period. Further, the application of the expected credit loss model may or may not result in a significant additional recognition of credit losses and will increase the loss allowance recognized for financial assets. The new standard will require the Company to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete.

- PFRS 15, *Revenue from Contracts with Customers.*

PFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. PFRS 15 will supersede the current revenue recognition guidance including PAS 18, *Revenue*, PAS 11, *Construction Contracts,* and the related interpretations when it becomes effective. The core principle of PFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the PFRS 15 introduces a five-step model approach to revenue recognition:

a) Step 1: Identify the contract(s) with a customer
b) Step 2: identify the performance obligations in the contract
c) Step 3: Determine the transaction price
d) Step 4: Allocate the transaction price to the performance obligations in the contract
e) Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under PFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in PFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by PFRS 15.

In April 2016, the IASB issued clarifications to PFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The new standard allows for a full retrospective application, or prospective application with additional disclosure. PFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

Apart from providing more extensive disclosures on the Corporation's revenue recognition and transactions, the Company does not anticipate a significant impact on the financial statements when PFRS 15 is applied.

- Amendments to PFRS 2, *Classification and Measurement of Share-based Payment Transactions.*

The IASB issued amendments to PFRS 2, *Share-based Payment*, that address three main areas:

a) the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction;

b) the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and

c) accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after January 1, 2018, with early application permitted.

The Corporation do not anticipate that the application of the amendments in the future will have significant impact on the Corporation's financial statements as the Corporation does not have any cash-settled share-based payment arrangements or any withholding tax arrangement with tax authorities in relation to share based payments

- Amendments to PFRS 4, *Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts.*

The amendments address concerns arising from implementing the new financial instruments standard, PFRS 9, before implementing PFRS 17, *Insurance Contracts*, which replaces PFRS 4.

The amendments introduce two options for entities issuing insurance contracts:

i) a temporary exemption from applying IFRS 9, and
ii) an overlay approach.

The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

The amendments have no impact on the Corporation's financial statements.

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments to PFRS 10 and PAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

The Corporation does not anticipate that the application of these amendments may have an impact on the financial statements in future periods should such transactions arise.

- Amendments to PAS 40, *Transfers of Investment Property.*

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in PAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

The amendments are effective for annual periods beginning on or after January 1,2018 with earlier application permitted. Entities can apply the amendments either retrospectively (if this is possible without the use of hindsight) or prospectively. Specific transition provisions apply.

The Corporation anticipate that the application of these amendments may have an impact on the financial statements in future periods should there be a change in use of any of its properties.

- IFRIC 22, *Foreign Currency Transactions and Advance Consideration.*

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

IFRIC 22 is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. Entities can apply the interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

The Corporation does not anticipate that the application of the amendments in the future will have an impact on the financial statements. This is because the Corporation already accounts for transactions involving the payment or receipt of advance consideration in a foreign currency in a way that is consistent with the amendments.

3.1 Financial instruments

Initial recognition

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

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

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

Classification of financial instruments

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

Classification of financial instruments between debt and equity

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

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

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

Offsetting financial instruments

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

Determination of fair value

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

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

Day 1' difference

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

Financial assets

Financial assets at FVPL

Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition as at FVPL. Financial assets are classified as held for trading if these are acquired for the purpose of selling in the near term. These are carried in the statements of financial position at fair value with changes in fair value recognized in the statements of comprehensive income. Derivatives are also classified as held for trading unless these are designated as effective hedging instruments.

The Corporation has no assets under this category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not designated as AFS or financial asset at FVPL. Loans and receivables are carried at amortized cost, less impairment in value. Amortization is determined using the effective interest rate method. Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Corporation will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. Such provisions are recorded in a separate allowance account with the loss being recognized in the statement of comprehensive income. On confirmation that the receivables will not be collectable, the gross carrying value of the asset is written off and derecognized against the associated provision.

The Corporation's cash and cash equivalents and loans and receivables, as disclosed in Notes 7, 8 and 13, respectively, are included in this category.

Cash pertains to cash on hand and in banks.

Cash equivalents includes short-term placements with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value.

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

HTM investments

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Corporation's management has the positive intention and ability to hold to maturity. After initial measurement, these investments are measured at amortized cost using the effective interest rate method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the statements of comprehensive income when the HTM investments are derecognized or impaired, as well as through the amortization process.

The Corporation has no investments classified under this category.

AFS investments

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

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

The Corporation has written-off its investment in shares of stock of Export and Import Bank (EIB) as disclosed in Note 19.

As of December 31, 2017 and 2016, the Corporation no longer holds any investment under the AFS category.

Financial liabilities

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

Financial liabilities at FVPL

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

The Corporation has no designated financial liability at FVPL.

Other financial liabilities

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

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

The Corporation's financial liabilities and clients' deposits on lease contracts as disclosed in Notes 15 and 21, respectively, are included in this category.

Derecognition of financial assets and liabilities

Financial assets

A financial asset or, where applicable, a part of a financial asset or part of a group of similar financial assets, is derecognized when (1) the rights to receive cash flows from the asset have expired; (2) 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; (3) the Corporation has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of ownership of the asset, or (4) has neither transferred nor retained substantially all the risks and rewards of ownership of the asset, but has transferred control of the asset.

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

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired.

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

Impairment of financial assets

Assessment of impairment

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

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

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

Evidence of impairment

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

Impairment on assets carried at amortized cost

Loans and receivables

The Corporation first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Corporation determines that no objective evidence of impairment exists for individually assessed asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics (by product type and industry) and collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, continues to be, recognized are not included in a collective assessment for impairment. Future cash flow in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flow reflect and are directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Corporation to reduce any differences between loss estimates and actual loss experience.

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

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

Restructured Loans

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

Impairment on Available-for-Sale (AFS) Investment

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

In the case of investments classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired.

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

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

Impairment on asset carried at cost

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

Reversal of impairment loss

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

3.2 Investment property

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

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

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

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

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

3.3 Property and equipment and Equipment and other property for lease (EOPL)

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

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

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

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

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

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

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

An item of property and equipment and EOPL, including the related accumulated depreciation and impairment losses, if any, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on 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.

3.4 Non-current assets held for sale

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

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

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

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

3.5 Other assets

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

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

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

3.6 Intangibles

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

Intangible assets are amortized over the estimated useful life ranging from one to five years using the straight-line method and are assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization expense on intangible assets is recognized in the separate statements if comprehensive income in the expense category consistent with the function of the intangible asset.

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

3.7 Impairment of non-financial assets

At each financial reporting date, the Corporation reviews the carrying amounts of non-financial assets to determine whether there is any indication of impairment. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

The recoverable amount of the assets is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to its present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Any impairment loss is recognized in the statements of comprehensive income.

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

3.8 Inter-agency and other payables

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

3.9 Provisions and contingencies

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

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

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

3.10 Dividends

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

3.11 Equity

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

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

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

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

The Corporation's retained earnings account is composed of:

Appropriated retained earnings

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

Unappropriated retained earnings

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

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

3.12 Revenue recognition

(a) Interest Income

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

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

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

(b) Income from operating leases

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

(c) Penalties and service fees

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

(d) Gain (Loss) on foreclosures

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

(e) Gain (Loss) from asset sold/exchanged

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

(f) Other income

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

3.13 Costs and expenses recognition

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

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

Borrowing costs

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

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

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

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

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

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

3.15 Leases

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

The Corporation is a lessor under finance leases.

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

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

3.16 Residual value of leased assets and deposits on lease contracts

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

3.17 Related parties

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

3.18 Income tax

Current income tax

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

Deferred income tax

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

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

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

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

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

3.19 Earnings per share

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

3.20 Events after the financial reporting date

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

4.1 Estimates

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

Estimation of allowance for impairment loss on Available for Sale (AFS) Financial Asset

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

In 2016, the Corporation wrote-off its AFS investment and recognized a loss on derecognition in the statement of comprehensive income.

Estimation of allowance for impairment loss on loans and receivables

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

In 2017 and 2016, Management has assessed an amount of P201,662,834 and P185,907,342 as doubtful of collection. Accordingly, a provision for impairment was recognized in the statements of comprehensive income.

The carrying value of the Corporation's loans and receivables amounted to P3,761,106,362 and P3,404,547,566 as at December 31, 2017 and 2016, respectively, as disclosed in Note 8.

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

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

The estimated useful lives of investment properties, EOPL and property and equipment are set out in Notes 3.2 and 3.3.

