2019
Annual Report

LBP LEASING AND FINANCE CORPORATION
(A LANDBANK Subsidiary)

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

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.

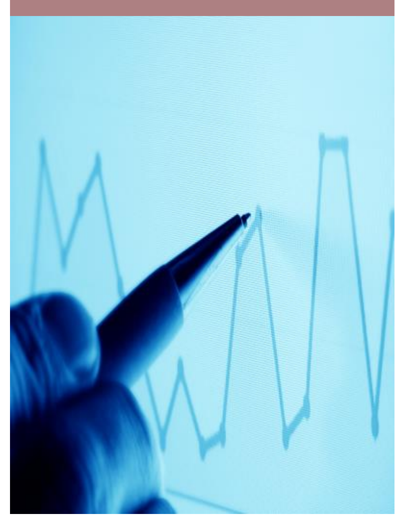
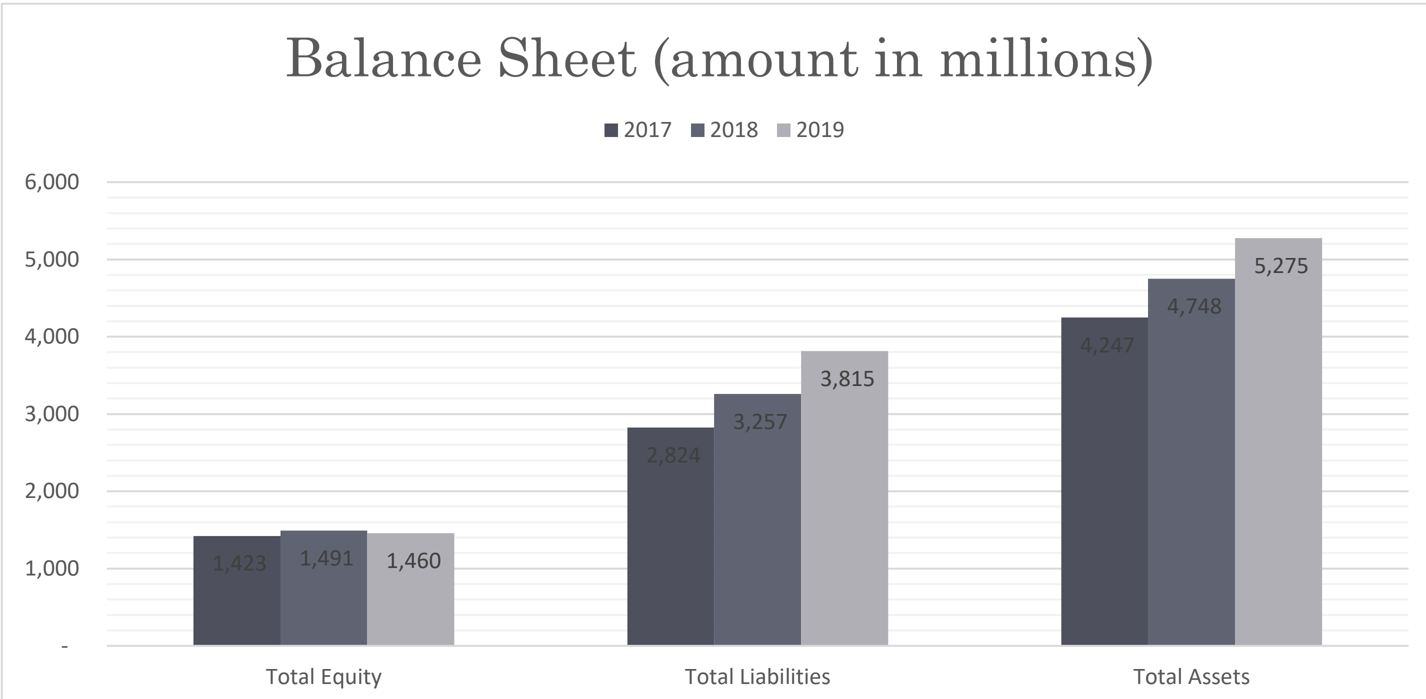
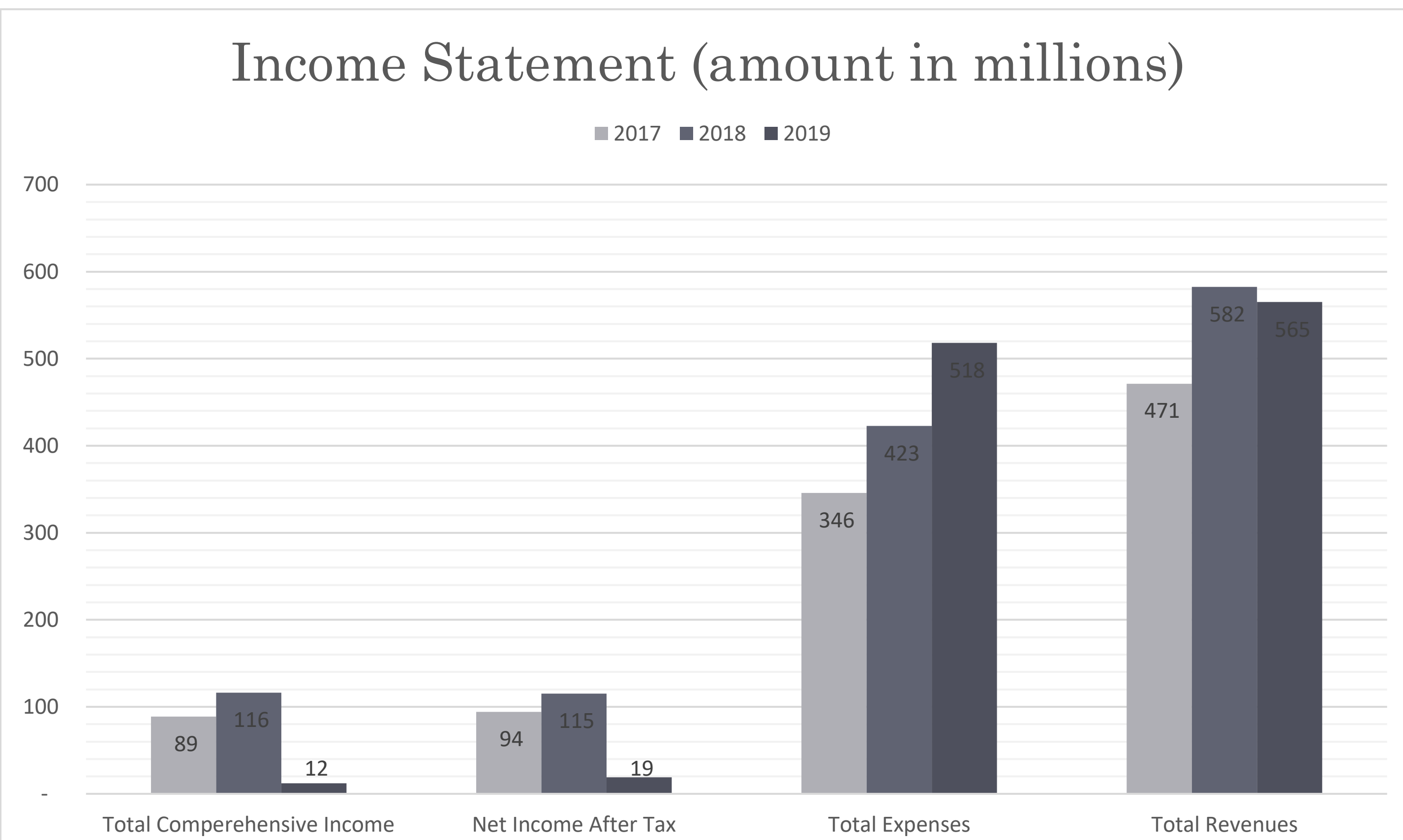


Table of Contents

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 enhance its long-term value to its stakeholders and improve financial performance of the Corporation thus they fully subscribe to comply with Good Governance Conditions.

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
- 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 2019, there were twelve (12) BOD meetings conducted to evaluate and approve various matters related to LLFC's operations.

During its December 19, 2019 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 2019 Annual Performance Scorecard included the Corporation's Vision, Mission and Strategies was reviewed and approved by BOD prior to submission to GCG. No changes in the Vision and Mission was adopted for 2019.

Summary of Board of Directors Attendance for the Year 2019:

Name	Position	No. of Meetings Attended
Cecilia C. Borromeo	Chairman	10
Silvestre M.C. Punsalan	Vice-Chairman	11
Manuel H. Lopez**	Member	4
Francisco C. Leonor Jr.	Member	12
Edward John T. Reyes	Member	11
Fritz M. Salazar	Member	12
Roberto U. Teo	Member	12
Conrado S. Miñano Jr.	Member	12
Leticia V. Damasco	Member	12
Virgilio M. Sangutan***	Member	8
Nanziacino M. Dilay****	Member	6
Alex V. Buenaventura*	Chairman	2

**replaced by Cecilia C. Borromeo in March 2019*

***replaced by Virgilio Sangutan in May 2019*

****assumed May 2019*

*****assumed July 2019*

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

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

Executive Committee

Composition

Chairperson	:	*Roberto U. Teo*
Members	:	*Manuel H. Lopez**
		*Silvestre Manuel C. Punsalan Jr.***
		Edward John T. Reyes
		Francisco J. Leonor Jr.
		*Conrado S. Minano***

**replaced in end of May 2019*

***elected as ExCom member May 2019*

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 2019. All members are present in all the prescribed meetings.

Audit Committee

Composition

Chairperson	:	*Fritz M. Salazar*
Members	:	*Virgilio M. Sangutan**
		Nanziacino M. Dilay
		*Francisco J. Leonor Jr.****
		*Silvestre M.C. Punsalan***

**elected as member of AuditCom on May 2019*
***replaced by Dir. Dilay in September*
****replaced after January 2019s*

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 and endorses to the Board the appointment or removal of the IAU and CMU Heads as well as appraise their performance

For the year 2019, 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 six (6) meetings in 2019. The AuditCom members attended all required meetings except for Dir. Sangutan who missed one meeting.

Corporate Governance Committee (Compensation/ remuneration Committee)

Composition

Chairperson	:	*Cecilia C. Borromeo*
Members	:	*Leticia V. Damasco*
		Silvestre M.C. Punsalan Jr.
		Conrado S. Minano Jr.
		Roberto U. Teo

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. It is also serve as the Compensation/Remuneration Committee of the Corporation.

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 2019, the Committee discussed and endorsed to the BOD the 2018 Performance Based Bonus; Result of Board Assessment; Year 2019 Corporate Action Plans; Status of Hiring and 2018 Industry Report; Year 2018 PBI of Directors; Hiring of Legal Counsel; Revision of the Admin Manual – Disciplinary Process and Imposition of Penalties; Grant of Service Recognition Incentives for 2019 and Grant of Productivity enhancement Incentives for 2019.

Meetings and Attendance for the Year

The Committee met four (4) times during the year 2019, all the members are present in all the meetings.

Risk Management Committee

Composition

Chairperson	*:*	*Leticia V. Damasco*
Members	*:*	*Edward John T. Reyes*
		*Fritz M. Salazar**
		*Conrado S. Minano Jr.***

**elected as member in June*

***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 2019, the RiskCom were discussed and reviewed the 2018 Risk Management Committee Accomplishment Report, 2019 Risk Management Committee Plans and Programs; Risk Management Program for Subsidiaries; 2019 Risk Control Self-Assessment Matrix; 2019 Information Risk Asset Register & Risk Treatment Register, Industry Report for 2018; Concentration of Risks; Report on Large Exposures and Restructured Accounts; Report on Liquidity and Repricing Gap; Report on Booked Loss Provision against Impairment Losses; Status and Updates on Accounts Endorsed to Remedial Accounts Management Unit; Report on Sources and Uses of Funds; Credit Ratings of Existing Accounts; and Job description of seconded Risk Officer from LBP. The RiskCom also endorsed the approval of the following : (1) Operating Procedures of Accounting Unit, Treasury Services Unit and Risk Management Office; (2) Proposed Revised Information Technology (IT) Manual; (3) Review of various manual of LLFC and (4) ERM Programs and Implementation Plan.

Meetings and Attendance for the Year

The Committee met five (5) times in 2019. All directors are present in all meetings.

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 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.