Estimation of impairment of Investment properties, EOPL, property and equipment and non-current assets held for sale

The Corporation assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

The factors that the Corporation considers important which could trigger an impairment review include the following:

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

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

Allowance for impairment losses on Investment Properties amounted to P10,752,549 and P6,337,517 as of December 31, 2017 and 2016 (Note 9), respectively, while allowance for impairment losses on Non-Current Assets Held for Sale amounted to nil and P4,415,033 in 2017 and 2016 (Note 12), respectively. There are no impairment losses on EOPL and Property and Equipment for the years 2017 and 2016.

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

	2017	2016
Investment Properties (Note 9)	**5,447,418**	20,106,679
EOPL (Note 10)	**367,613,629**	409,975,702
Property and Equipment (Note 11)	**26,994,027**	28,243,765
Non-Current Assets Held for Sale (Note 12)	**0**	3,012,091

Estimation of liability for retirement benefits cost

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

The retirement benefit cost charged to operations under "General and Administrative Expenses" account amounted to P4,581,159 and P1,965,047 as at December 31, 2017 and 2016, respectively.

The related liability stands at P13,090,546 and P8,199,927 as at December 31, 2017 and 2016, respectively, as disclosed in Note 22(b).

Realizability of deferred income tax assets

The Corporation reviews its deferred tax assets at each financial reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred taxes to be utilized.

Deferred tax assets recognized amounted to P60,498,851 and P55,772,204 as at December 31, 2017 and 2016, respectively, as disclosed in Note 24.

Management believes that the amount is fully recoverable.

4.2 Judgments

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

Determination of functional currency

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

Classification of financial instruments

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

The Corporation's financial assets and liabilities are presented in Notes 5 and 6.

Determination of fair value of financial assets

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

Classification of leases

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

As a lessor, total rental earned from operating leases amounted to P50,932,708 in 2017 and P46,140,175 in 2016, as disclosed in Note 21.

Interest earned on finance lease arrangements amounted to P266,544,412 and P273,905,140 in 2017 and 2016, respectively, as disclosed in Note 21 to the financial statements.

As a lessee, total rental expenses incurred from the leases amounted to P654,256 in 2017 and P1,561,880 in 2016, as disclosed in Note 20 and 21.

5. FINANCIAL RISK AND CAPITAL MANAGEMENT OBJECTIVES AND POLICIES

Principal financial instruments

The Corporation's principal financial instruments comprised cash, loans and receivables, advances from officers and employees, bills payable, trade and other payables and deposit on lease contracts.

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

- Credit Risk
- Interest Rate Risk
- Liquidity Risk

Risk Management Framework

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

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

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

The Corporations' risk management policies are summarized below:

5.1 Credit Risk

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

(a) Credit Risk Management

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

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

(b) Collateral and other credit risk mitigation

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

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

The Corporation monitors market value of collateral, and requests 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:

	2017	2016
Secured		
Property under finance lease	**904,142,203**	1,501,734,093
Real estate mortgage	**1,072,105,089**	234,210,561
Chattel mortgage	**1,501,511,562**	1,448,433,562
	3,477,758,854	3,184,378,216
Unsecured	**485,010,342**	406,076,692
	3,962,769,196	3,590,454,908

(c) Impairment assessment

The Corporation recognizes impairment losses based on the results of its specific (individual) and collective assessment of credit exposures. Impairment has taken place when there is a significant credit rating downgrade, infringement of the original terms of the contract, 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

	2017		2016	
	Carrying Value	**Maximum Exposure**	Carrying Value	Maximum Exposure
Financial assets:				
Cash	**41,895,002**	**41,895,002**	42,440,120	42,440,120
Loans and receivables	**3,962,769,196**	**3,962,769,196**	3,590,454,908	3,590,454,908
	4,004,664,198	**4,004,664,198**	3,632,895,028	3,632,895,028

The preceding table represents the maximum credit risk exposure of the Corporation at December 31, 2017 and 2016, without taking into account any collateral held or other credit enhancements as it is impracticable to determine the fair values of these collaterals held by the Corporation as security against its loans and receivables. The exposures set out above are based on gross carrying amounts as reported in the statement of financial position.

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

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

(e) *Concentrations of risks of financial assets with credit risk exposure*

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

As at December 31, 2017

	Cash	Loans and receivables
Agriculture, fishing and forestry	0	19,070,154
Wholesale and retail trade	0	513,083,314
Manufacturing	0	166,285,121
Public utilities	0	284,993,536
Services	0	1,072,110,713
Banks and other financial institutions	41,895,002	725,569,025
Real estate	0	59,390,090
Public sector	0	781,468,686
Others	0	340,798,557
Total	41,895,002	3,962,769,196
Less: Allowance for probable losses/fair value changes	0	(201,662,834)
	41,895,002	3,761,106,362

As at December 31, 2016

	Cash	Loans and receivables
Agriculture, fishing and forestry	0	31,514,370
Wholesale and retail trade	0	343,253,335
Manufacturing	0	45,755,707
Public utilities	0	270,260,353
Services	0	966,724,042
Banks and other financial institutions	42,440,120	565,807,811
Real estate	0	22,585,224
Public sector	0	842,505,275
Others	0	502,048,791
Total	42,440,120	3,590,454,908
Less: Allowance for probable losses/fair value changes	0	(185,907,342)
	42,440,120	3,404,547,566

(f) *Credit Quality of Financial Assets*

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

As at December 31, 2017

	Neither past due nor impaired	**Impaired**	**Total**
Cash	**41,895,002**	**0**	**41,895,002**
Loans and receivables	**3,641,209,702**	**321,559,494**	**3,962,769,196**
	3,683,104,704	**321,559,494**	**4,004,664,198**

As at December 31, 2016

	Neither past due nor impaired	Impaired	Total
Cash	42,440,120	0	42,440,120
Loans and receivables	3,225,360,468	365,094,440	3,590,454,908
	3,267,800,588	365,094,440	3,632,895,028

Neither past due nor impaired

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

Past due but not impaired

Past due loans and lease receivables are not considered impaired, unless other information is available to the contrary. Collateralized past due loans 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 include accounts which are individually and collectively assessed for impairment. The total impairment provision for loans and lease receivables 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.

5.2 Interest Rate Risk

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

5.3 Liquidity Risk

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

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

Analysis of financial liabilities by remaining contractual maturities

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

As at December 31, 2017

	Up to 1 year	Over 1 year to 3 years	Over 3 years	Total
Bills payable	1,629,898,375	0	792,384,039	2,422,282,414
Accounts payable – trade	1,752,628	0	0	1,752,628
Accrued interest payable	5,198,624	0	0	5,198,624
Other payables	63,203,070	0	0	63,203,070
Deposits on lease contracts	84,813,670	158,873,937	52,507,585	296,195,192
	1,784,866,367	158,873,937	844,891,624	2,788,631,928

As at December 31, 2016

	Up to 1 year	Over 1 year to 3 years	Over 3 years	Total
Bills payable	1,180,120,000	10,575,000	987,859,167	2,178,554,167
Accounts payable – trade	34,707,927	0	0	34,707,927
Accrued interest payable	6,057,388	0	0	6,057,388
Other payables	61,885,841	0	0	61,885,841
Deposits on lease contracts	121,878,183	82,232,223	39,081,374	243,191,780
	1,404,649,339	92,807,223	1,026,940,541	2,524,397,103

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

6. FAIR VALUE MEASUREMENT

The Corporation's principal financial instruments comprised cash, loans and receivables, financial liabilities, other payables and deposits on lease contracts.

(a) Carrying Amount versus Fair Value

The following table compares the carrying amounts and fair values of the Corporation's financial assets and financial liabilities as at December 31, 2017 and 2016.

	2017		2016	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets:				
Cash (Note 7)	**41,940,002**	**41,940,002**	42,510,620	42,510,620
Loans and receivables (Notes 8 and 14)	**3,962,769,196**	**3,962,769,196**	3,590,454,908	3,590,454,908
	4,004,709,198	**4,004,709,198**	3,632,965,528	3,632,965,528

	2017		2016	
	Cost	**Fair Value**	Cost	Fair Value
Financial liabilities:				
Bills payable (Note 15)	**2,422,282,414**	**2,422,282,414**	2,178,554,167	2,178,554,167
Trade and other payables (Note 15)	**1,752,628**	**1,752,628**	34,707,927	34,707,927
Accrued interest payable (Note 15)	**5,198,624**	**5,198,624**	6,057,388	6,057,388
Other payables (Note 17)	**63,203,070**	**63,203,070**	61,885,841	61,885,841
Deposit on lease contracts (Note 21)	**296,195,192**	**296,195,192**	243,191,780	243,191,780
	2,788,631,928	**2,788,631,928**	2,524,397,103	2,524,397,103

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

- Cash
- Trade and other payables

(b) *Fair value hierarchy*

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

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

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

No financial instrument of the Corporation was measured at fair value using the said hierarchy as it has already written-off its AFS investment in 2016 (Note 19).

(c) *Valuation techniques*

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

(i) Loans and other receivables

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

(ii) 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.

(iii) Deposits on lease contracts

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

7. CASH AND CASH EQUIVALENTS

This account consists of:

	2017	2016
Cash in banks	**41,895,002**	42,440,120
Cash on hand	**45,000**	70,500
	41,940,002	42,510,620

Cash in banks earns interest at floating rates based on daily bank deposit rates. Annual interest earned on deposits in banks range from 1.125 per cent to 1.250 per cent in 2017 and 2016. Interest income earned from deposits in banks reported in the statements of comprehensive income totaled P108,237 and P118,460 for the years ended December 31, 2017 and 2016, respectively.

In 2016, LLFC invested P29,997,083 in a 7-day high yield savings account at Land Bank of the Philippines which earned interest amounting to P4,667.

Cash on hand includes petty cash amounting of P45,000 as at December 31, 2017 and 2016.

8. LOANS AND RECEIVABLES

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

	2017	2016
Finance lease receivables	**100,883,629**	248,461,322
Finance lease receivables - LBP	**12,281,357**	9,203,532
Loans and receivables - others	**489,395,026**	818,606,723
	602,560,012	1,076,271,577
Accounts receivable – clients	**5,255,623**	4,089,897
Allowance for probable losses	**(1,608,988)**	(1,561,050)
	3,646,635	2,528,847
Accrued interest receivable	**2,745,482**	3,371,895
Sales Contract Receivable (Note 12)	**8,223,456**	0
	10,968,938	3,371,895
Due from parent bank	**386,710,508**	253,378,565
Due from national government agencies	**252,914**	0
Due from officers and employees	**851,646**	731,010
	387,815,068	254,109,575
	1,004,990,653	1,336,281,894

The non-current portion consists of:

	2017	2016
Finance lease receivables	**1,585,804,990**	1,261,357,772
Allowance for probable losses	**(28,673,442)**	(28,546,015)
	1,557,131,548	1,232,811,757
Finance lease receivables - LBP	**75,751,156**	46,340,738
Allowance for probable losses	**0**	0
	75,751,156	46,340,738
Loans and receivables - others	**1,294,613,409**	944,913,454
Allowance for probable losses	**(171,380,404)**	(155,800,277)
	1,123,233,005	789,113,177
	2,756,115,709	2,068,265,672

As at December 31, 2017, eight per cent of the Corporations' finance lease and loans receivable are subject to interest re-pricing (2016: 11 per cent). The remaining loans earn annual fixed interest rates ranging from three per cent to 30 per cent in 2017 and 2016, respectively.

Due from parent bank represents amounts due from Land Bank of the Philippines ("Parent Bank") for the chauffeuring services rendered in relation to finance and operating lease facilities entered into with the Parent Bank.

Total revenues generated from finance and operating lease facilities with the Parent Bank amounted to P114,179,619 and P50,932,708 in 2017 (2016: P119,627,659 for finance leases and P46,140,175 for operating leases) as disclosed in Note 21 to the financial statements.

Finance lease receivables

An analysis of the LLFC's finance lease receivables as at December 31, 2017 and 2016 is presented as follows:

	2017	2016
Finance lease receivables:		
Within 1 year	**44,886,792**	165,717,825
Beyond 1 year but not beyond 5 years	**620,441,241**	314,015,416
Beyond 5 years	**1,205,049,700**	1,373,135,708
	1,870,377,733	1,852,868,949
Residual value of leased assets:		
Within 1 year	**57,610,729**	98,339,104
Beyond 1 year but not beyond 5 years	**208,196,614**	114,186,834
Beyond 5 years	**126,186,545**	126,186,545
	391,993,888	338,712,483
Total minimum lease receivable	**2,262,371,621**	2,191,581,432
Less: Unearned Leasing Income		

	2017	2016
Within 1 year	**1,613,892**	15,595,607
Beyond 1 year	**635,555,008**	715,163,555
	637,168,900	730,759,162
Net investment in finance lease receivables	**1,625,202,721**	1,460,822,270
Past due receivables	**14,852,759**	21,904,430
Restructured accounts	**25,721,366**	0
Past due - restructured accounts	**0**	4,942,887
Items in litigation	**32,665,487**	32,665,487
	73,239,612	59,512,804
Less: Unearned leasing income	**11,753,714**	10,515,980
	61,485,898	48,996,824
	1,686,688,619	1,509,819,094

	2017	2016
Finance lease receivables – LBP		
Within 1 year	**25,556,228**	13,129,253
Beyond 1 year but not beyond 5 years	**89,882,816**	113,254,999
Beyond 5 years	**108,572,520**	0
	224,011,564	126,384,252
Residual value of leased assets:		
Within 1 year	**989,400**	2,027,000
Beyond 1 year but not beyond 5 years	**0**	0
Beyond 5 years	**0**	0
	989,400	2,027,000
Total minimum lease receivable	**225,000,964**	128,411,252
Less: Unearned leasing income		
Within 1 year	**14,264,271**	5,952,721
Beyond 1 year	**122,704,180**	66,914,261
	136,968,451	72,866,982
Net investment in finance lease receivables - LBP	**88,032,513**	55,544,270

Loans and receivables – others

The breakdown of loans and receivables – others as at December 31, 2017 and 2016 are as follows:

	2017	2016
Loans and receivables – others		
Within 1 year	**489,395,026**	818,606,723
Beyond 1 year	**905,606,338**	563,395,439
	1,395,001,364	1,382,002,162
Past due receivables	**139,329,357**	154,746,511
Restructured accounts	**116,558,531**	65,792,882
Past due – restructured accounts	**44,891,957**	63,546,681
Items in litigation	**98,797,786**	100,183,612

	2017	2016
	399,577,631	384,269,686
Less: Unearned interest income	**10,570,560**	2,751,671
	389,007,071	381,518,015
	1,784,008,435	1,763,520,177

Summary of loans and receivables

Loans and lease receivables

	2017	2016
Finance lease receivables	**1,686,688,619**	1,509,819,094
Finance lease receivables - LBP	**88,032,513**	55,544,270
Loans and receivables - others	**1,784,008,435**	1,763,520,177
	3,558,729,567	3,328,883,541

Other receivables:

	2017	2016
Due from parent bank	**386,710,508**	253,378,565
Sales contract receivable	**8,223,456**	0
Accounts receivable – clients	**5,255,623**	4,089,897
Accrued interest receivable	**2,745,482**	3,371,895
Due from officers and employees	**851,646**	731,010
Due from national government agencies	**252,914**	0
	404,039,629	261,571,367

Interest income on receivables

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

	2017	2016
Lease contracts receivable	**266,544,412**	273,905,140
Loans receivable	**121,100,550**	120,728,188
Others	**0**	240,508
	387,644,962	394,873,836

Reconciliation of credit losses

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

As at December 31, 2017

	Finance lease receivables	Loans and receivables – others	Accounts receivable – clients	Total
At January 1, 2017	28,546,015	155,800,277	1,561,050	185,907,342
Provisions during the year	1,500,000	15,350,188	649,812	17,500,000
Foreclosures and adjustments	(1,372,573)	229,939	(601,874)	(1,744,508)
At December 31	28,673,442	171,380,404	1,608,988	201,662,834

Specific impairment provision	**18,920,200**	**171,380,404**	**1,608,988**	**191,909,592**
Collective impairment provision	**9,753,242**	**0**	**0**	**9,753,242**
Total impairment provision	**28,673,442**	**171,380,404**	**1,608,988**	**201,662,834**

Gross amount of loans specifically determined to be impaired before deducting individually-assessed credit losses	**76,817,080**	**381,984,140**	**2,353,281**	**461,154,501**

As at December 31, 2016

	Finance lease receivables	Loans and receivables – others	Accounts receivable – clients	Total
At January 1, 2016	40,986,648	162,197,041	1,542,087	204,725,776
Provisions during the year	5,729,356	12,765,805	174,607	18,669,768
Foreclosures and adjustments	(18,169,989)	(19,162,569)	(155,644)	(37,488,202)
At December 31	28,546,015	155,800,277	1,561,050	185,907,342
Specific impairment provision	16,618,561	155,800,277	1,561,050	173,979,888
Collective impairment provision	11,927,454	0	0	11,927,454
Total impairment provision	28,546,015	155,800,277	1,561,050	185,907,342
Gross amount of loans specifically determined to be impaired before deducting individually-assessed credit losses	48,996,814	308,224,616	1,561,050	358,782,480