Compliance to Good Governance Condition
The Board, Management and Employees of LLFC ***fully*** *complies with Good Corporate Governance Condition which include SALN submission and compliance to requirements of the Citizens' Charter, Transparency Seal and Quality Management System*

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.

2019 EMPLOYEE TRAINING AND DEVELOPMENT

PARTICULARS	VENUE	DATE OF SEMINAR	PARTICIPANTS		ORGANIZER	NO. OF TRAINING
			MALE	FEMALE		
AMLA	LLFC Board Room	January 23, 2019	18	35	Landbank Compliance Management Group-AML	4 hours
2019 LTS Tax Conference	BIR RDO 125	February 20, 2019	1	0	BIR	8 hours
Walkthrough Session	LBP Main Office	February 22, 2019	0	2	LBP Risk Management Group	8 hours
Mandatory Continuing Legal Education	Leagaspi Village Makati City	March 14-15, 21-22, 2019	0	1	Access	32 hours
PAG-IBIG Forum	McDo Green Belt	March 12, 2019	0	2	Pag-Ibig Fund Buendia	8 hours
Updates on Small Claims Court with Highlights on Violation of BP 22	Herald Suit Chino Roces	May 23, 2019	0	1	CMAP	8 hours
Tax Amnesty	BIR Building QC	June 18, 2019	1	0	BIR	8 hours
Credit investigation Techniques	Herald Suit Chino Roces	July 25, 2019	1	1	CMAP	8 hours
Managing Face to Face Customer Service	St. Giles, Makati	September 9, 2019	1	5	Training for Less	8 hours
Collection and Negotiation Techniques	Malugay Makati City	September 18, 2019	1	4	PFA	8 hours
LTAD Quarterly Tax Updates Seminar	BIR Quezon City	September 18, 2019	1	0	BIR	8 hours
Effective Prospecting for Sales Success	St. Giles, Makati	September 25, 2019	0	3	Training for Less	8 hours
Government Procurement Reporm Act 9184	Hotel Kimberly Manila	September 25-27, 2019	1	0	AGIA	24 hours
Agile Leadership: The power of Agile Leader and Organization	Guthrie Jensen Center	September 26-27, 2019	2	1	Guthrie Jensen	16 hours
Gender Continuity Training	LBP Main Office	October 14-16, 2019	1	1	LBP Main Office	24 hours
Corporate Enhancement for Peak Performance	St. Giles, Makati	October 23, 2019	1	2	Training for Less	8 hours
Corporate Enhancement for Peak Performance	St. Giles, Makati	October 23, 2019	0	3	Training for Less	8 hours
Basic Records & Administrative Management / Records Disposal Administration	LLFC Board Room	November 11-13, 2019	6	15	National Archives of the Philippines	24 hours
Mastering the Basic of Letters of Credit	Marriott Grand Ballroom	November 14-15, 2019	0	2	Center for Global Practices	16 hours
2019 Revised Corporate Code of the Philippines	Marriot Grand Ballroom	November 20, 2019	0	1	Center for Global Practices	8 hours

CORPORATE SOCIAL RESPONSIBILITY

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.

On August 31, 2019, LLFC employees participated in the Annual Manila Bay Clean-up held at the Long-Island, Las Pinas Paranaque Wetland Park, Las Pinas City. LLFC employees also attended the July 7, 2019 Manila Bay Clean up Run.


ROYAL SHEEP
PREMIUM
WHOLE GRAIN
LANG PO


ROYAL S

REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
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

Opinion

We have audited the 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, 2019 and 2018, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the LLFC as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended, in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with International Standards of Supreme Audit Institutions (ISSAIs). 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.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with PFRSs, 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 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 LLFC 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 ISSAIs 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 ISSAIs, 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 audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 30 and Note 31 to the financial statements are presented for purposes of filing with the Bureau of Internal Revenue, and complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission and the Bangko Sentral ng Pilipinas Circular No.1075, respectively, and is not a required part of the basic financial statements. Such 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 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

July 21, 2020

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **LBP LEASING AND FINANCE CORPORATION** or **"the Corporation"** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2019 and 2018, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the 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 Corporation'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 to do so.

The Board of Directors is responsible for overseeing the Corporation's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders or members.

The Commission on Audit, the independent auditors, has audited the financial statements of the Corporation in accordance with International Standards of Supreme Audit Institutions, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

Signature: ______________________
CECILIA C. BORROMEO
Chairman of the Board

Signature: ______________________
FRANCISCO J. LEONOR JR.
President/CEO

Signature: ______________________
RAIZZA L. GONZALES
VP/Chief Financial Officer

Signed this 21st day of July 2020

LBP LEASING AND FINANCE CORPORATION
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2019 and 2018
(In Philippine Peso)

	Note	2019	2018
ASSETS			
Current Assets			
Cash and Cash Equivalents	7	**25,071,925**	48,137,857
Financial Assets at Amortised Cost	8, 14	**1,479,806,692**	1,558,289,710
Other Current Assets, net	13	**9,208,314**	21,186,625
Total Current Assets		**1,514,086,931**	1,627,614,192
Non-Current Assets			
Financial Assets at Amortised Cost	8, 14	**3,144,686,942**	2,681,747,577
Investment Properties, net	9, 14	**13,921,984**	9,697,212
Equipment and Other Property for Lease, net	10	**185,743,416**	30,229,918
Property and Equipment, net	11	**53,090,202**	30,681,091
Non-Current Assets Held for Sale, net	12	**308,858,250**	308,858,250
Deferred Tax Asset	24	**53,753,578**	57,547,448
Other Non-Current Assets, net	13	**1,273,083**	1,976,373
Total Non-Current Assets		**3,761,327,455**	3,120,737,869
Total Assets		**5,275,414,386**	4,748,352,061
LIABILITIES			
Current Liabilities			
Financial Liabilities	15	**2,582,032,561**	2,225,772,656
Deposit on Lease Contracts	21	**179,787,951**	133,702,433
Inter-Agency Payables	16	**15,373,281**	14,273,740
Other Payables	17	**66,224,718**	57,154,101
Total Current Liabilities		**2,843,418,511**	2,430,902,930
Non-Current Liabilities			
Financial Liabilities	15	**724,975,449**	620,450,577
Deposit on Lease Contracts	21	**224,483,871**	188,920,823
Retirement Liability	22(b)	**22,247,019**	17,113,259
Total Non-Current Liabilities		**971,706,339**	826,484,659
Total Liabilities		**3,815,124,850**	3,257,387,589
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		**(10)**	(20)
		599,523,440	599,523,430
Retained Earnings	18(b)		
Appropriated		**600,000,000**	600,000,000
Unappropriated		**271,229,931**	295,586,380
		871,229,931	895,586,380
Accumulated Other Comprehensive Income (Loss)			
Remeasurement of Retirement Benefit Obligation	22(b)	**(10,463,835)**	(4,145,338)
		(10,463,835)	(4,145,338)
Total Equity		**1,460,289,536**	1,490,964,472
Total Liabilities and Equity		**5,275,414,386**	4,748,352,061

The Notes on pages 9 to 78 form part of these financial statements.

LBP LEASING AND FINANCE CORPORATION
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED December 31, 2019 and 2018
(In Philippine Peso)

	Note	2019	2018
INTEREST INCOME			
Leases	8, 21	**213,494,394**	236,506,805
Loans	8	**175,531,426**	167,330,267
Deposits in Banks	7	**157,056**	149,114
		389,182,876	403,986,186
INTEREST EXPENSE			
Borrowed Funds	15	**(167,102,379)**	(102,999,771)
NET INTEREST INCOME		**222,080,497**	300,986,415
OTHER INCOME			
Operating Leases	8, 21	**51,860,862**	55,865,443
Other Income	19	**123,959,151**	122,541,303
		175,820,013	178,406,746
DIRECT EXPENSES			
Security, Messengerial, Janitorial and Contractual Services	21	**(170,256,843)**	(159,523,974)
Provision for Credit and Impairment Losses	8, 14	**(38,500,000)**	(32,997,215)
Compensation and Fringe Benefits - Marketing Operations	22(a)	**(23,669,850)**	(19,763,017)
Documentary Stamp Used		**(20,311,570)**	(16,476,913)
Depreciation-Equipment and Other Property for Lease	10	**(8,281,539)**	(8,218,860)
Insurance		**(6,943,562)**	(7,305,915)
Repairs and Maintenance		**(4,980,844)**	(4,266,180)
Transfer Mortgage and Registration Fees		**(1,255,051)**	(1,043,963)
		(274,199,259)	(249,596,037)
GROSS INCOME		**123,701,251**	229,797,124
GENERAL AND ADMINISTRATIVE EXPENSES			
Taxes, Insurance Premiums and Other Fees		**(27,714,111)**	(27,460,090)
Compensation and Fringe Benefits	22(a)	**(22,047,484)**	(21,698,439)
Depreciation/Amortization	11	**(4,136,273)**	(2,953,451)
Other Maintenance and Operating Expenses	20	**(23,110,009)**	(17,909,276)
		(77,007,877)	(70,021,256)
NET INCOME BEFORE INCOME TAX		**46,693,374**	159,775,868
Income Tax Expense	24	**(28,175,823)**	(44,569,786)
NET INCOME AFTER TAX		**18,517,551**	115,206,082
OTHER COMPREHENSIVE INCOME/(LOSS)			
Item that will not be reclassified to profit and loss			
Remeasurement Loss on Retirement Benefit Obligation	22(b)	**(6,318,497)**	1,142,828
TOTAL COMPREHENSIVE INCOME		**12,199,054**	116,348,910
EARNINGS PER SHARE	27	**0.38**	2.37

The Notes on pages 9 to 78 form part of these financial statements.

LBP LEASING AND FINANCE CORPORATION
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 and 2018
(In Philippine Peso)

	Issued Capital	Additional Paid-in Capital	Treasury Stock	Retained Earnings		Accumulated Other Comprehensive Gains/(Losses)	Total
				Unappropriated	Appropriated		
	Note 18(a)			Note 18(b)		Note 18(c)	
BALANCE, 1 JANUARY 2018	485,552,550	113,970,900	0	228,692,798	600,000,000	(5,288,166)	1,422,928,082
CHANGES IN EQUITY FOR 2018							
Add/(Deduct):							
Cash Dividend to National Government				(48,312,500)			(48,312,500)
Reacquisition of Common Stock			(20)				(20)
Net Income for the Year				115,206,082			115,206,082
Remeasurement Loss Retirement on Benefit Obligation						1,142,828	1,142,828
BALANCE, 1 JANUARY 2019	**485,552,550**	**113,970,900**	**(20)**	**295,586,380**	**600,000,000**	**(4,145,338)**	**1,490,964,472**
CHANGES IN EQUITY FOR 2019							
Add/(Deduct):							
Cash Dividend to National Government				(42,874,000)			(42,874,000)
Reacquisition of Common Stock			10				10
Net Income for the Year				18,517,551			18,517,551
Remeasurement Loss Retirement on Benefit Obligation						(6,318,497)	(6,318,497)
BALANCE, 31 DECEMBER 2019	**485,552,550**	**113,970,900**	**(10)**	**271,229,931**	**600,000,000**	**(10,463,835)**	**1,460,289,536**

The Notes on pages 9 to 78 form part of these financial statements.

LBP LEASING AND FINANCE CORPORATION
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 and 2018
(In Philippine Peso)

	Note	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Inflows			
Interest Received		**388,191,603**	401,285,280
Other Income Received		**123,978,062**	293,723,805
Cash Received from Clients		**2,527,906,963**	6,232,675,179
Total Cash Inflows		**3,040,076,628**	6,927,684,264
Cash Outflows			
Cash Paid to Clients		**(2,842,632,372)**	(6,849,208,976)
Cash Paid to Settle Expenses		**(296,923,370)**	(278,856,611)
Interest Paid		**(169,077,142)**	(93,264,425)
Income Taxes Paid		**(25,380,959)**	(40,822,138)
Total Cash Outflows		**(3,334,013,843)**	(7,262,152,150)
Net Cash Used in Operating Activities		**(293,937,215)**	(334,467,886)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Inflows			
Disposal of Property and Equipment		**5,256,018**	862,501
Cash Outflows			
Acquisitions of Property and Equipment		**(168,293,233)**	(6,367,793)
Net Cash Used in Investing Activities		**(163,037,215)**	(5,505,292)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Inflows			
Proceeds from Borrowings Under Line of Credit Agreement		**7,812,858,502**	7,154,655,665
Reissuance of Shares		**10**	0
Total Cash Inflows		**7,812,858,512**	7,154,655,665
Cash Outflows			
Payment of Long Term Debt		**(7,336,076,014)**	(6,760,172,112)
Reacquisition of Shares	18a	**0**	(20)
Cash Dividends Paid	18b	**(42,874,000)**	(48,312,500)
Total Cash Outflows		**(7,378,950,014)**	(6,808,484,632)
Net Cash Provided By Financing Activities		**433,908,498**	346,171,033
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(23,065,932)**	6,197,855
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**48,137,857**	41,940,002
CASH AND CASH EQUIVALENTS AT END OF YEAR	7	**25,071,925**	48,137,857

The Notes on pages 9 to 78 form part of these financial statements.