BSP Reporting

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

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

	2017	2016
Services	**27.05**	26.92
Public sector	**19.72**	23.47
Banks and other financial institutions	**18.31**	15.76
Wholesale and retail trade	**12.95**	9.56
Public utilities	**7.19**	7.53
Manufacturing	**4.20**	1.27
Real estate	**1.50**	0.63
Agriculture, fishing and forestry	**0.48**	0.88
Others	**8.60**	13.98
	100.00	100.00

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

As to collateral

	2017	2016
Secured		
Property under finance lease	**904,142,203**	1,501,734,093

	2017	2016
Real estate mortgage	**1,072,105,089**	234,210,561
Chattel mortgage	**1,501,511,562**	1,448,433,562
	3,477,758,854	3,184,378,216
Unsecured	**485,010,342**	406,076,692
	3,962,769,196	3,590,454,908

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

As of December 31, 2017 and 2016, nonperforming loans (NPLs) not fully- covered by allowance for credit losses follow:

	2017	2016
Total NPLs	**321,559,494**	365,094,440
Less: NPLs fully-covered by allowance for credit losses	**(132,763,869)**	(134,542,771)
	188,795,625	230,551,669

As of December 31, 2017 and 2016, secured and unsecured NPLs follow:

	2017	2016
Secured	**232,112,427**	270,589,128
Unsecured	**89,447,067**	94,505,312
	321,559,494	365,094,440

9. INVESTMENT PROPERTIES

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

	2017	2016
Cost		
At January 1	**27,488,856**	10,316,000
Additions	**5,556,145**	17,172,856
Transfer to NCAHS (Note 12)	**(16,129,000)**	0
At December 31	**16,916,001**	27,488,856
Accumulated depreciation		
At January 1	**1,044,660**	531,275
Depreciation for the year	**451,328**	513,385
Transfer to NCAHS (Note 12)	**(779,955)**	0
At December 31	**716,033**	1,044,660
Allowance for Impairment		
At January 1	**6,337,517**	3,387,285
Reclassification	**4,415,033**	0
Provision for the year	**0**	2,950,232

	2017	2016
At December 31	**10,752,550**	6,337,517
Net book value		
December 31	**5,447,418**	20,106,679

Additions to investment properties in 2016 pertain to foreclosed parcels of land and building with redemption period by the borrowers and with on-going court cases.

Gain on foreclosure amounting to P5,556,145 from these investment properties were recognized in 2017 upon lapse of the redemption period.

Land and Building with a net carrying amount of P15,349,045 was transferred to Non-Current Assets Held for Sale during the year (Note 12).

The aggregate market value of investment properties as at December 31, 2017 and 2016 amounted to P17,916,000 and P38,368,000, respectively. The fair value has been determined based on valuations made by in-house appraisers or accredited independent appraisers. Valuations were based on the information about the prevailing market value of similar or comparable real properties in the same area as the investment properties, and taking into account the economic conditions prevailing at the time the valuation were made.

Costs incurred in maintaining investment properties totaled P187,823 and P80,000 in 2017 and 2016, respectively, which were paid to LBP Resources Development Corporation (LBRDC), a related party.

10. EQUIPMENT AND OTHER PROPERTY FOR LEASE

The Corporation entered into finance lease transactions with various lessees either by purchase from equipment suppliers or by sale and leaseback with the leases involving various equipment with terms ranging from 24 to 60 months. The equipment acquired from equipment suppliers are initially booked as 'Equipment and Other Property for Lease – Finance Lease' until the Certificate of Acceptance from client is received, and the corresponding implementation memo is approved for booking to 'Lease Contract Receivables'.

On September 24, 2014, the Board of Directors approved the acquisition with another government agency as co-buyer of the 5,000 square meter property at Bonifacio Global City for the account of a client in the amount of P600,000,000. The property was intended to be developed into an office building for lease to some Government Agencies. As of December 31, 2014, the amount of P308,378,250 was initially booked as 'Equipment and Other Property for Lease – Finance Lease' as the Corporation's share in the acquisition of the property.

As at December 31, 2017 and 2016, a total of P12,335,130 and P12,397,584, respectively, representing borrowing costs on the acquired 5,000 square meter property, were capitalized as Equipment and Other Property for Lease – Finance Lease' (See Note 15).

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

The details pertinent to the Corporation's EOPL are as follows:

	2017	2016
Finance lease	**348,903,251**	368,700,724
Operating lease	**38,710,378**	41,274,978
	387,613,629	409,975,702

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

	2017	2016
Cost		
At January 1	**83,868,327**	103,769,090
Additions	**5,850,000**	0
Disposals	**(8,151,264)**	(19,900,763)
At December 31	**81,567,063**	83,868,327
Accumulated depreciation		
At January 1	**42,593,349**	52,827,882
Depreciation for the year	**7,563,236**	7,630,917
Disposals	**(7,299,900)**	(17,865,450)
At December 31	**42,856,685**	42,593,349
Net book value, December 31	**38,710,378**	41,274,978

Depreciation charges amounting P7,563,236 and P7,630,917 for 2017 and 2016, respectively, are lodged under the depreciation-EOPL account under Direct Expenses in the statements of comprehensive income.

In 2017 and 2016, the Corporation sold vehicles previously covered by operating lease agreements with a total carrying value of P851,364 and P2,035,313, respectively, on which it realized a gain of P1,656,238 and P4,028,475, respectively, as disclosed in Note 19 to the Financial Statements.

11. PROPERTY AND EQUIPMENT

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

As at December 31, 2017

	Building and improvements	Furniture and Fixtures	Transportation Equipment	Other properties acquired	Total
Cost					
At January 1	42,566,207	11,650,434	1,567,273	0	55,783,914
Additions	0	638,682	0	34,400	673,082
Disposals	0	0	0	(34,400)	(34,400)
At December 31	42,566,207	12,289,116	1,567,273	0	56,422,596
Accumulated depreciation					
At January 1	16,944,568	9,101,674	1,493,907	0	27,540,149
Depreciation for the year	1,256,776	631,644	0	0	1,888,420
Disposals	0	0	0	0	0

	Building and improvements	Furniture and Fixtures	Transportation Equipment	Other properties acquired	Total
At December 31	18,201,344	9,733,318	1,493,907	0	29,428,569
Net book value	**24,364,863**	**2,555,798**	**73,366**	**0**	**26,994,027**

As at December 31, 2016

	Building and improvements	Furniture and Fixtures	Transportation Equipment	Other properties acquired	Total
Cost					
At January 1	42,566,207	11,565,497	1,567,273	2,491,000	58,189,977
Additions	0	95,210	0	0	95,210
Disposals	0	(10,273)	0	(2,491,000)	(2,501,273)
At December 31	42,566,207	11,650,434	1,567,273	0	55,783,914
Accumulated depreciation					
At January 1	15,687,791	8,481,333	1,493,907	2,241,900	27,904,931
Depreciation for the year	1,256,777	630,613	0	0	1,887,390
Disposals	0	(10,272)	0	(2,241,900)	(2,252,172)
At December 31	16,944,568	9,101,674	1,493,907	0	27,540,149
Net book value	25,621,639	2,548,760	73,366	0	28,243,765

As at December 31, 2017 and 2016, the total cost of fully-depreciated property and equipment still in use by the Corporation amounted to P10,772,609 and P11,254,504, respectively.

In May 2017, LLFC sold other properties acquired at its book value.

In October 2016, LLFC sold other properties acquired as scrap from which a loss of P169,100 was realized as disclosed in Note 19 to the Financial Statements.

Also in 2016, LLFC disposed fully-depreciated office fixtures and equipment from which a total gain of P1,800 was realized.

The Corporation recognized depreciation/amortization charges in the amount of P10,199,937 in 2017 and P10,557,859 in 2016, as shown in the Direct and General and Administrative Expense sections in the statements of comprehensive income, with details as follows:

	2017	2016
Direct expense		
Equipment and other properties for lease (Note 10)	**7,563,236**	7,630,917
General and administrative expense		
Investment properties (Note 9)	**451,328**	513,385
Property and equipment (Note11)	**1,888,420**	1,887,390
Intangibles (Note 13)	**296,953**	526,167
	2,636,701	2,926,942
	10,199,937	10,557,859

Management has reviewed the carrying values of the Corporation's property and equipment as at December 31, 2017 and 2016 for impairment. Based on the results of its evaluation, there were no indications that the property and equipment are impaired.

12. NON-CURRENT ASSETS HELD FOR SALE

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

As at December 31, 2017

	Land	**Building**	**Equipment**	**Total**
At January 1, net	**2,868,479**	**143,612**	**0**	**3,012,091**
Transfer from Investment Properties (Note 9)	**6,675,000**	**8,674,045**	**0**	**15,349,045**
Disposal	**(13,764,604)**	**(9,011,565)**	**0**	**(22,776,169)**
Reversal of provision for impairment	**4,221,125**	**193,908**	**0**	**4,415,033**
At December 31	**0**	**0**	**0**	**0**

As at December 31, 2016

	Land	Building	Equipment	Total
At January 1	3,126,253	143,612	30,000	3,299,865
Disposal	0	0	(1,287,774)	(1,287,774)
Reversal of provision for impairment	0	0	1,257,774	1,257,774
Adjustment	(257,774)	0	0	(257,774)
At December 31	2,868,479	143,612	0	3,012,091

The changes in allowance for impairment are as follows:

	2017	2016
At January 1	**4,415,033**	5,415,033
Reversal of provision for impairment	**(4,415,033)**	(1,000,000)
At December 31	**0**	4,415,033

The provision for impairment amounting to P4,415,033 was reversed in December 2017 simultaneously with the sale of property of which the Corporation realized a gain of P5,036,545 as disclosed in Note 19.

Receivable amounting to P8,223,456 from the proceeds of sale of property which the Corporation is a co-claimant is booked under Sales Contract Receivable (Note 8).

The provision for impairment amounting to P1,257,774 was reversed in May 2016 simultaneously with the sale of pieces of equipment of which the Corporation realized a loss of P261,774 as disclosed in Note 19.

Adjustment in the provision for impairment in 2016 relates to the additional allowance for parcels of land resulting to a net reversal of P1,000,000.

Valuations were conducted by both in-house and third party appraisers on the basis of information on the prevailing market value of similar or comparable real properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuation were made.

13. OTHER ASSETS

Current and non-current classification of other assets as at December 31, 2017 and 2016 are as follows:

As at December 31, 2017

	Due within 1 year	Due beyond 1 year	Total
Prepaid expense	**10,762,002**	**0**	**10,762,002**
Creditable withholding taxes	**2,784,350**	**0**	**2,784,350**
Security and utility deposits	**0**	**1,274,055**	**1,274,055**
Stationeries and supplies – unissued	**121,123**	**0**	**121,123**
Intangibles	**0**	**582,262**	**582,262**
Other investments	**0**	**16,000**	**16,000**
Other assets	**0**	**306**	**306**
	13,667,475	**1,872,623**	**15,540,098**

As at December 31, 2016

	Due within 1 year	Due beyond 1 year	Total
Creditable withholding taxes	6,136,153	0	6,136,153
Prepaid expense	3,291,008	0	3,291,008
Security and utility deposits	0	1,126,629	1,126,629
Intangibles, net	0	352,897	352,897
Stationeries and supplies–unissued	137,570	0	137,570
Other investments	0	16,000	16,000
Other assets	0	306	306
	9,564,731	1,495,832	11,060,563

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

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

The Corporation recognized amortization charges in the amount of P296,953 in 2017 and P526,167 in 2016, as shown in the Direct and General and Administrative Expense sections in the statements of comprehensive income.

14. ALLOWANCE FOR CREDIT AND IMPAIRMENT LOSSES

Changes in the allowance for probable losses are as follows:

	2017	2016
At January 1		
Finance lease receivables	**28,546,015**	40,986,648
Loans and receivables - others	**155,800,277**	162,197,041
Accounts receivable - clients	**1,561,050**	1,542,087
Investment properties	**6,337,517**	3,387,285
Non-current assets held for sale	**4,415,033**	5,415,033
	196,659,892	213,528,094
Provisions for the year	**17,500,000**	21,620,000
Accounts charged-off/other adjustments	**(1,744,508)**	(38,488,202)
At December 31	**212,415,384**	196,659,892

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

	2017	2016
Finance lease receivables	**28,673,442**	28,546,015
Loans and receivables - others	**171,380,404**	155,800,277
Accounts receivable - clients	**1,608,988**	1,561,050
Investment properties	**10,752,550**	6,337,517
Non-current assets held for sale	**0**	4,415,033
	212,415,384	196,659,892

With the foregoing level of allowance for credit and impairment losses, Management believes that LLFC has sufficient allowance provided for losses that may arise from the non-collection or non-realization of its receivables and other risk assets.

15. FINANCIAL LIABILITIES

This account consists of:

	2017	2016
Bills payable	**2,422,282,414**	2,178,554,167
Accounts payable – trade	**1,752,628**	34,707,927
Accrued interest payable	**5,198,624**	6,057,388
At December 31	**2,429,233,666**	2,219,319,482

Current and non-current classification of financial liabilities as at December 31, 2017 and 2016 are as follows:

As at December 31, 2017

	Due within 1 year	Due beyond 1 year	Total
Bills payable	**1,629,898,375**	**792,384,039**	**2,422,282,414**

	Due within 1 year	**Due beyond 1 year**	**Total**
Accounts payable – trade	**1,752,628**	**0**	**1,752,628**
Accrued interest payable	**5,198,624**	**0**	**5,198,624**
	1,636,849,627	**792,384,039**	**2,429,233,666**

As at December 31, 2016

	Due within 1 year	Due beyond 1 year	Total
Bills payable	1,180,120,000	998,434,167	2,178,554,167
Accounts payable – trade	34,707,927	0	34,707,927
Accrued interest payable	6,057,388	0	6,057,388
	1,220,885,315	998,434,167	2,219,319,482

Bills payable represents peso borrowings from various banks in the form of promissory notes.

Interest rates on bills payable range from 2.75 per cent to 4.00 per cent in 2017 and 2016.

Bills payable are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances as of December 31, 2017 and 2016 are partially secured with terms of maturity ranging from 28 days to nine years. Interest expense on borrowings amounted to P61,763,892 and P61,468,508 for the years ending December 31, 2017 and 2016, respectively.

Total interest expense in 2017 and 2016, as presented in the statements of comprehensive income, is net of P12,335,130 and P12,397,584 finance charges on borrowings used to finance the acquisition of the lease facility, which were capitalized as EOPL in accordance with the provisions of PAS 23 on Borrowing Costs.

As at December 31, 2017, there are no defaults or breaches on these promissory notes.

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

16. INTER-AGENCY PAYABLES

This account consists of payables to the following:

	2017	2016
Due to BIR	**3,496,158**	4,069,551
Due to Philhealth	**13,388**	13,213
Due to Pag-ibig Fund	**18,459**	12,920
Due to Social Security System	**4,656**	14,923
Income tax payable (Note 24)	**10,116,364**	19,692,766
	13,649,025	23,803,373

Except for income tax payable, all other inter-agency payables were remitted to the Agency concerned in January 2018.

17. OTHER PAYABLES

This account consists of:

	2017	2016
Accounts payable – others	**834,694**	591,946
Accrued expenses – others	**37,657,043**	31,841,960
Miscellaneous liabilities	**24,711,333**	29,451,935
	63,203,070	61,885,841

Accrued expenses – others includes costs of security, messengerial, and janitorial services amounting to P25,396,581 and P22,022,126 in 2017 and 2016, respectively, payable to a service corporation and monetary value of employees' leave credits amounting to P7,320,353 and P5,338,229 in 2017 and 2016, respectively.

Miscellaneous liabilities represent advance payments received from various clients that will be applied against registration and mortgage fees.

As at December 31, 2017 and 2016, the balances comprising this account will mature within the next 12 months from respective reporting dates.

18. EQUITY

(a) Capital Stock

The Corporation has 50,000,000 authorized ordinary shares at P10 par value per share. The pertinent information on the components of the Corporation's capital stock as of December 31, 2017 and 2016 is presented hereunder:

	2017	2016
	No. of Shares	
Issued, paid and outstanding	**48,555,255**	48,555,255
Treasury stock	**0**	(3)
Total outstanding shares	**48,555,255**	48,555,252

As of January 1, 2016, there is an outstanding one treasury share which was reacquired in the previous years.

Additional two shares were reacquired in 2016 following the resignations of two members of the Board of Directors.