LBP LEASING AND FINANCE 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 (SEC) 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. 20-063, approved and authorized for issuance the Corporation's financial statements as of and for the years ended December 31, 2019 and 2018 on May 11, 2020.

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

2.1 Statement of Compliance

The financial statements of the Corporation have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs) as prescribed by the Commission on Audit through COA Resolution No. 2014-003 dated January 24, 2014, and adopted by SEC.

2.2 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.

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.

Current versus Noncurrent Classification

The Corporation presents assets and liabilities in the statements of financial position based on current and noncurrent classification. An asset is current when it is: (a) expected to be realized or intended to be sold or consumed in the normal operating cycle; (b) held primarily for the purpose of trading; (c) expected to be realized within 12 months after the reporting period; or (d) cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

A liability is current when it is: (a) expected to be settled in the normal operating cycle; (b) held primarily for trading; (c) due to be settled within 12 months after the reporting period; or (d) there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

The Corporation classifies all other assets and liabilities as noncurrent. Deferred tax assets and liabilities are classified as noncurrent.

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, 2019.

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRSs which the Corporation adopted effective for annual periods beginning on or after January 1, 2019

- PFRS 16, *Leases* – PFRS 16 supersedes PAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, Standing Interpretations Committee (SIC) Interpretation No 15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires almost all leases to be brought onto lessees' statement of financial position under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases.

  Lessor accounting under PFRS 16 is substantially unchanged from PAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in PAS 17. Therefore, PFRS 16 does not have an impact for leases where the Corporation is the lessor.

  The Corporation adopted PFRS 16 using the retrospective approach, with the date of initial application of January 1, 2019. The Corporation elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at January 1, 2019. Instead, the Corporation applied the standard only to contracts that were previously identified as leases applying PAS 17 and IFRIC 4 at the date of initial application. The Corporation also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets).

Upon adoption of PFRS 16, the Corporation applied a single recognition and measurement approach for all leases for which it is the lessee, except for short-term leases and leases of low-value assets wherein associated lease payments are recognized as an expense on a straight-line basis over the lease term. The Corporation recognized lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. In accordance with the retrospective method of adoption, the Corporation applied PFRS 16 at the date of initial application as if it had already been effective at the commencement date of existing lease contracts.

- IFRIC Interpretation 23, *Uncertainty over Income Tax Treatment* – The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

    - Whether an entity considers uncertain tax treatments separately
    - The assumptions an entity makes about the examination of tax treatments by taxation authorities
    - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
    - How an entity considers changes in facts and circumstances

  The Corporation determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

  The Corporation applies significant judgement in identifying uncertainties over income tax treatments.

  The Interpretation did not have an impact on the financial statements of the Corporation.

- Amendments to PFRS 9: *Prepayment Features with Negative Compensation* – Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

  These amendments had no impact on the financial statements of the Corporation.

- Amendments to PAS 19: *Plan Amendment, Curtailment or Settlement* - The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to re-measure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to re-measure that net defined benefit liability (asset).

The amendments had no impact on the financial statements of the Corporation as it did not have any plan amendments, curtailments, or settlements during the period.

- Amendments to PAS 28: *Long-term interests in associates and joint ventures* - The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

  The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28 Investments in Associates and Joint Ventures.

  These amendments had no impact on the financial statements as the Corporation does not have long-term interests in its associate and joint venture.

- Annual Improvements 2015-2017 Cycle

  - PFRS 3, Business Combinations
    The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

    An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted.

    These amendments had no impact on the financial statements of the Corporation as there is no transaction where joint control is obtained.

  - PFRS 11, Joint Arrangements
    An entity that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The

amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted.

These amendments had no impact on the financial statements of the Corporation as there is no transaction where a joint control is obtained.

- PAS 12, Income Taxes

  The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognized those past transactions or events.

  An entity applies the amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

  Since the Corporation's current practice is in line with these amendments, they had no impact on the financial statements of the Corporation.

- PAS 23, Borrowing Costs

  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all the activities necessary to prepare that asset for its intended use or sale are complete.

  The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

  Since the Corporation's current practice is in line with these amendments, they had no impact on the financial statements of the Corporation.

The adoption of the foregoing new and amended PFRSs did not have any material effect on the financial statements. Additional disclosures have been included in the notes to financial statements, as applicable.

b. New and Amended PFRS Issued But Not Yet Effective

Relevant new and amended PFRSs which are not yet effective for the year ended December 31, 2019 and have not been applied in preparing the financial statements are summarized below.

Effective for annual periods beginning on or after January 1, 2023:

- PFRS 17, *Insurance Contracts* – This standard will replace PFRS 4, *Insurance Contracts.* It requires insurance liabilities to be measured at current fulfillment value and provides a more uniform measurement and presentation approach to achieve consistent, principle-based accounting for all insurance contracts. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued.

Deferred effectivity -

- Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* – The amendments address a current conflict between the two standards and clarify that a gain or loss should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after January 1, 2016, was deferred indefinitely in December 2015 but earlier application is still permitted.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRSs is not expected to have any material effect on the financial statements of the Corporation.

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 initial measurement of financial instruments, except for those designated at fair value through profit and loss (FVPL), includes transaction cost.

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.

Classification of financial instruments

The Corporation classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) financial assets at amortized cost and (c) financial assets at fair value through other comprehensive income (FVOCI). Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or financial liabilities at amortized cost. The classification of a financial instrument largely depends on the Corporation's business model and its contractual cash flow characteristics.

Financial instruments

Financial assets and liabilities at FVPL.

Financial assets and liabilities at FVPL are either classified as held for trading or designated at FVPL. A financial instrument is classified as held for trading if it meets either of the following conditions:

- it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

This category includes equity instruments which the Corporation had not irrevocably elected to classify at FVOCI at initial recognition. This category includes debt instruments whose cash flows are not "solely for payment of principal and interest" assessed at initial recognition of the assets, or which are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell.

The Corporation may, at initial recognition, designate a financial asset or financial liability meeting the criteria to be classified at amortized cost or at FVOCI, as a financial asset or financial liability at FVPL, if doing so eliminates or significantly reduces accounting mismatch that would arise from measuring these assets or liabilities.

After initial recognition, financial assets at FVPL and held for trading financial liabilities are subsequently measured at fair value. Unrealized gains or losses arising from the fair valuation of financial assets at FVPL and held for trading financial liabilities are recognized in profit or loss.

For financial liabilities designated at FVPL under the fair value option, the amount of change in fair value that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss.

The Corporation does not have financial assets and liabilities at FVPL.

Financial assets at amortised cost

Financial assets shall be measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method, less allowance for impairment, if any. Amortised 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 profit or loss when the financial assets are derecognized and through amortisation process. Financial assets at amortised cost are included under current assets if realizability or collectability is within 12 months after the reporting period. Otherwise, these are classified as non-current assets.

The Corporation's cash and cash equivalents and financial assets at amortised cost, as disclosed in Notes 7, 8 and 14, 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 financial assets at amortised account include the aggregate rental on finance lease transactions. Unearned income on finance lease transactions is shown as deduction from the "Financial Assets at Amortised Cost" account in the statement of financial position.

Financial assets at FVOCI

For debt instruments that meet the contractual cash flow characteristic and are not designated at FVPL under the fair value option, the financial assets shall be measured at FVOCI if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and selling the financial assets; and

- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For equity instruments, the Corporation may irrevocably designate the financial asset to be measured at FVOCI in case the above conditions are not met.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. After initial recognition, interest income (calculated using the effective interest rate method), foreign currency gains or losses and impairment losses of debt instruments measured at FVOCI are recognized directly in profit or loss. When the financial asset is derecognized, the cumulative gains or losses previously recognized in Other Comprehensive Income (OCI) are reclassified from equity to profit or loss as a reclassification adjustment.

Dividends from equity instruments held at FVOCI are recognized in profit or loss when the right to receive payment is established, unless the dividend clearly represents a recovery of part of the cost of the investment. Foreign currency gains or losses and unrealized gains or losses from equity instruments are recognized in OCI and presented in the equity section of the statements of financial position. These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent periods.

The Corporation does not have financial assets at FVOCI.

Financial liabilities at amortised cost.

Financial liabilities are categorized as financial liabilities at amortised cost when the substance of the contractual arrangement results in the Corporation having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or through the amortization process.

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

Reclassification

The Corporation reclassifies its financial assets when, and only when, it changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting period following the change in the business model (reclassification date).

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVPL, any gain or loss arising from the difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVOCI, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in OCI.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at amortized cost, its fair value at the reclassification date becomes its new gross carrying amount.

For a financial asset reclassified out of the financial assets at FVOCI category to financial assets at amortized cost, any gain or loss previously recognized in OCI, and any difference between the new amortized cost and maturity amount, are amortized to profit or loss over the remaining life of the investment using the effective interest method. If the financial asset is subsequently impaired, any gain or loss that has been recognized in OCI is reclassified from equity to profit or loss.

In the case of a financial asset that does not have a fixed maturity, the gain or loss shall be recognized in profit or loss when the financial asset is sold or disposed. If the financial asset is subsequently impaired, any previous gain or loss that has been recognized in OCI is reclassified from equity to profit or loss.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at FVOCI, its fair value at the reclassification date becomes its new gross carrying amount. Meanwhile, for a financial asset reclassified out of the financial assets at FVOCI category to financial assets at FVPL, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

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 has 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 profit or loss.

A modification is considered substantial if the present value of the cash flows under the new terms, including net fees paid or received and discounted using the original effective interest rate, is different by at least 10 per cent from the discounted present value of remaining cash flows of the original liability.

The fair value of the modified financial liability is determined based on its expected cash flows, discounted using the interest rate at which the Corporation could raise debt with similar terms and conditions in the market. The difference between the carrying value of the original liability and fair value of the new liability is recognized in profit or loss.

On the other hand, if the difference does not meet the 10 per cent threshold, the original debt is not extinguished but merely modified. In such case, the carrying amount is adjusted by the costs or fees paid or received in the restructuring.

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.

Classification of Financial Instrument between Liability and Equity

A financial instrument is classified as liability if it embodies a contractual obligation to:

- Deliver cash or another financial asset to another entity;
- 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.

Impairment of financial assets at amortised cost and FVOCI

The Corporation records an allowance for "expected credit loss" (ECL) model based on the guidelines set by the Bangko Sentral ng Pilipinas (BSP) which is in accordance with the existing standards. This guideline shall be at the minimum, be observed in recording ECL.

The Corporation recognizes credit impairment/allowance for credit losses even before objective evidence of impairment becomes apparent.

The credit exposures of the Corporation are classified into three stages using the following time horizons in measuring ECL:

Stage of Credit Impairment	Characteristics	Time Horizon in measuring ECL
Stage 1	Credit exposure that are considered "performing" and with no significant increase in credit risk since initial recognition or with low credit risk	Twelve (12) Months ECL
Stage 2	Credit exposure that are considered "under-performing" or not yet non-performing but with significant increase in credit risk since initial recognition	Lifetime ECL
Stage 3	Credit exposure with objective evidence of impairment, thus, considered as "non-performing"	Lifetime ECL

Twelve Months (12) ECL

The Corporation set up an allowance for loss provision equivalent to one per cent for all outstanding collectively financial assets that are not individually significant except those considered as risk-free under existing rules and regulations.

Lifetime ECL

Individually assessed financial assets are measured using lifetime ECL. The Corporation has established a provision matrix that is based on the minimum guidelines set by BSP.