In 2017, all shares were re-issued to the newly appointed directors of the Corporation.

(b) Retained earnings

Dividend declaration

In compliance with Republic Act No. 7656 requiring the GOCCs to declare and remit dividends to the National Government (NG) of at least 50 per cent of their annual earnings, the Board of Directors of LLFC declared cash dividends to the NG through a Resolution dated May 26, 2017 amounting to P48,752,000 or P1.004 per share to stockholders as of date of record December 31, 2016 and remitted/paid the same on May 31, 2017.

The Board of Directors of LLFC also declared cash dividends to the NG through a resolution dated March 23, 2016 amounting to P80,500,000 or P1.658 per share to stockholders as of date of record December 31, 2015 and remitted/paid the same on April 8, 2016.

Appropriation of retained earnings

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

(c) Other Comprehensive Income/(Loss)

	Unrealized Loss - AFS	**Remeasurement on Retirement Benefit Obligation**	**Total**
Balance, January 1, 2016	(5,825,000)	(909,606)	(6,734,606)
Add/(Deduct):Transactions during the year	5,825,000	798,082	6,623,082
Balance, December 31, 2016	**0**	**(111,524)**	**(111,524)**
Add/(Deduct):Transactions during the year	0	(309,460)	(309,460)
Balance, December 31, 2017	**0**	**(420,984)**	**(420,984)**

19. OTHER INCOME

This account is composed of:

	2017	2016
Fleet management service fees (Note 21)	**9,406,200**	17,767,440
Gain on exchange of financial asset (Note 9)	**5,556,144**	0
Gain on sale of non-financial assets (Note 12)	**5,036,545**	0
Gain on sale of equipment and other property for lease (Note 10)	**1,656,238**	4,028,475
Gain on disposal/sale of property and equipment (Note 11)	**0**	1,800
Recovery from charged-off assets	**0**	50,000
Loss on derecognition of Available for Sale Financial Asset	**0**	(5,825,000)
Loss on disposal/sale of property and equipment (Note 11)	**0**	(169,100)
Loss on sale of non-financial assets (Note 12)	0	(261,774)
Miscellaneous income	**10,973,585**	8,714,457
	32,628,712	24,306,298

The Fleet management service fees represent income recognized in operating and maintaining a fleet of vehicles for a client.

The Loss on derecognition of Available-for-Sale financial asset reflects holdings of 5,825,000 shares of common stock of Export and Industry Bank (EIB) at a par value of P1.00 per share booked previously as Available-for-Sale investment.

In 2016, an objective evidence as to the prolonged decline in value of the investment in the shares of stocks of EIB was established and was eventually approved for derecognition by the Board of Directors thru its Board Resolution No. 17-020 dated February 17, 2017.

Miscellaneous income pertains to penalties and surcharges.

20. OTHER MAINTENANCE AND OPERATING EXPENSES

Other maintenance and operating expenses lodged under General and Administrative Expenses account in the statements of comprehensive income is comprised of:

	2017	2016
Security, messengerial, janitorial and contractual services	**3,204,043**	2,691,422
Transportation and travelling	**2,644,622**	1,968,609
Litigation/assets acquired expenses	**2,202,471**	3,524,528
Representation and entertainment	**1,984,844**	2,129,833
Power, light and water	**1,200,000**	1,200,000
Management and other professional fees	**853,642**	709,741
Membership fees and dues	**803,721**	861,993
Postage, cables, telephone and telegram	**771,452**	862,749
Rent (Note 21)	**654,256**	1,561,880
Stationeries and supplies used	**646,292**	792,200
Advertising and publicity	**645,708**	714,412
Information technology	**630,223**	466,826
Repairs and maintenance	**613,047**	1,501,078
Fuels and lubricants	**369,890**	288,924
Data processing charges	**122,418**	116,367
Periodicals and magazines	**18,780**	18,444
Bank charges	**12,170**	7,052
Fines, penalties and other charges	**7,754**	0
Donations and other charitable contributions	**0**	2,000,000
Miscellaneous expenses	**377,307**	412,642
	17,762,640	21,828,700

21. LEASE COMMITMENTS

The Corporation has the following lease commitments:

Corporation as lessor

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

Interest income earned from finance leases amounted to P266,544,412 and P273,905,140 in 2017 and 2016, respectively, as presented in the statements of comprehensive income.

The Corporation also entered into operating leases on certain motor vehicles. These operating leases are from periods ranging from six 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, 2017 and 2016 amounted to P50,932,708 and P46,140,175, respectively.

The carrying amount of lease deposits payable to the respective lessees as of December 31, 2017 and 2016 are presented in the table below:

	2017	2016
Finance leases	**276,657,314**	234,047,462
Operating leases	**19,537,878**	9,144,318
	296,195,192	243,191,780

The breakdown of deposits on finance and operating leases by contractual settlement dates as at December 31, 2017 and 2016 is as follows:

	2017	2016
Due within 1 year	**84,813,670**	121,878,183
After 1 year up to maturity	**211,381,522**	121,313,597
	296,195,192	243,191,780

Operating lease commitments

Future minimum rental receivables under non-cancelable operating leases as of December 31, 2017 and 2016 are as follows:

	2017	2016
Due within 1 year	**20,731,362**	17,640,704
After 1 year up to maturity	**2,473,046**	4,978,412
	23,204,408	22,619,116

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

	2017	2016
Finance lease	**114,933,762**	114,212,796
Operating lease	**21,990,061**	21,942,886
	136,923,823	136,155,682

Corporation as lessee

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

On June 1, 2014, the Corporation entered into another operating lease agreement with Dasein Transport Corporation wherein 57 parking slots were designated for LLFC's use at a monthly rental rate of P2,300 inclusive of VAT. Monthly billings are based on the actual number of vehicles parked. Actual number of slots used in 2017 and 2016 totalled 30 and 41, respectively.

Both lease agreements were terminated on July 2017.

On September 1, 2017, the Corporation entered into another operating lease agreement with Bangko Sentral ng Pilipinas (BSP) wherein nine parking slots were designated for LLFC's use at a monthly rental rate of P3,240 inclusive of VAT.

Rental fees paid to the lessors for the years ended December 2017 and 2016 totalled P654,256 and P1,561,880 (Note 20), respectively.

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

22. EMPLOYEE BENEFITS

(a) Compensation and fringe benefits

Expenses recognized for salaries and employee benefits are presented below:

	2017	2016
Salaries and wages	**19,313,754**	18,062,364
Bonuses	**5,122,620**	4,979,483
Retirement benefit cost	**4,581,159**	1,965,046
Directors' remuneration	**1,523,920**	1,646,000
Social security cost	**845,510**	893,758
Other benefits	**3,157,419**	3,561,462
	34,544,382	31,108,113

Employee benefits include annual salaries, paid sick leave, bonuses and other non-monetary benefits. Total accrued compensated absences as December 31, 2017 and 2016 amounted to P7,320,353 and P5,338,229, respectively.

The breakdown of employee benefits as to direct and general and administrative expense as at December 31, 2017 and 2016 is as follows:

	2017	2016
Direct expense – marketing operation	**12,315,816**	11,874,293
General and administrative expense	**22,228,566**	19,233,820
	34,544,382	31,108,113

(b) Retirement benefits

(i) Characteristics and funding

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

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

The Retirement Trust Fund account 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. Among the salient provisions of the Trust Agreement are the following:

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

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

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

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

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

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

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

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

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

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

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

(ii) *Actuarial assumptions*

Management has engaged the services of an independent appraiser to undertake an actuarial valuation of LLFC's plan assets and present value of its defined benefit obligation using the Accrued Benefit Actuarial Cost Method (Projected Unit Credit) and in accordance with the provision of PAS 19, as revised (PAS 19R).

The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation are as of December 31, 2016.

The valuation results are based on the employee data as of the valuation dates provided by the Corporation to the independent appraiser. The discount rate assumption is based on the PDEx (PDST-R2) benchmark market yields on government bonds as of the valuation dates (or latest available) considering the average years of remaining working life of the employees as the estimated term of the benefit obligation.

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

The principal actuarial assumptions used as at the statements of financial position date follows:

	2017	2016
Discount rate	**5.90%**	5.33%
Expected rate of return on plan assets	**5.90%**	5.33%
Salary increase rate	**7.00%**	7.00%
Expected average remaining working lives of employees	**23.8**	40.6

As of December 31, 2017, the principal balance of the retirement fund stands at P13,090,546 as compared to P8,199,927 as of December 31, 2016.

The Corporation is not expected to make any contributions to the retirement plan in 2018.

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

	Defined benefit obligation		Fair value of plan assets		Net defined liability	
	2017	2016	**2017**	2016	**2017**	2016
Balance, 1 January	**17,592,861**	16,154,145	**(9,392,934)**	(9,121,183)	**8,199,927**	7,032,962
Service cost – current	**4,144,103**	1,581,750	**0**	0	**4,144,103**	1,581,750
Interest cost (income)	**937,699**	880,401	**(500,643)**	(497,104)	**437,056**	383,297
Included in profit or loss	**5,081,802**	2,462,151	**(500,643)**	(497,104)	**4,581,159**	1,965,047
Re-measurement loss (gain)						
(a) Actuarial loss (gain) from:						
- Financial assumptions	**0**	187,563	**0**	0		187,563
- Experience adjustments	**0**	(1,210,998)	**0**	0		(1,210,998)
(b) Return on plan assets (excluding interest)	**0**		**309,460**	225,353	**309,460**	225,353
Included in other comprehensive income		(1,023,435)	**309,460**	225,353	**309,460**	(798,082)
Benefits Paid	**(814,140)**	0	**814,140**	0	**0**	0
Balance, December 31	**21,860,523**	17,592,861	**(8,769,977)**	(9,392,934)	**13,090,546**	8,199,927

Retirement costs are included in the "General and Administrative Expenses" account in the statements of comprehensive income, and the Corporation, having opted to avail of the Optional Standard Deduction (OSD) accordingly, did not recognize any deferred tax assets or liabilities on re-measurement gains and losses and net benefit obligation.

(iv) Allocation of Plan Assets

Cash and cash equivalents	00.25%
Debt instruments – Government Bonds	99.74%
Others (Market gains/losses, Accrued receivables, etc.)	0.01%
	100.00%

The Retirement Trust Fund assets are valued by the fund manager at fair value using the mark-to-market valuation. While no significant changes in asset allocation are expected in the next financial year, the Retirement Plan Trustee may make changes at any time.

(v) Maturity Analysis: 10-year Projection of Expected Future Benefit Payments

Year	Amount
2018	1,624,376
2019	1,962,742
2020	125,695
2021	142,238
2022	689,022
2022 – 2027	2,393,781

23. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Corporation enters into transactions with its Parent Bank, Land Bank of the Philippines. Under the Corporation's policy, these transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. The transactions with related parties are settled in cash. No provisions are held against receivables from related parties in 2017 and 2016.

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

	2017	2016
Cash in banks	**40,402,505**	34,279,649
Accounts receivable (Note 8)	**386,710,508**	253,378,565
Net investment in lease contracts receivable (Note 8)	**88,032,513**	55,544,270
Bills payable	**1,627,282,414**	1,962,554,167
Deposit on lease contracts	**28,345,998**	17,705,658
Accrued interest payable	**4,432,749**	5,549,187
Miscellaneous liabilities	**886,151**	2,970,426
	2,176,092,838	2,331,981,922

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

	2017	2016
Finance lease income (Note 8)	**114,179,619**	119,627,659
Operating lease income (Note 8)	**50,932,708**	46,140,175
Fleet management service fees	**9,406,200**	17,767,440
Interest income on deposits	**103,709**	118,460
Interest and finance charges	**58,169,133**	62,729,684
Interest income on 7-day high yield savings account	**0**	4,667
	232,791,369	246,388,085

(a) Bills payable and Interest and Financing Charges

Interest rates on borrowings from the parent company ranges from 2.75 per cent to 4.00 per cent. The loans are partially secured by assignment of receivables with terms of maturity ranging from 28 days to nine years.

(b) Finance Lease Income

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

(c) Operating Lease Income

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

(d) Other Related Party Transactions

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

The key management personnel compensations are as follows:

	2017	2016
Salaries and other short-term benefits	**6,089,230**	6,954,069
Post-employment benefits	**1,069,960**	326,948
Directors' remuneration	**4,172,802**	3,659,050
	11,331,992	10,940,067

Other transactions with LBP and its subsidiaries in 2017 and 2016 include the payment of maintenance costs amounting to P187,823 and P80,000, respectively, in relation to the Corporation's investment as disclosed in Note 9 to the financial statements.

24. INCOME TAX EXPENSE

The income tax expense consists of:

	2017	2016
Current	**41,476,063**	41,745,315
Deferred	**(4,726,647)**	5,645,530
	36,749,416	47,390,845

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

	2017	2016
Net income before income tax	**150,750,947**	137,898,669
Add/Less:		
General and administrative expenses	63,979,722	66,216,208
Gross income	**214,730,669**	204,114,877
Less: Optional Standard Deduction (40% of the total of gross income and net amount of non-deductible and non-taxable expenses amounting to P15,691,902 and P27,803,538 in 2017 and 2016, respectively	92,169,028	92,767,366
Net income subject to income tax	**122,561,641**	111,347,511
Income tax computed at statutory tax rate of 30%	36,768,492	33,404,253
Tax effect of:		

	2017	2016
Interest income subject to final tax	**(32,471)**	(36,938)
Interest in arbitrage	**13,395**	15,237
Non-deductible losses and expenses	**0**	14,008,293
Income tax expense	**36,749,416**	47,390,845

Income tax due, after deducting creditable withholding taxes and quarterly income tax payments, amounts to P10,116,364 and P19,692,766 as of December 31, 2017 and 2016, respectively.

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

Income taxes include corporate income tax and final taxes paid at the rate of 20 per cent, which is a final withholding tax on gross interest income from deposits with banks.

Current tax regulations provide that the Regular Corporate Income Tax (RCIT) rate shall be 30 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.

The regulations also provide for Minimum Corporate Income Tax (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.

MCIT computed at two per cent of gross profit amounted to P4,608,451 and P4,638,368 in 2017 and 2016, 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 Statements of Comprehensive Income reflects the "Gross Income" which was the basis in computing the OSD to arrive at the taxable income. Direct expenses incurred to provide the services as provided in Section 4 of RA 16-2008 was presented as a deduction from the gross revenue.

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

	Balance December 31, 2016	**Charged to operations**	**Balance December 31, 2017**
		(In Philippine Peso)	
Deferred tax assets on:			
Allowance for probable losses	55,772,204	4,726,647	**60,498,851**

25. MATURITY ANALYSIS OF ASSETS AND LIABILITIES *(Gross of Allowance for Probable Losses)*

	2017			2016		
	Due within 1 year	Due beyond 1 year	Total	Due within 1 year	Due beyond 1 year	Total
Financial assets						
Cash and cash equivalents	41,940,002	0	41,940,002	42,510,620	0	42,510,620
Loans and receivables	1,006,599,641	2,956,169,555	3,962,769,196	1,337,842,944	2,252,611,964	3,590,454,908
	1,048,539,643	2,956,169,555	4,004,709,198	1,380,353,564	2,252,611,964	3,632,965,528
Non-financial assets						
Investment properties	0	16,199,968	16,199,968	0	26,444,196	26,444,196
Equipment and other property for lease	0	387,613,629	387,613,629	0	409,975,702	409,975,702
Property and equipment	0	26,994,027	26,994,027	0	28,243,765	28,243,765
Non-current assets held for sale	0	0	0	0	7,427,124	7,427,124
Other assets	13,667,475	1,872,623	15,540,098	9,564,731	1,495,832	11,060,563
	13,667,475	432,680,247	446,347,722	9,564,731	473,586,619	483,151,350
Total assets	1,062,207,118	3,388,849,802	4,451,056,920	1,389,918,295	2,726,198,583	4,116,116,878
Financial liabilities						
Bills payable	1,629,898,375	792,384,039	2,422,282,414	1,180,120,000	998,434,167	2,178,554,167
Accounts payable-trade	1,752,628	0	1,752,628	34,707,927	0	34,707,927
Accrued interest payable	5,198,624	0	5,198,624	6,057,388	0	6,057,388
Other payables	63,203,070	0	63,203,070	61,885,841	0	61,885,841
Deposits on lease contracts	84,813,670	211,381,522	296,195,192	121,878,183	121,313,597	243,191,780
Inter-agency payable	13,649,025	0	13,649,025	23,803,373	0	23,803,373
Retirement liability	0	13,090,546	13,090,546	0	8,199,927	8,199,927
Total Liabilities	1,798,515,392	1,016,856,107	2,815,371,499	1,428,452,712	1,127,947,691	2,556,400,403

26. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Corporation has not set-off financial instruments in 2017 and 2016 and does not have offsetting arrangements. Currently, financial assets and financial liabilities are settled on a gross basis; however, each party of the lease agreement will have the option to settle such amount on a net basis in the event of default of the other party. As such, the Corporation's lease contract receivables from the lessees amounting to P942,447,458 and P706,617,583 as of December 31, 2017 and 2016, respectively, can be offset by the amount of lease deposits amounting to P296,195,192 and P243,191,780 as of December 31, 2017 and 2016 (Note 21), respectively. The balance of lease contract receivables net of lease deposit amounted to P646,252,266 and P463,425,803 as of December 31, 2017 and 2016, respectively.