Classification	Stage of Credit Impairment
Especially Mentioned	Stage 2
Substandard (underperforming)	Stage 2
Substandard (non-performing)	Stage 3
Doubtful	Stage 3
Loss	Stage 3

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 effective interest rate (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.

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.

Transfer from Twelve (12) month ECL to Lifetime ECL

The Corporation transfers exposures from Stage 1 to Stage 2 or 3 when there is a significant increase in credit risk. Management set other indicators aside from missed payments which may place an exposure to increased its credit risk since initial recognition.

Transfer from Lifetime ECL to Twelve (12) month ECL

The Corporation transfers exposures from Stage 3 to Stage 1 only when there is sufficient evidence to support their full collection. As a general rule, full collection is probable when payment of interest and/or principal are received for at least six months.

Interest income continues to be recognized based on the original EIR of the asset except those classified under "Stage 3" which recognizes interest income based on the amortized cost carrying amount of the asset (net of allowance for losses).

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 'recovery on charged-off assets' 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, except if classified under "Stage 3" criteria. 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.

Non-performing restructured exposures that have exhibited improvement in creditworthiness of the counterparty may only be transferred from Stage 3 to Stage 1 after a total of one year probation period; six months from Stage 3 to Stage 2, and another six months from stage 2 to Stage 1; or directly from Stage 3 to Stage 1, without passing through Stage 2, after 12 months.

Restructured accounts classified as "performing" prior to restructuring will be initially classified under Stage 2. Transfer from Stage 2 to Stage 1 will follow the six month rule on transfer from lifetime ECL to Twelve (12) month ECL.

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.

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying amount at the date of change in use. If the property occupied by the Corporation as an owner-occupied property becomes an investment property, the Corporation accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

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 are recognized as addition 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 COA Circular No. 2017-004 dated December 13, 2017, with selected property and equipment applicable to the Corporation as follows:

Property and Equipment	Estimated Useful Life
Buildings	30 to 50 years
Transportation equipment (motor vehicle)	5 to 15 years
Office equipment, furniture and fixtures	2 to 15 years
Other property and equipment	2 to 15 years

The same COA circular dictates that the residual value of property and equipment is fixed at five 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 profit or loss.

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 profit or loss 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 statements of 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. The net selling price is the fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. 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.

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 profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the separate statements of income. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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

Provisions are recognized when: (a) the Corporation has a present obligation (legal or constructive) as a result of past events; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate of the amount of the obligation can be made. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset only when it is virtually certain that reimbursement will be received. The amount recognized for the reimbursement shall not exceed the amount of the provision. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

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

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

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.

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.

Treasury Shares

Own equity instruments which are reacquired are carried at cost and deducted from equity. No gain or loss is recognized on the purchase, sale, reissuance or cancellation of the Corporation's own equity instruments. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) comprises items of income and expense, including items previously presented under the separate statements of changes in equity, that are not recognized in profit or loss for the year. Other comprehensive income (loss) of the Corporation pertains to gain (loss) on remeasurement of retirement benefit obligation.

3.12 Revenue recognition

Revenue from contract with customers is recognized when the performance obligation in the contract has been satisfied, either at a point in time or over time. Revenue is recognized over time if one of the following criteria is met: (a) the customer simultaneously receives and consumes the benefits as the Corporation perform its obligations; (b) the Corporation's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Corporation's performance does not create an asset with an alternative use to the Corporation and the Corporation has an enforceable right to payment for performance completed to date. Otherwise, revenue is recognized at a point in time.

The Corporation also assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Corporation has assessed that it acts as a principal in all of its revenue sources.

The following specific recognition criteria must also be met before revenue is recognized.

(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". 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. Residual values represent estimated proceeds from the disposal of equipment at the time the lease is terminated.

(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 Corporation has a funded non-contributory defined benefit retirement plan (the Plan) covering substantially all of its officers and regular employees. 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

At the inception of a contract, the Corporation assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Corporation assesses whether:

- the contract involves an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Corporation has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Corporation has the right to direct the use of the asset. The Corporation when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. The Corporation has the right to direct the use of the asset of either:
  - the Corporation has the right to operate the asset; or
  - the Corporation designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after January 1, 2019.

Finance Lease

Corporation as Lessor.

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 "Financial Assets at Amortised Cost" 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.

Operating Lease

Corporation as Lessee.

The Corporation applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Corporation recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets - The Corporation recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Right-of-use assets	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

If ownership of the leased asset transfers to the Corporation at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment.

Lease liabilities - At the commencement date of the lease, the Corporation recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Corporation and payments of penalties for terminating the lease, if the lease term reflects the Corporation exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Corporation uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets - The Corporation applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

The Corporation does recognizes right-of-use assets and lease liabilities for most leases. However, the Corporation has elected not to recognise right-of-use assets and lease liabilities for some leases of low value assets based on the value of the underlying asset when new or for short-term leases with a lease term of 12 months or less.

Corporation as Lessor.

Leases where the Corporation does not transfer substantially all the risks and rewards of ownership of the assets are classified as operating leases. Rent income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as rent income. Contingent rents are recognized as income in the period 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 tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Taxable income differs from net income 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.

Current tax relating to items recognized directly in equity is recognized in equity and not in the separate statements of income. The Corporation periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate

Deferred tax

Deferred tax is recognized using the liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are recognized using the liability method for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to taxable temporary differences associated with investments in shares of stock of subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred 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, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to deductible temporary differences associated with investments in shares of stock of subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred 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. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Corporation expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

Current and deferred tax are recognized in profit or loss for the period, except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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

3.19 Earnings per share

Basic earnings per share 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.

3.21 Contingencies

Contingent liabilities are not recognized in the separate financial statements. They are disclosed in the notes to the separate financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the separate financial statements but are disclosed in the notes to the separate financial statements when an inflow of economic benefits is probable.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the financial statements in accordance with Philippine Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the financial statements at the reporting date. The estimates, assumptions and judgments are based on management's evaluation of relevant facts and circumstances as of the date of the financial statements. However, uncertainty about these judgments, estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

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 Impairment of Financial assets at FVOCI

Financial assets at FVOCI are assessed as impaired when there has been a significant or prolonged decline in the fair value below cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. In addition, the Corporation evaluates other factors, including normal volatility in share price for quoted equities, and the future cash flows and the discount factors for unquoted equities.

Estimation of allowance for impairment loss on financial assets at amortised cost

The Corporation reviews its financial assets at amortised cost to assess impairment at least on an annual basis to assess whether additional provision for credit losses should be recognized. 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 2019 and 2018, Management has assessed an amount of P184,778,357 and P196,239,856 as doubtful of collection (Note 8). Accordingly, a provision for impairment was recognized in the statements of comprehensive income.

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 P6,337,517 as of December 31, 2019 and 2018 (Note 9) while there are no allowance for impairment losses on Non-Current Assets Held for Sale in 2019 and 2018 (Note 12), respectively. There are no impairment losses on EOPL and Property and Equipment for the years 2019 and 2018.

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

	2019	2018
Investment Properties (Note 9)	**13,921,984**	9,697,212
EOPL (Note 10)	**185,743,416**	30,229,918
Property and Equipment (Note 11)	**53,090,202**	30,681,091
Non-Current Assets Held for Sale (Note 12)	**308,858,250**	308,858,250

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 P3,315,263 and P2,900,454 as at December 31, 2019 and 2018, respectively, as disclosed in Note 22(a).

The related liability stands at P22,247,019 and P17,113,259 as at December 31, 2019 and 2018, respectively, as disclosed in Note 22(b).

Realizability of deferred tax assets

The Corporation reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Corporation's assessment on the recognition of deferred tax assets on deductible temporary differences is based on the projected taxable income in the following periods.

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 exercises judgments in classifying 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 arrangement and the definitions of a financial asset or liability. 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.

Determination Whether an Arrangement Contains a Lease.

The Corporation assesses whether an arrangement contains a lease based on PFRS 16, as disclosed in Note 3. On adoption of PFRS 16, the Corporation elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied PFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under PAS 17 and IFRC 4 were not reassessed for whether there is a lease. Therefore, the definition of lease under PFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

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.

Corporation as Lessor.

As a lessor, total rental earned from operating leases amounted to P51,860,862 in 2019 and P55,865,443 in 2018, as disclosed in Note 21.

Interest earned on finance lease arrangements amounted to P213,494,394 and P236,506,805 in 2019 and 2018, respectively, as disclosed in Note 21 to the financial statements.

Determining the lease term of contracts with renewal and termination options – Corporation as lessee.

The Corporation determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Corporation has several lease contracts that include extension and termination options. The Corporation applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Corporation reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

As a lessee, total rental expenses incurred from the leases amounted to P447,890 and P203,372 in 2019 and 2018, as disclosed in Note 20 and 21.

Refer to Note 21 for information on potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term.

Evaluating Deferred Tax

In determining the amount of current and deferred tax, the Corporation takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Corporation believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Corporation to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Deferred tax assets recognized amounted to P53,753,578 and P57,547,448 as at December 31, 2019 and 2018, respectively, as disclosed in Note 24.

Management believes that the amount is fully recoverable.

5. FINANCIAL RISK AND CAPITAL MANAGEMENT OBJECTIVES AND POLICIES

Principal financial instruments

The Corporation's principal financial instruments comprised cash, financial assets at amortised cost, 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:

	2019	2018
Secured		
Property under finance lease	**1,197,982,279**	1,112,286,818
Real estate mortgage	**1,127,538,025**	1,164,673,089
Chattel mortgage	**2,105,880,149**	1,834,771,223
	4,431,400,453	4,111,731,130
Unsecured	**377,871,538**	324,546,013
	4,809,271,991	4,436,277,143

(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*

	2019		2018	
	Carrying Value	**Maximum Exposure**	Carrying Value	Maximum Exposure
Financial assets:				
Cash in Banks	**24,988,513**	**24,988,513**	48,090,857	48,090,857
Financial Assets at Amortised Cost	**4,809,271,991**	**4,809,271,991**	4,436,277,143	4,436,277,143
	4,834,260,504	**4,834,260,504**	4,484,368,000	4,484,368,000

The preceding table represents the maximum credit risk exposure of the Corporation at December 31, 2019 and 2018, 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 financial assets at amortised cost. 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 10 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, 2019

	Cash	**Financial Assets at Amortised Cost**
Wholesale and retail trade	**0**	**378,784,874**
Manufacturing	**0**	**783,851,526**
Public utilities	**0**	**702,272,035**
Services	**0**	**1,252,320,730**
Banks and other financial institutions	**24,988,513**	**564,116,070**
Real estate	**0**	**21,314,457**
Public sector	**0**	**645,343,615**
Others	**0**	**461,268,684**
Total	**24,988,513**	**4,809,271,991**
Less: Allowance for probable losses/fair value changes	**0**	**(184,778,357)**
	24,988,513	**4,624,493,634**

As at December 31, 2018

	Cash	Financial Assets at Amortised Cost
Agriculture, fishing and forestry	0	1,645,614
Wholesale and retail trade	0	422,514,416
Manufacturing	0	608,765,683
Public utilities	0	385,225,606
Services	0	1,111,704,992
Banks and other financial institutions	48,090,857	687,018,842
Real estate	0	38,876,894
Public sector	0	717,118,611
Others	0	463,406,485
Total	48,090,857	4,436,277,143
Less: Allowance for probable losses/fair value changes	0	(196,239,856)
	48,090,857	4,240,037,287

(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, 2019

	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Cash in Banks	**24,988,513**	**0**	**0**	**24,988,513**
Financial Assets at Amortised Cost	**4,167,627,538**	**42,941,577**	**598,702,876**	**4,809,271,991**
	4,192,616,051	**42,941,577**	**598,702,876**	**4,834,260,504**

As at December 31, 2018

	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Cash in Banks	48,090,857	0	0	48,090,857
Financial Assets at Amortised Cost	3,964,323,203	176,633,975	295,319,965	4,436,277,143
	4,012,414,060	176,633,975	295,319,965	4,484,368,000

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, 2019

	Up to 1 year	Over 1 year to 3 years	Over 3 years	Total
Bills Payable	2,568,573,006	630,715,833	94,259,616	3,293,548,455
Accounts Payable – Trade	500,348	0	0	500,348
Accrued Interest Payable	12,959,207	0	0	12,959,207
Other Payables	66,224,718	0	0	66,224,718
Deposits on Lease Contracts	179,787,951	149,180,858	75,303,013	404,271,822
	2,828,045,230	779,896,691	169,562,629	3,777,504,550

As at December 31, 2018

	Up to 1 year	Over 1 year to 3 years	Over 3 years	Total
Bills Payable	2,196,315,390	0	620,450,577	2,816,765,967
Accounts Payable – Trade	14,523,296	0	0	14,523,296
Accrued Interest Payable	14,933,970	0	0	14,933,970
Other Payables	57,154,101	0	0	57,154,101
Deposits on Lease Contracts	133,702,433	126,983,730	61,937,093	322,623,256
	2,416,629,190	126,983,730	682,387,670	3,226,000,590

Financial assets available to meet all of the liabilities include cash in bank and financial assets at amortised cost. 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, financial assets at amortised cost, 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, 2019 and 2018.