27. EARNINGS PER SHARE

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

	2017	2016
Weighted average number of outstanding shares	**114,001,531**	90,507,824
Basic Earnings Per Share (Note 18)	**48,555,253**	48,555,253
	2.35	1.86

As of January 1, 2016, there is an outstanding one treasury share which was reacquired in the previous years.

Additional two shares were reacquired in 2016 following the resignations of two members of the Board of Directors.

In 2017, all shares were re-issued to the newly appointed directors of the Corporation.

There were no outstanding dilutive potential common shares as at December 31, 2017 and 2016.

28. FINANCIAL PERFORMANCE

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

	2017	2016
Return on average assets	**2.65**	2.28
Return on average equity	**7.86**	6.42
Return on investment	**19.02**	15.10
Debt to equity ratio	**1.90:1**	1.80:1
Solvency ratio	**1.53:1**	1.56:1

29. CONTINGENCIES

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 at December 31, 2017, Management does not anticipate significant losses from these contingencies and commitments that would adversely affect the Corporation's financial position and results of operations.

30. FINANCIAL STATEMENTS PRESENTATION

Reclassification

Certain reclassifications have been made to the prior year's financial statements to enhance comparability with the current year's financial statements following the adoption of the prescribed financial statement presentation format by COA through its Circular 2017-004 dated December 13, 2017.

As a result, certain line items have been reclassified in the statement of financial position and statement of comprehensive income and the related notes to the financial statements. Comparative figures have been adjusted to conform to the current year's presentation.

The items were reclassified as follows:

As of December 31, 2016

Statement of Financial Position	As previously reported	Reclassification	As Reclassified
ASSETS			
Current assets			
Current portion of loans and receivables, net	1,335,550,884	731,010	1,336,281,894
Other current assets, net	10,501,014	(936,283)	9,564,731
Non-current assets			
Other non-current assets, net	1,290,559	205,273	1,495,832
LIABILITIES			
Current liabilities			
Current portion of bills payable	1,180,120,000	(1,180,120,000)	0
Financial liabilities, current portion		1,220,885,315	1,220,885,315
Trade and other payables	106,761,763	(106,761,763)	0
Inter-agency payables		23,803,373	23,803,373
Other payables		61,885,841	61,885,841
Income tax payable	19,692,766	(19,692,766)	0
Non-current liabilities			
Bills payable, net of current portion	998,434,167	(998,434,167)	0
Financial liabilities, net of current portion		998,434,167	998,434,167

Statement of Comprehensive Income	As previously reported	Reclassification	As Reclassified
GENERAL AND ADMINISTRATIVE EXPENSES			
Taxes and licenses	21,803,737	(21,803,737)	0
Taxes, insurance premiums and other fees		22,226,746	22,226,746
Litigation/assets acquired expenses	3,524,528	(3,524,528)	
Insurance	423,009	(423,009)	
Other expenses	18,304,172	3,524,528	21,828,700
Other maintenance and operating expenses		21,828,700	21,828,700

31. EVENTS AFTER THE REPORTING DATE

Cash Dividend Declaration

On May 22, 2018, the Board of Directors of LBP Leasing and Finance Corporation, through its Resolution No. 18-091, approved the declaration of cash dividends amounting to P48,312,500 or P0.995 per share on the 48,555,255 common stocks held by all stockholders of date of record, December 31, 2017.

Financial Regulators Center (FRC) Project

The Corporation was instructed during the LLFC Board Meeting on January 24, 2018 not to pursue the office building project in BGC based on the directives of the Secretary of the Department of Finance (DOF).

With the instruction not to pursue the office building project in Bonifacio Global City, the Corporation immediately considered options available to it with respect to the property. During the Board of Directors meeting on April 25, 2018, a request for authority to proceed with negotiation for the disposal of the BGC property was presented and approved under Board Resolution No. 18-083.

The Corporation suspended the capitalization of interest expense on February 2018 and further reclassified the property under Non-current Assets Held for Sale account.

32. SUPPLEMENTARY INFORMATION ON REVENUE REGULATIONS

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

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

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

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

2. The documentary stamp taxes paid/accrued on loans availed and renewed during the year totalled P6,796,870.

3. Other taxes paid during the year recognized under Taxes and Licenses account are the following:

Particulars	Amount
a. Local	
Realty Taxes	276,703
Business Tax	19,086,698
Licenses	1,116,672
Community Tax Certificate	10,500
b. National	
Annual Non-VAT Registration Fee	500
	20,491,073

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

Compensation and benefits	3,287,171
Expanded withholding taxes	19,064,663
Final withholding taxes	266,000
	22,617,834

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

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

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

In the case of corporations using BIR Form No. 1702, the taxpayer is now required to include as part of its notes to the audited financial statements, which will be attached to the income tax return (ITR), the schedules and information on taxable income and deductions to be taken.

1. Sales/Receipts/Fees

	Regular Rate	
	Creditable Tax Withheld	**Taxable Amount**
Sale of services	18,459,284	387,644,962
Lease of Properties	2,425,367	50,932,708
	20,884,651	**438,577,670**

2. Cost of Sales/Services

	Amount under Special Rate	Amount under Regular Rate
Direct Charges - Salaries, Wages and Benefits	0	12,315,816
Direct Charges - Depreciation	0	7,563,236

	Amount under Special Rate	Amount under Regular Rate
Direct Charges - Outside Services	0	136,923,823
Direct Charges - Others	0	83,980,937
	0	240,783,812

3. Non-Operating and Taxable Other Income (Note 19)

	Special Rate		Regular Rate	
Nature of Income	Creditable Tax Withheld	Taxable Amount	Creditable Tax Withheld	Taxable Amount
Gain on sale	0	0	0	12,248,927
Miscellaneous income - net	0	0	0	20,379,785
	0	0	0	32,628,712

4. Optional Standard Deduction (OSD)

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

The Corporation has opted to use the OSD. The presentation of the Statement of Comprehensive Income reflects the "Gross Income" which was the basis in computing the OSD to arrive at the taxable income. Direct expenses incurred to provide the services as provided in Section 4 of RA No. 16-2008 was presented as a deduction from the gross revenue.

5. Taxes and Licenses

The documentary stamp taxes paid/accrued on loans availed and renewed during the year totalled P6,796,870.

Other taxes paid during the year recognized under Taxes and Licenses account are the following:

Particulars	Amount
b. Local	
Realty Taxes	276,703
Business Tax	19,086,698
Licenses	1,116,672
Community Tax Certificate	10,500
b. National	
Annual Non-VAT Registration Fee	500
	20,491,073

LEASING FACILITIES

Finance Lease

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

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

Operating Lease

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

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

Enhancements/Add-Ons on Leasing Facilities

Depending on the asset type, add-ons may be incorporated in the leasing facility subject to negotiation such as insurance premiums, taxes, repairs and maintenance, chauffeuring services among others. The cost of services added shall be incorporated in the pricing of the lease facility.

FINANCING FACILITIES

Equipment Financing Line

This facility provides medium or long-term financing to clients and may be granted to provide funding for the acquisition of equipment or other capital assets to be secured by the object to be financed and or for the improvement of client's equipment/asset that may contribute to the expansion and improvement of their business which will be secured by chattel mortgages.

Purchase Orders/Receivables Financing Line

This facility provides clients with a source of funds through financing of Receivables or Purchase Orders/Contracts. It is secured by assignment of outstanding receivables that are duly acknowledged/confirmed for products and services that had been delivered and accepted or confirmed or Purchase/Job Orders from established corporate or institutional customers to purchase materials and pay for other expenses needed to deliver the goods and services that are the subject of the purchase orders/contracts.

Short-Term Credit Line

This facility provides clients with a source of funds to finance short-term working capital requirements. This facility is provided to existing clients with good track record.

Special Financing Programs

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

- Special Financing to Support Government Programs
- Anchor-Based Financing Programs
- Vendor Partnership Financing Programs

LBP LEASING AND FINANCE CORPORATION
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