	2019		2018	
	Carrying Amount	**Fair Value**	Carrying Amount	Carrying Amount
Financial Assets:				
Cash and Cash Equivalents (Note 7)	**25,071,925**	**25,071,925**	48,137,857	48,137,857
Financial Assets at Amortised Cost (Notes 8 and 14)	**4,809,271,991**	**4,809,271,991**	4,436,277,143	4,436,277,143
	4,834,343,916	**4,834,343,916**	4,484,415,000	4,484,415,000

	2019		2018	
	Cost	**Fair Value**	Cost	Fair Value
Financial liabilities:				
Bills Payable (Note 15)	**3,293,548,455**	**3,293,548,455**	2,816,765,967	2,816,765,967
Accounts Payable - Trade (Note 15)	**500,348**	**500,348**	14,523,296	14,523,296
Accrued Interest Payable (Note 15)	**12,959,207**	**12,959,207**	14,933,970	14,933,970
Other Payables (Note 17)	**66,224,718**	**66,224,718**	57,154,101	57,154,101
Deposit on Lease Contracts (Note 21)	**404,271,822**	**404,271,822**	322,623,256	322,623,256
	3,777,504,550	**3,777,504,550**	3,226,000,590	3,226,000,590

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.

(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:

	2019	2018
Cash in Banks	**24,988,513**	48,090,857
Cash on Hand	**83,412**	47,000
	25,071,925	48,137,857

Cash in banks earns interest at floating rates based on daily bank deposit rates. Annual interest earned on deposits in banks is 0.25 per cent in 2019 and 2018. Interest income earned from deposits in banks reported in the statements of comprehensive income totaled P157,056 and P149,114 for the years ended December 31, 2019 and 2018, respectively.

Cash on hand includes petty cash amounting of P45,000 as at December 31, 2019 and 2018.

8. FINANCIAL ASSETS AT AMORTISED COST

The current portion consists of:

	2019	2018
Finance Lease Receivables	**279,941,419**	186,212,108
Finance Lease Receivables - LBP	**75,125,118**	4,387,707
Loans and Receivables - Others	**802,309,977**	1,109,153,257
Allowance for Probable Losses	**(13,382,513)**	(16,398,751)
	1,143,994,001	1,283,354,321
Accounts Receivable – Clients	**3,394,590**	3,559,486
Allowance for Probable Losses	**(1,347,111)**	(2,358,278)
	2,047,479	1,201,208
Accrued Interest Receivable	**6,437,661**	5,446,388
Sales Contract Receivable	**2,617,153**	0
Allowance for Probable Losses	**(90,548)**	(54,464)
	8,964,266	5,391,924

	2019	2018
Due from Parent Bank	**327,694,770**	270,865,915
Due from National Government Agencies	**386,994**	115,630
Due from Officers and Employees	**415,557**	486,797
Allowance for Probable Losses	**(3,696,375)**	(3,126,085)
	324,800,946	268,342,257
	1,479,806,692	1,558,289,710

The non-current portion consists of:

	2019	2018
Finance Lease Receivables	**1,437,491,168**	1,562,767,744
Allowance for Probable Losses	**(9,546,640)**	(22,971,076)
	1,427,944,528	1,539,796,668
Finance Lease Receivables - LBP	**94,875,203**	148,365,244
Allowance for Probable Losses	**(887,435)**	(1,360,226)
	93,987,768	147,005,018
Loans and Receivables - Others	**1,778,582,381**	1,144,916,867
Allowance for Probable Losses	**(155,827,735)**	(149,970,976)
	1,622,754,646	994,945,891
	3,144,686,942	2,681,747,577
Total Financial Asset at Amortised Cost	**4,624,493,634**	4,240,037,287

As at December 31, 2019, 56 per cent of the Corporations' finance lease and loans receivable are subject to interest re-pricing (2018: 46 per cent). The remaining loans earn annual fixed interest rates ranging from 6.50 per cent to 14 per cent and 6 per cent to 15 per cent in 2019 and 2018, 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 and fleet management services for those vehicles with expired lease term but still servicing by the Corporation.

Total revenues generated from finance and operating lease facilities with the Parent Bank amounted to P52,793,560 and P51,860,862 in 2019 (2018: P79,781,317 for finance leases and P55,865,443 for operating leases) as disclosed in Note 23 to the financial statements.

Finance lease receivables

An analysis of the LLFC's finance lease receivables as at December 31, 2019 and 2018 is presented as follows:

	2019	2018
Finance Lease Receivables:		
Within 1 year	**60,275,515**	26,884,837
Beyond 1 year but not beyond 5 years	**880,841,998**	723,215,319
Beyond 5 years	**379,193,141**	1,010,604,952
	1,320,310,654	1,760,705,108
Residual value of leased assets:		
Within 1 year	**149,291,652**	105,678,094
Beyond 1 year but not beyond 5 years	**317,902,399**	181,411,526
Beyond 5 years	**38,681,545**	124,686,545
	505,875,596	411,776,165
Total minimum lease receivable	**1,826,186,250**	2,172,481,273
Less: Unearned Leasing Income		
Within 1 year	**8,783,923**	2,427,755
Beyond 1 year	**424,934,140**	555,232,612
	433,718,063	557,660,367
Net investment in finance lease receivables	**1,392,468,187**	1,614,820,906
Past due receivables	**271,350,127**	102,397,353
Restructured accounts	**0**	14,852,759
Past due - restructured accounts	**105,166,544**	3,630,715
Items in litigation	**0**	32,665,488
	376,516,671	153,546,315
Less: Unearned Leasing Income	**51,552,271**	19,387,369
	324,964,400	134,158,946
	1,717,432,587	1,748,979,852

	2019	2018
Finance Lease Receivables – LBP		
Within 1 year	**129,873,216**	27,494,948
Beyond 1 year but not beyond 5 years	**216,645,870**	104,788,236
Beyond 5 years	**0**	229,763,520
	346,519,086	362,046,704
Residual value of leased assets:		
Within 1 year	**989,400**	989,400
	989,400	989,400
Total minimum lease receivable	**347,508,486**	363,036,104
Less: Unearned leasing income		
Within 1 year	**55,737,498**	24,096,641
Beyond 1 year	**121,770,667**	186,186,512
	177,508,165	210,283,153
Net investment in finance lease receivables – LBP	**170,000,321**	152,752,951

Loans and receivables – others

The breakdown of loans and receivables – others as at December 31, 2019 and 2018 are as follows:

	2019	2018
Loans and Receivables – Others		
Within 1 year	**689,215,487**	970,665,845
Beyond 1 year	**1,331,688,165**	945,703,110
	2,020,903,652	1,916,368,955
Past due receivables	**104,471,915**	115,155,674
Restructured accounts	**286,268,804**	95,815,466
Past due – restructured accounts	**139,873,061**	93,341,680
Items in litigation	**41,957,981**	44,192,627
	572,571,761	348,505,447
Less: Unearned Interest Income	**12,583,055**	10,804,278
	559,988,706	337,701,169
	2,580,892,358	2,254,070,124

Summary of Financial Assets at Amortised Cost

Loans and lease receivables

	2019	2018
Finance lease receivables	**1,717,432,587**	1,748,979,852
Finance lease receivables - LBP	**170,000,321**	152,752,951
Loans and receivables - others	**2,580,892,358**	2,254,070,124
	4,468,325,266	4,155,802,927

Other receivables

	2019	2018
Due from parent bank	**327,694,770**	270,865,915
Accrued interest receivable	**6,437,661**	5,446,388
Accounts receivable – clients	**3,394,590**	3,559,486
Sales contract receivable	**2,617,153**	0
Due from officers and employees	**415,557**	486,797
Due from national government agencies	**386,994**	115,630
	340,946,725	280,474,216

Interest and lease income on receivables

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

	2019	2018
Lease Contracts Receivables	**213,494,394**	236,506,805
Loans and Receivables	**175,508,759**	167,330,267
Sales Contract Receivables	**22,667**	0
	389,025,820	403,837,072

Reconciliation of credit losses

A reconciliation of the allowance for credit losses for financial assets at amortised cost by class is as follows:

As at December 31, 2019

	Finance lease receivables	**Loans and receivables – others**	**Other receivables**	**Total**
At January 1, 2019	**29,638,520**	**161,062,509**	**5,538,827**	**196,239,856**
Provisions during the year	**2,884,690**	**33,768,366**	**1,846,944**	**38,500,000**
Write-offs during the year (Note 14)	**0**	**(2,295,186)**	**(348,006)**	**(2,643,192)**
Foreclosures and adjustments (Note 14)	**(16,729,722)**	**(28,684,854)**	**(1,903,731)**	**(47,318,307)**
At December 31	**15,793,488**	**163,850,835**	**5,134,034**	**184,778,357**
Specific impairment provision	**9,217,976**	**140,765,527**	**1,754,439**	**151,737,942**
Collective impairment provision	**6,575,512**	**23,085,308**	**3,379,595**	**33,040,415**
Total impairment provision	**15,793,488**	**163,850,835**	**5,134,034**	**184,778,357**
Gross amount of loans specifically determined to have significant increase in credit risk since initial recognition before deducting individually-assessed credit losses	**100,351,682**	**538,305,553**	**2,987,218**	**641,644,453**

As at December 31, 2018

	Finance lease receivables	Loans and receivables – others	Other receivables	Total
At January 1, 2018, as restated	25,559,852	187,503,134	5,612,437	218,675,423
Provisions during the year	5,795,789	25,831,206	1,370,220	32,997,215
Write-offs during the year (Note 14)	(1,717,121)	(57,932,566)	(198,128)	(59,847,815)
Reclassification (Note 9)	0	5,660,735	(1,245,702)	4,415,033
At December 31	29,638,520	161,062,509	5,538,827	196,239,856
Specific impairment provision	22,213,850	141,776,706	2,738,271	166,728,827
Collective impairment provision	7,424,670	19,285,803	2,800,556	29,511,029
Total impairment provision	29,638,520	161,062,509	5,538,827	196,239,856
Gross amount of loans specifically determined to have significant increase in credit risk since initial recognition before deducting individually-assessed credit losses	142,409,262	325,489,789	4,054,890	471,953,941

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)*

	2019	2018
Services	**26.04**	25.06
Manufacturing	**16.30**	13.72
Public utilities	**14.60**	8.68
Public sector	**13.42**	16.16
Banks and other financial institutions	**11.73**	15.49
Wholesale and retail trade	**7.88**	9.52
Real estate	**0.44**	0.88
Agriculture, fishing and forestry	**0.00**	0.04

	2019	2018
Others	**9.59**	10.45
	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, BSP Circular No. 514 and BSP 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, which are credit granted to public sectors, shall be considered non-risk and not subject to any ceiling.

As to collateral

	2019	2018
Secured		
Property under finance lease	**1,197,982,279**	1,112,286,818
Real estate mortgage	**1,127,538,025**	1,164,673,089
Chattel mortgage	**2,105,880,149**	1,834,771,223
	4,431,400,453	4,111,731,130
Unsecured	**377,871,538**	324,546,013
	4,809,271,991	4,436,277,143

BSP Circular No. 351 allows non-banks with no unbooked 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, 2019 and 2018, non-performing loans (NPLs) not fully- covered by allowance for credit losses follow:

	2019	2018
Total NPLs	**598,702,876**	295,319,965
Less: NPLs fully-covered by allowance for credit losses	**(120,495,658)**	(77,027,701)
	478,207,218	218,292,264

As of December 31, 2019 and 2018, secured and unsecured NPLs follow:

	2019	2018
Secured	**559,160,926**	251,248,183
Unsecured	**39,541,950**	44,071,782
	598,702,876	295,319,965

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:

	2019	2018
Cost		
At January 1	**16,916,001**	16,916,001
Additions	**8,719,500**	0
Disposal	**(5,376,000)**	0
At December 31	**20,259,501**	16,916,001
Accumulated depreciation		
At January 1	**881,272**	716,033
Depreciation for the year	**137,699**	165,239
Disposal	**(1,018,971)**	0
At December 31	**0**	881,272
Allowance for Impairment		
At January 1	**6,337,517**	10,752,550
Reclassification (Note 8)	**0**	(4,415,033)
At December 31	**6,337,517**	6,337,517
Net book value		
December 31	**13,921,984**	9,697,212

During the year, additions to investment properties pertain to foreclosed parcels of land.

The Corporation sold foreclosed land and building total carrying value of P4,357,029, on which it realized a loss of P957,029, as disclosed in Note 19 to the Financial Statements.

Net gain on foreclosure amounting to P449,440 (Note 19) from these investment properties were recognized during the year upon lapse of the redemption period.

The aggregate market value of investment properties as at December 31, 2019 and 2018 amounted to P24,390,300 and P19,256,000, respectively. The fair value has been determined based on valuations made by in-house appraisers or accredited independent appraisers. Valuations were based on information on the prevailing market value of similar or comparable real properties in the same area as the investment properties, and taking into account the economic conditions prevailing at the time the valuation were made.

Costs incurred in maintaining investment properties totaled P90,000 and P30,000 in 2019 and 2018, 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 lease 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'.

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:

	2019	2018
Finance lease	**164,671,898**	0
Operating lease	**21,071,518**	30,229,918
	185,743,416	30,229,918

Equipment and other property for lease under finance lease comprises of vehicles pending delivery and construction of a building currently in progress as of December 31, 2019.

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

	2019	2018
Cost		
At January 1	**78,951,062**	81,567,064
Disposals	**(8,768,606)**	(2,616,002)
At December 31	**70,182,456**	78,951,062
Accumulated depreciation		
At January 1	**48,721,144**	42,856,685
Depreciation for the year	**8,281,539**	8,218,860
Disposals	**(7,891,745)**	(2,354,401)
At December 31	**49,110,938**	48,721,144
Net book value, December 31	**21,071,518**	30,229,918

Depreciation charges amounting P8,281,539 and P8,218,860 for 2019 and 2018, respectively, are lodged under the Depreciation-EOPL account under Direct Expenses in the statements of comprehensive income.

In 2019 and 2018, the Corporation sold vehicles previously covered by operating lease agreements with a total carrying value of P876,861 and P261,601, respectively, on which it realized a gain of P560,139 and P268,900, 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, 2019

	Building and improvements	Furniture and Fixtures	Other properties acquired	Total
Cost				
At January 1	42,566,207	18,536,909	0	61,103,116
Additions	0	3,621,335	22,623,618	26,244,953
Disposals	0	0	(393,018)	(393,018)

	Building and improvements	Furniture and Fixtures	Other properties acquired	Total
At December 31	**42,566,207**	**22,158,244**	**22,230,600**	**86,955,051**
Accumulated depreciation				
At January 1	**19,458,120**	**10,963,905**	**0**	**30,422,025**
Depreciation for the year	**1,256,776**	**1,665,571**	**524,737**	**3,447,084**
Disposals	**0**	**0**	**(4,260)**	**(4,260)**
At December 31	**20,714,896**	**12,629,476**	**520,477**	**33,864,849**
Net book value	**21,851,311**	**9,528,768**	**21,710,123**	**53,090,202**

As at December 31, 2018

	Building and improvements	Furniture and Fixtures	Transportation Equipment	Total
Cost				
At January 1	42,566,207	12,289,116	1,567,273	56,422,596
Additions	0	6,247,793	0	6,247,793
Disposals	0	0	(1,567,273)	(1,567,273)
At December 31	42,566,207	18,536,909	0	61,103,116
Accumulated depreciation				
At January 1	18,201,344	9,733,318	1,493,907	29,428,569
Depreciation for the year	1,256,776	1,230,587	0	2,487,363
Disposals	0	0	(1,493,907)	(1,493,907)
At December 31	19,458,120	10,963,905	0	30,422,025
Net book value	23,108,087	7,573,004	0	30,681,091

As at December 31, 2019 and 2018, the total cost of fully-depreciated property and equipment still in use by the Corporation amounted to P10,895,799 and P9,524,737, respectively.

In 2019, LLFC foreclosed other properties and loss on foreclosure amounting to P5,069,714 were recognized during the year as disclosed in Note 19.

The Corporation also sold other properties foreclosed during the year resulting in gain of P30,260. In 2018, LLFC also sold its transportation equipment from which a gain of P258,634 was realized as disclosed in Note 19.

The Corporation recognized depreciation/amortization charges in the amount of P12,417,812 in 2019 and P11,172,311 in 2018, as shown in the Direct and General and Administrative Expense sections in the statements of comprehensive income, with details as follows:

	2019	2018
Direct Expense		
Equipment and Other Properties for Lease (Note 10)	**8,281,539**	8,218,860
General and Administrative Expense		
Investment Properties (Note 9)	**137,699**	165,239
Property and Equipment (Note11)	**3,447,084**	2,487,363
Intangibles (Note 13)	**551,490**	300,849
	4,136,273	2,953,451
	12,417,812	11,172,311

Management has reviewed the carrying values of the Corporation's property and equipment as at December 31, 2019 and 2018 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.

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.

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

With the instruction not to pursue the office building project in BGC, 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 reclassified the property under Non-Current Assets Held for Sale account in 2017.

As of December 31, 2019 and 2018, the balance of the account is at P308,858,250.

No impairment losses have been recognized to the account as it was believed that the market value exceeded its fair value as of reporting date. 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, 2019 and 2018 are as follows:

As at December 31, 2019

	Due within 1 year	Due beyond 1 year	Total
Prepaid Expense	**7,341,379**	**0**	**7,341,379**
Creditable Withholding Taxes	**1,694,820**	**0**	**1,694,820**
Security and Utility Deposits	**0**	**255,915**	**255,915**
Stationeries and Supplies – Unissued	**172,115**	**0**	**172,115**
Intangibles	**0**	**1,000,862**	**1,000,862**
Other Investments	**0**	**16,000**	**16,000**
Other Assets	**0**	**306**	**306**
	9,208,314	**1,273,083**	**10,481,397**

As at December 31, 2018

	Due within 1 year	Due beyond 1 year	Total
Prepaid Expense	12,211,770	0	12,211,770
Creditable Withholding Taxes	8,801,340	0	8,801,340
Security and Utility Deposits	0	1,274,055	1,274,055
Stationeries and Supplies – Unissued	173,515	0	173,515
Intangibles	0	686,012	686,012
Other Investments	0	16,000	16,000
Other Assets	0	306	306
	21,186,625	1,976,373	23,162,998

An Intangible Asset, as defined in Philippine Accounting Standard 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.

Movements of the Intangibles account are as follows:

	2019	2018
Cost		
At January 1	**2,936,973**	2,532,374
Additions	**866,340**	404,599
At December 31	**3,803,313**	2,936,973
Accumulated Amortization		
At January 1	**2,250,961**	1,950,112
Amortization for the year	**551,490**	300,849
At December 31	**2,802,451**	2,250,961
Net book value, December 31	**1,000,862**	686,012

The Corporation recognized amortization charges in the amount of P551,490 in 2019 and P300,849 in 2018, 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:

	2019	2018
At January 1		
Finance Lease Receivables	**29,638,520**	25,559,852
Loans and Receivables - Others	**161,062,509**	187,503,134
Other Receivables	**5,538,827**	5,612,437
Investment Properties	**6,337,517**	10,752,550
	202,577,373	229,427,973
Provisions for the Year	**38,500,000**	32,997,215
Accounts Charged-Off/Other Adjustments	**(49,961,499)**	(59,847,815)
At December 31	**191,115,874**	202,577,373

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

	2019	2018
Finance Lease Receivables	**15,793,488**	29,638,520
Loans and Receivables - Others	**163,850,835**	161,062,509
Other Receivables	**5,134,034**	5,538,827
Investment Properties	**6,337,517**	6,337,517
	191,115,874	202,577,373

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:

	2019	2018
Bills Payable	**3,293,548,455**	2,816,765,967
Accounts Payable – Trade	**500,348**	14,523,296
Accrued Interest Payable	**12,959,207**	14,933,970
At December 31	**3,307,008,010**	2,846,223,233

Current and non-current classification of financial liabilities as at December 31, 2019 and 2018 are as follows:

As at December 31, 2019

	Due within 1 year	**Due beyond 1 year**	**Total**
Bills Payable	**2,568,573,006**	**724,975,449**	**3,293,548,455**
Accounts Payable – Trade	**500,348**	**0**	**500,348**
Accrued Interest Payable	**12,959,207**	**0**	**12,959,207**
	2,582,032,561	**724,975,449**	**3,307,008,010**

As at December 31, 2018

	Due within 1 year	Due beyond 1 year	Total
Bills Payable	2,196,315,390	620,450,577	2,816,765,967
Accounts Payable – Trade	14,523,296	0	14,523,296
Accrued Interest Payable	14,933,970	0	14,933,970
	2,225,772,656	620,450,577	2,846,223,233

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

Interest rates on bills payable range from 4.30 per cent to 6.00 per cent in 2019 and 2.75 per cent to 7.00 per cent in 2018.

Bills payable are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances as of December 31, 2019 and 2018 are partially secured with terms of original maturity ranging from 88 days to nine years. Interest expense on borrowings amounted to P167,102,379 and P102,999,771 for the years ending December 31, 2019 and 2018, respectively. Documentary stamp used for the borrowings amounted to P20,311,570 and 16,476,913 for the years ending December 31, 2019 and 2018, respectively.

As at December 31, 2019 and 2018, 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:

	2019	2018
Due to BIR	**12,201,771**	10,113,959
Due to Philhealth	**33,414**	36,283
Due to Pag-ibig Fund	**26,359**	36,686
Due to Social Security System	**48,226**	24,295
Income Tax Payable (Note 24)	**3,063,511**	4,062,517
	15,373,281	14,273,740

Except for income tax payable, all other inter-agency payables were remitted to the Agency concerned in January 2020.

17. OTHER PAYABLES

This account consists of:

	2019	2018
Accounts payable – Others	**10,147,362**	569,550
Accrued expenses – Others	**26,412,892**	32,952,256
Miscellaneous Liabilities	**29,664,464**	23,632,295
	66,224,718	57,154,101

Accrued expenses – others include costs of security, messengerial, and janitorial services amounting to P17,655,782 and P20,981,583 in 2019 and 2018, respectively, payable to a service corporation and monetary value of employees' leave credits amounting to P7,339,090 and P8,664,609 in 2019 and 2018, respectively.

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

As at December 31, 2019 and 2018, 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, 2019 and 2018 is presented hereunder:

	2019	2018
	No. of Shares	
Issued and paid	**48,555,255**	**48,555,255**
Treasury Stock	**(1)**	**(2)**
Total outstanding shares	**48,555,254**	**48,555,253**

As of January 1, 2018, there is an outstanding two shares which were reacquired in 2018 following the resignations of two members of the Board of Directors.

An additional one share was acquired during the year following the resignations of one member of the Board of Directors.

Subsequently, two outstanding treasury shares was re-issued during the year 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 April 25, 2019 amounting to P42,874,000 or P0.883 per share to stockholders as of date of record December 31, 2018 and remitted/paid the same on May 15, 2019 for the first 50 per cent and June 6, 2019 for the remaining 50 per cent.

The Board of Directors of LLFC also declared cash dividends to the NG through a Resolution dated May 22, 2018 amounting to P48,312,500 or P0.995 per share to stockholders as of date of record December 31, 2017 and remitted/paid the same on June 1, 2018.

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)*

	Remeasurement on Retirement Benefit Obligation
Balance, January 1, 2018	**(5,288,166)**
Add/(Deduct):Transactions during the year	1,142,828
Balance, December 31, 2018	**(4,145,338)**
Add/(Deduct):Transactions during the year	(6,318,497)
Balance, December 31, 2019	**(10,463,835)**

19. OTHER INCOME

This account is composed of:

	2019	2018
Fleet management service chauffeuring fees (Note 23)	**109,993,292**	**107,508,000**
Fleet management service fees (Note 23)	**9,099,600**	**8,972,080**
Gain on exchange of non-financial asset (Note 9)	**1,041,095**	**0**
Gain on sale of equipment and other property for lease (Note 10)	**560,139**	**268,900**
Gain on disposal/sale of property and equipment (Note 11)	**30,260**	**258,634**
Recovery from charged-off assets	**90,000**	**50,841**
Loss on exchange of non-financial asset (Note 11)	**(5,069,714)**	**0**
Loss on exchange of non-financial asset (Note 9)	**(591,655)**	**0**
Loss on sale of non-financial assets (Note 9)	**(957,029)**	**0**
Miscellaneous Income	**9,763,163**	**5,482,848**
	123,959,151	**122,541,303**

The Fleet management service fees and Fleet management service chauffeuring fee represent income recognized in operating and maintaining a fleet of vehicles for the Parent Bank.

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:

	2019	2018
Security, messengerial, janitorial and contractual services	**3,683,506**	4,043,362
Litigation/assets acquired expenses	**3,664,461**	1,024,116
Transportation and travelling	**3,180,176**	2,791,861
Representation and entertainment	**2,988,782**	2,914,312
Management and other professional fees	**1,311,433**	30,738
Power, light and water	**1,275,913**	1,132,433
Repairs and maintenance	**1,045,181**	1,131,570
Membership fees and dues	**953,943**	891,350
Information technology	**931,977**	498,216
Postage, cables, telephone and telegram	**889,585**	795,826
Stationeries and supplies used	**727,562**	602,454
Advertising and publicity	**623,625**	746,216
Rent (Note 21)	**447,890**	203,372
Fuels and lubricants	**337,907**	340,565
Data processing charges	**82,966**	73,386
Periodicals and magazines	**18,362**	21,384
Bank charges	**19,132**	19,752
Miscellaneous expenses	**927,608**	648,363
	23,110,009	17,909,276

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 P213,494,394 and P236,506,805 in 2019 and 2018, 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, 2019 and 2018 amounted to P51,860,862 and P55,865,443, respectively.

The carrying amount of lease deposits payable to the respective lessees as of December 31, 2019 and 2018 are presented in the table below:

	2019	2018
Finance leases	**384,733,944**	303,085,378
Operating leases	**19,537,878**	19,537,878
	404,271,822	322,623,256

The breakdown of deposits on finance and operating leases by contractual settlement dates as at December 31, 2019 and 2018 is as follows:

	2019	2018
Due within 1 year	**179,787,951**	133,702,433
After 1 year up to maturity	**224,483,871**	188,920,823
	404,271,822	322,623,256

Operating lease commitments

Future minimum rental receivables under non-cancelable operating leases as of December 31, 2019 and 2018 are as follows:

	2019	2018
Due within 1 year	**40,410,167**	20,901,770
After 1 year up to maturity	**4,622,621**	2,548,233
	45,032,788	23,450,003

Chauffeuring services related to the lease and fleet management 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:

	2019	2018
Finance lease	**46,112,999**	42,353,007
Operating lease	**25,713,619**	23,675,137
Fleet Management	**98,430,225**	93,495,830
	170,256,843	159,523,974

Corporation as lessee

Short-term and leases of low-value assets

On September 1, 2017, the Corporation entered into an operating lease agreement wherein nine parking slots were designated for LLFC's use at a monthly rental rate of P3,360 inclusive of VAT. The lease agreement can be terminated any time by both the lessor and lessee.

Short term lease rental of parking spaces for foreclosed vehicles was also incurred during the year. These rentals have been taken to accommodate foreclosed vehicles in provinces before being transported to the office or being sold on an as-is where-is basis.

Rental fees paid to the lessors for the years ended December 2019 and 2018 totalled P447,890 and P203,372 (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:

	2019	2018
Salaries and wages	**31,135,081**	28,796,107
Bonuses	**5,988,211**	5,008,282
Retirement benefit cost	**3,315,263**	2,900,454
Directors' remuneration	**1,858,000**	1,786,000
Social security cost	**1,156,743**	901,295
Other benefits	**2,264,036**	2,069,318
	45,717,334	41,461,456

Employee benefits include annual salaries, paid sick leave, bonuses and other non-monetary benefits. Total accrued compensated absences as December 31, 2019 and 2018 amounted to P7,339,090 and P8,664,609, respectively.

The breakdown of employee benefits as to direct and general and administrative expense as at December 31, 2019 and 2018 is as follows:

	2019	2018
Direct expense – marketing operation	**23,669,850**	19,763,017
General and administrative expense	**22,047,484**	21,698,439
	45,717,334	41,461,456

(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, 2019.

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 Banker of the Philippines (BAP) PHP Bloomberg BVAL reference rates (BVAL) benchmark reference curve for the government securities market (previously the PDEx (PDST-R2) market yields on government bonds) as of the valuation dates 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:

	2019	2018
Discount rate	**5.12%**	7.44%
Expected rate of return on plan assets	**5.12%**	7.44%
Salary increase rate	**7.00%**	7.00%
Expected average remaining working lives of employees	**19.50**	18.70

As of December 31, 2019, the principal balance of the retirement fund stands at P22,247,019 as compared to P17,113,259 as of December 31, 2018.

The Corporation made contributions to the retirement plan in 2019 amounting to P4,500,000.

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

	Defined benefit obligation		**Fair value of plan assets**		**Net defined liability**	
	2019	2018	**2019**	2018	**2019**	2018
Balance, 1 January	**25,816,911**	24,125,610	**(8,703,652)**	(8,769,977)	**17,113,259**	15,355,633
Service cost – current	**2,039,383**	2,024,412	**0**	0	**2,039,383**	2,024,412
Interest cost (income)	**1,920,778**	1,375,160	**(644,898)**	(499,118)	**1,275,880**	876,042
Included in profit or loss	**3,960,161**	3,399,572	**(644,898)**	(499,118)	**3,315,263**	2,900,454
Employer Contribution	**0**	0	**(4,500,000)**	0	**(4,500,000)**	0
Re-measurement gains and losses						
(a) Actuarial loss (gain) from:						
- Financial assumptions	**4,850,199**	(3,076,699)	**0**	0	**4,850,199**	(3,076,699)
- Experience	**1,335,633**	1,395,454	**0**	0	**1,335,633**	1,395,454

	Defined benefit obligation		Fair value of plan assets		Net defined liability	
	2019	2018	**2019**	2018	**2019**	2018
adjustments						
(b) Return on plan assets (excluding interest)	**0**	0	**132,665**	538,417	**132,665**	538,417
Included in other comprehensive income	**6,185,832**	(1,681,245)	**132,665**	538,417	**6,318,497**	(1,142,828)
Benefits Paid	**(4,571,346)**	(27,026)	**4,571,346**	27,026	**0**	0
Balance, December 31	**31,391,558**	25,816,911	**(9,144,539)**	(8,703,652)	**22,247,019**	17,113,259

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	81.23%
Debt instruments – Government Bonds	16.98%
Others (Market gains/losses, Accrued receivables, etc.)	1.79%
	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
2020	7,504,086
2021	1,076,588
2022	1,837,116
2023	1,592,242
2024	1,717,677
2025 – 2029	27,856,452

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.

Provisions are held against receivables from related parties in 2019 and 2018 are broken down as follows:

	2019	2018
Net investment in lease contracts		
Receivable	**1,539,826**	1,367,353
Due from Parent Bank	**3,276,947**	2,708,659
	4,816,773	4,076,012

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

	2019	2018
Cash in banks	**19,087,447**	44,782,562
Due from Parent Bank (Note 8)	**327,694,770**	270,865,915
Net investment in lease contracts		
receivable (Note 8)	**170,000,321**	152,752,951
Bills payable	**1,129,548,455**	1,642,765,967
Deposit on lease contracts	**35,555,538**	35,555,538
Accrued interest payable	**9,350,656**	11,512,798
Accounts Payable	**268,015**	0
Miscellaneous liabilities	**1,409,383**	1,406,000
	1,692,914,585	2,159,641,731

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

	2019	2018
Finance lease income (Note 8)	**52,793,560**	79,781,317
Operating lease income (Note 8)	**51,860,862**	55,865,443
Fleet management service fees (Note 19)	**9,099,600**	8,972,080
Fleet management service chauffeuring fees		
(Note 19)	**109,993,292**	107,508,000
Interest income on deposits	**148,703**	141,701
Interest and finance charges	**77,689,766**	61,274,614
	301,585,783	313,543,155

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

Interest rates on borrowings from the parent company ranges from 2.75 per cent to 5.75 per cent. The loans are partially secured by assignment of receivables with terms of maturity ranging from 23 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) *Fleet Management Services*

The Corporation continues its chauffeuring and other vehicle services to its Parent Bank until such time the Parent Bank disposed and replaced the expired lease vehicles.

(e) *Other Related Party Transactions*

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

The key management personnel compensations are as follows:

	2019	2018
Salaries and other short-term benefits	**11,877,254**	9,224,506
Post-employment benefits	**2,672,307**	1,573,291
Directors' remuneration	**6,022,967**	4,137,784
	20,572,528	14,935,581

Other transactions with LBP and its subsidiaries in 2019 and 2018 include the payment of maintenance costs amounting to P90,000 and P30,000, 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:

	2019	2018
Current	**24,381,953**	36,514,606
Deferred	**3,793,870**	8,055,180
	28,175,823	44,569,786

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:

	2019	2018
Net income before income tax	**46,693,374**	159,775,868
Add:		
General and administrative expenses	0	70,021,256
Gross income	**0**	229,797,124
Less: Optional Standard Deduction (40% of the total of gross income and net amount of non-deductible and non-taxable expenses amounting to P26,938,204 in 2018	0	81,143,568
Net income subject to income tax	**46,693,374**	148,653,556
Income tax computed at statutory tax rate of 30%	**14,008,012**	44,596,067
Tax effect of:		
Non-deductible losses and expenses	**14,195,492**	0
Interest income subject to final tax	**(47,117)**	(44,734)

	2019	2018
Interest in arbitrage	**19,436**	18,453
Income tax expense	**28,175,823**	44,569,786

Income tax due, after deducting creditable withholding taxes and quarterly income tax payments, amounts to P3,063,511 and P4,062,517 as of December 31, 2019 and 2018, respectively, as shown in Note 16.

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 P3,189,316 and P4,057,178 in 2019 and 2018, 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 Itemized Deduction in 2019 and the Optional Standard Deduction (OSD) in 2018. 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:

At December 31, 2017	**P65,602,628**
Charged to operations	(8,055,180)
At December 31, 2018	**P57,547,448**
Charged to operations	(3,793,870)
At December 31, 2019	**P53,753,578**

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

	2019			2018		
	Due within 1 year	**Due beyond 1 year**	**Total**	Due within 1 year	Due beyond 1 year	Total
Financial assets						
Cash and cash equivalents	**25,071,925**	**0**	**25,071,925**	48,137,857	0	48,137,857
Financial Assets at Amortised Cost	**1,498,323,239**	**3,310,948,752**	**4,809,271,991**	1,580,227,288	2,856,049,855	4,436,277,143
	1,523,395,164	**3,310,948,752**	**4,834,343,916**	1,628,365,145	2,856,049,855	4,484,415,000
Non-financial assets						
Investment properties	**0**	**20,259,501**	**20,259,501**	0	16,034,729	16,034,729
Equipment and other property for lease	**0**	**185,743,416**	**185,743,416**	0	30,229,918	30,229,918
Property and equipment	**0**	**53,090,202**	**53,090,202**	0	30,681,091	30,681,091
Non-current assets held for sale	**0**	**308,858,250**	**308,858,250**	0	308,858,250	308,858,250
Other assets	**9,208,314**	**1,273,083**	**10,481,397**	21,186,625	1,976,373	23,162,998
	9,208,314	**569,224,452**	**578,432,766**	21,186,625	387,780,361	408,966,986
Total assets	**1,532,603,478**	**3,880,173,204**	**5,412,776,682**	1,649,551,770	3,243,830,216	4,893,381,986
Financial liabilities						
Bills payable	**2,568,573,006**	**724,975,449**	**3,293,548,455**	2,196,315,390	620,450,577	2,816,765,967
Accounts Payable	**500,348**	**0**	**500,348**	14,523,296	0	14,523,296
Accrued interest payable	**12,959,207**	**0**	**12,959,207**	14,933,970	0	14,933,970
Other payables	**66,224,718**	**0**	**66,224,718**	57,154,101	0	57,154,101
Deposits on lease contracts	**179,787,951**	**224,483,871**	**404,271,822**	133,702,433	188,920,823	322,623,256
Inter-agency payable	**15,373,281**	**0**	**15,373,281**	14,273,740	0	14,273,740
Retirement liability	**0**	**22,247,019**	**22,247,019**	0	17,113,259	17,113,259
Total Liabilities	**2,843,418,511**	**971,706,339**	**3,815,124,850**	2,430,902,930	826,484,659	3,257,387,589

26. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Corporation has not set-off financial instruments in 2019 and 2018 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 P1,214,061,583 and P1,125,651,980 as of December 31, 2019 and 2018, respectively, can be offset by the amount of lease deposits amounting to P384,733,944 and P303,085,378 as of December 31, 2019 and 2018 (Note 21), respectively. The balance of lease contract receivables net of lease deposit amounted to P829,327,639 and P822,566,602 as of December 31, 2019 and 2018, respectively.

27. EARNINGS PER SHARE

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

	2019	2018
Net income after tax	**18,517,551**	115,206,082
Weighted average number of outstanding shares (Note 18)	48,555,254	48,555,253
Basic Earnings Per Share	**0.38**	2.37

As of January 1, 2018, there is an outstanding two shares which were reacquired in 2018 following the resignations of two members of the Board of Directors.

An additional one share was acquired during the year following the resignations of one member of the Board of Directors.

Subsequently, two outstanding treasury shares was re-issued during the year to the newly appointed directors of the Corporation.

There were no outstanding dilutive potential common shares as at December 31, 2019 and 2018.

28. 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, 2019, Management does not anticipate significant losses from these contingencies and commitments that would adversely affect the Corporation's financial position and results of operations.

29. EVENTS AFTER THE REPORTING DATE

Cash Dividend Declaration

On April 16, 2020, the Board of Directors of LBP Leasing and Finance Corporation, through its Resolution No. 20-051, approved the declaration of cash dividends amounting to P28,404,824 or P0.585 per share on the 48,555,255 common stocks held by all stockholders of date of record, December 31, 2019.

30. SUPPLEMENTARY INFORMATION ON REVENUE REGULATIONS

A. REVENUE REGULATION (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 P20,311,570.

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

Particulars	Amount
a. Local	
Realty Taxes	674,312
Licenses	1,545,082
Community Tax Certificate	10,500
b. National	
Annual Non-VAT Registration Fee	500
Gross Receipt Tax	24,875,538
	27,105,932

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

Compensation and benefits	4,916,822
Expanded withholding taxes	7,978,276
VAT and other percentage taxes	24,047,778
	36,942,876

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

B. RR No. 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

	Taxable Amount under Regular Rate
Sale of services	389,025,820
Lease of Properties	51,860,862
	440,886,682

2. Cost of Sales/Services

	Amount under Regular Rate
Direct Charges - Salaries, Wages and Benefits	23,669,850
Direct Charges – Depreciation	8,281,539
Direct Charges - Outside Services	170,256,843
Direct Charges - Others	203,171,811
	405,380,043

3. Non-Operating and Taxable Other Income

	Amount under Regular Rate
Gain on sale	590,399
Miscellaneous income – net	123,368,752
	123.959.151

4. Ordinary Allowable Itemized Deduction

Particular	Amount
Advertising and promotion	623,625
Amortization – Intangibles	551,490
Communication, light and water	2,165,498
Depreciation	3,584,783
Directors Fee	1,858,000
Fuels and oil	337,907
Insurance	608,179
Janitorial and Messengerial services	3,683,506
Management and Consultancy fees	1,311,433
Miscellaneous expenses	927,608
Office supplies	727,562

Particular		Amount
Rental		447,890
Repairs and maintenance (labor or labor and materials)		1,045,181
Representation and entertainment		2,988,782
Salaries and allowances		20,217,478
SSS, GSIS, Philhealth, HDMF and other contributions		1,156,743
Taxes and licenses		27,105,932
Transportation and travelling		3,180,176
Litigation/assets acquired expenses		3,664,461
Membership fees and dues		953,943
Information technology		931,977
Others		120,460
Data processing charges	82,966	
Periodicals and magazines	18,362	
Bank charges	19,132	
		78,192,614

5. Taxes and Licenses

The documentary stamp taxes paid/accrued on loans availed and renewed during the year totalled P20,311,570.

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

Particulars	Amount
a. Local	
Realty Taxes	674,312
Licenses	1,545,082
Community Tax Certificate	10,500
b. National	
Annual Non-VAT Registration Fee	500
Gross Receipt Tax	24,875,538
	27,105,932

31. OTHER SUPPLEMENTARY INFORMATION

A. In compliance with the Revised Securities Regulation Rule 68 issued by the Securities and Exchange Commission, the following are the financial soundness indicators of the Corporation:

	2019	2018
Current ratio	**0.53**	0.67
Acid test ratio	**0.53**	0.66
Solvency ratio	**0.01**	0.04
Debt to equity ratio	**2.61**	2.18
Asset to equity ratio	**3.61**	3.18
Interest rate coverage ratio	**1.28**	2.55
Return on equity	**1.27**	7.73

	2019	2018
Return on assets	**0.35**	2.43
Net profit margin	**3.09**	19.22

B. In compliance with the BSP Circular No. 1075, the following are basic quantitative indicators of financial performance of the Corporation:

	2019	2018
Return on average equity	**1.25**	7.91
Return on average assets	**0.37**	2.56
Net profit margin	**3.09**	19.22

BOARD OF DIRECTORS

Cecilia C. Borromeo – Chairman of the Board

Ms. Cecilia C. Borromeo is 61 years old and holds the distinction of being President and Chief Executive Officer of two government financial institutions – the Development Bank of the Philippines which she capably led for two years, and LANDBANK where she started her banking career.

While short, her presidency in DBP from January 2017 to February 2019 was marked with significant growth in all key financial indicators, notably in net income which grew by 36%, deposits by 33% and loans by 20%.

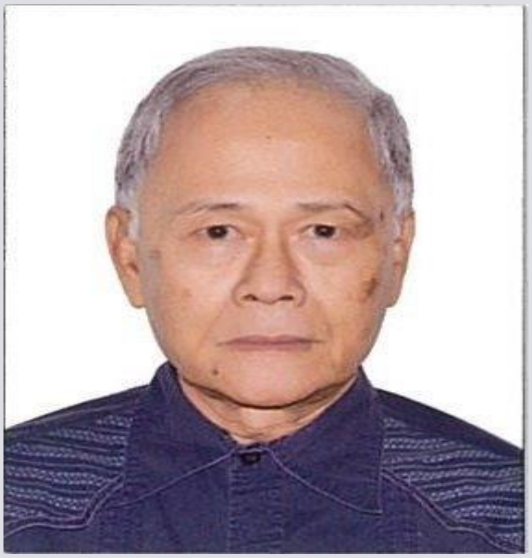
She re-joined LANDBANK on March 1, 2019 and she felt right at home in the organization where she worked her way up to various key positions. This included heading the Agricultural and Development Lending Sector from 2012 to 2016 which resulted to 74% growth in regular loan portfolio and 44% in revenue.

Her extensive banking career spans 30 years of handling various posts in agricultural and development lending**,** treasury and investment banking, public sector lending, corporate banking, global banking, wholesale banking and lending program management.

Ms. Borromeo completed her Bachelor of Science degree in Agribusiness at the University of the Philippines Los Baños and underwent the Master in Business Administration program of the De La Salle Business School. She is a graduate of the Advanced Bank Management Course of the Asian Institute of Management and the Pacific Rim Bankers Program at the University Of Washington Executive Education Foster School Of Business. She likewise attended the International Study on Rural banking and Finance at the Massey University in New Zealand.

For 2019, she attended training on Corporate Governance Orientation Program and Updates on Anti-Money Laundering Act.

BOARD OF DIRECTORS



SILVESTRE MANUEL C. PUNSALAN JR.
Vice Chairman

Mr. Silvestre Manuel C. Punsalan Jr., 80 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.

For 2019, he attended Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) Training Workshop.

FRANCISCO J. LEONOR, JR.
President and CEO

Francisco J. Leonor, Jr. 52 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 to 1991 to take up AB Psychology.

For 2019, he attended Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) Training Workshop.

BOARD OF DIRECTORS

EDWARD JOHN T.REYES
Director

Mr. Edward John T. Reyes, 62 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.

For 2019, he attended Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) Training Workshop.

FRITZ M. SALAZAR
Director

Fritz M. Salazar, 47 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.

For 2019, he attended Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) Training Workshop.

BOARD OF DIRECTORS

LETICIA V. DAMASCO
Director

Ms. Leticia V. Damasco, 71 years old, took her oath as LLFC Director on 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.

For 2019, he attended Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) Training Workshop.

CONRADO S. MIÑANO JR.
Director

Conrado S. Miñano, 67 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.

For 2019, he attended Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) Training Workshop.

BOARD OF DIRECTORS

ROBERTO U. TEO
Director

Mr. Roberto U. Teo, 70 years old, took his oath as a Member of the Board of Directors of LBP Leasing and Finance Corporation on June 2017. Mr. Teo sits as Chairman of LLFC's Executive Committee and is a member of the Corporate Governance Committee.

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 used to be a Board Member of the Tourism Infrastructure and Enterprise Zone Authority (TIEZA) representing the travel and tours enterprises.

Mr. Teo graduated from the De La Salle College in 1971 with a degree in BS Chemical Engineering. In 1974, he earned his Master in Business Management from the Asian Institute of Management. He joined other Programs in Pennsylvania, U.S.A. including Program for Executive in 1978 and Economics, Fall Program from 1977 to 1978.
For 2019, he attended Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) Training Workshop

VIRGILIO M. SANGUTAN
Director

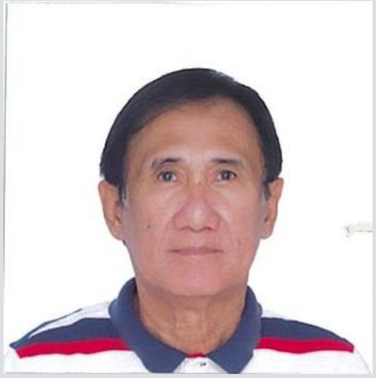
Mr. Virgilio M. Sangutan, 62 years old, took his oath as LLFC Director on May 2019. On 25 October 2019, he was nominated and elected as member of the Audit Committee.

Mr. Sangutan has been a member of the BOD and President of Davao Inventors Association, Inc. from 2006 to 2010 and a Board of Director of Southeastern Mindanao Inventors Association from 1995 to 2005. He is the owner of MI Herbal Laboratory and currently the President of Inventfoods Manufacturing, Inc. Mr. Sangutan graduated from the Divine Word College of Legaspi in 1982 with a degree in BSC-Banking and Finance.

In 1988-1989, he earned some units in the College of Law in Ateneo de Davao University, and had a year of Master in Business Administration at the USEP, Obrero Davao City.

For 2019, he attended Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) Training Workshop.

BOARD OF DIRECTORS



NANZIANCINO M. DILAY
Director

Mr. Nanziancino M. Dilay, 71 years old, took his oath as LLFC Director on July 2019. On 25 October 2019, he was nominated and elected as member of the Audit Committee.

Mr. Dilay has been a Director of Philippine Pharma Procurement from 2017 to 2019. He used to be with the Bureau of Customs as SVCOO from 1992 to 2014 and as Technical Assistant in the Supreme Court of the Philippines from 1973 to 1992.

Mr. Dilay graduated from San Sebastian College – Manila in 1970 with a degree in AB Political Science. In 2011, he took up Masters in Custom Administration at the Phil. Maritime Institute.

For 2019, he attended Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) Training Workshop and Corporate Governance Orientation Program for GOCCs.

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
(A LAND BANK SUBSIDIARY)

15th Floor Sycip Law Centre, No. 105 Paseo de Roxas St., Makati City, Metro Manila, Philippines, 1226

Trunkline Number: 8818-2200
Fax Number: 8819-6176
Email Address: info@lbpleasing.com
Website: www.lbpleasing.com