2018 ANNUAL REPORT

LBP LEASING AND FINANCE CORPORATION

CORPORATE PROFILE

The creation of LBP Leasing and Finance Corporation was in line with Section 21-A Republic Act 337 or the General Banking A that allows banks such as LANDBANK t invest inequities of companies with allie undertaking such as leasing activities.

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

To be among the top 5 biggest leasing and finance companies in the country by 2020.

1. Ensure Viability and Financial Growth
2. Consistently Improve Profitability
3. Provide Affordable & Responsive Financial Products for Priority Sectors
4. Improve Accessibility & Timeliness of Delivery of Leasing and Financial Solutions
5. Streamline Credit Processing System
6. Continuous Improvement of Processes and Systems
7. Ensure Availability of Required Competencies for Critical Positions
8. Optimize Use of Information Technology

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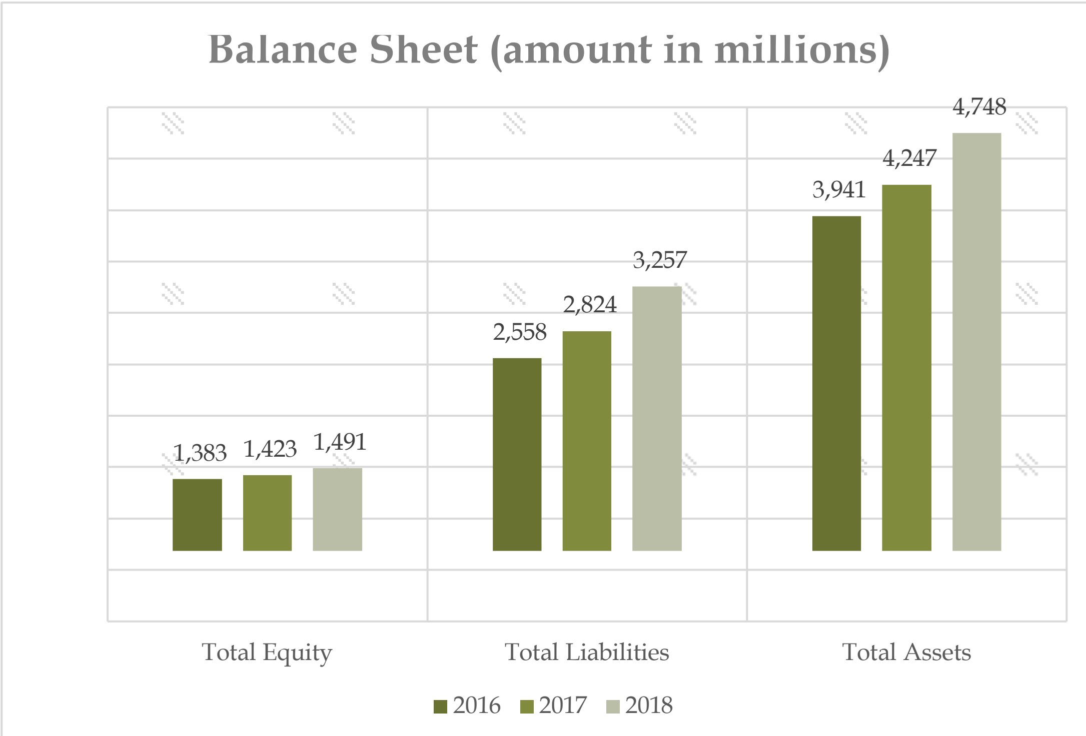
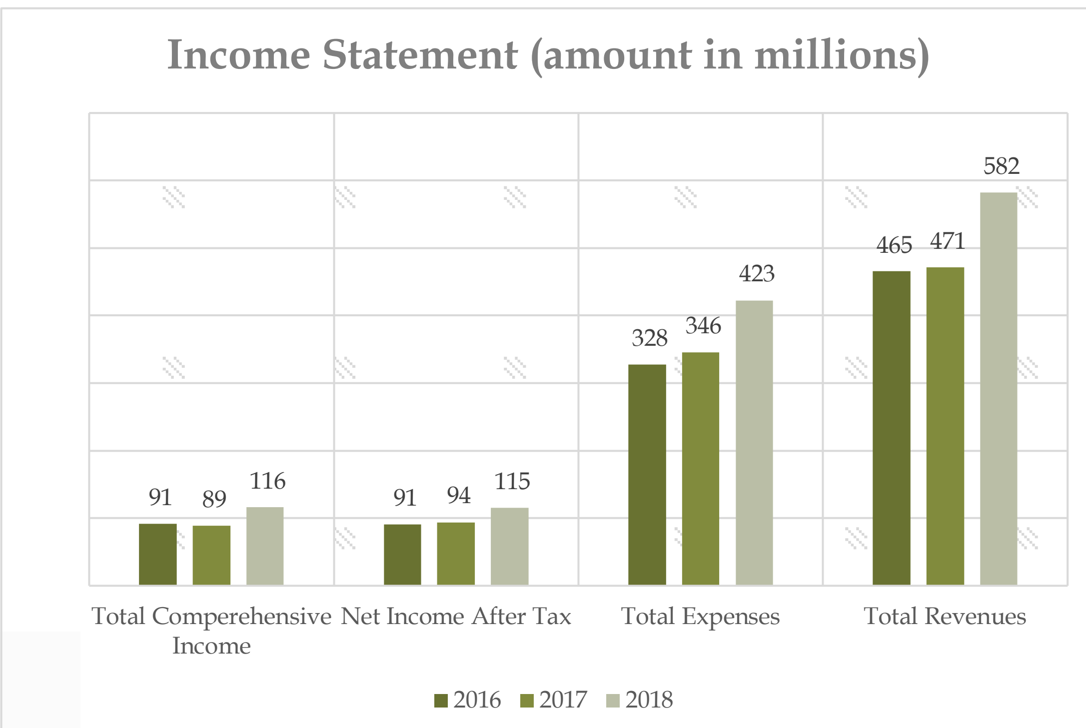
LBP Leasing and Finance Corporation is a wholly owned subsidiary of LANDBANK which was registered with Securities and Exchange Commission (SEC) on March 17, 1983

)PERATIONAL HIGHLIGHTS





CORPORATE GOVERNANCE

GOVERNANCE STRUCTURE

BOARD OF DIRECTORS

Composition

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

Independence of Directors

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

The Chairman and the President/CEO are separate and distinct from each other to achieve a balance of authority, clear accountability and capacity for independent decision-making by the Board.

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

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

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 a qualified successor is appointed.

Responsibilities

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

The principal duties of the BOD include the following among others:

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

Meetings and Attendance

The BOD holds regular meeting. During the January meeting, the Board discussed the schedule of monthly BOD meeting for the year 2018. There were twelve (12) BOD meetings conducted in 2018 to evaluate and approve various matters related to LLFC's operations.

During its November 21, 2018 meeting, the BOD held a meeting without the President/CEO present.

cers and employees who can provide additional insights into the matters to be discussed are requested e present during the scheduled Board and Committee meetings. Management also furnishes monthly orts to the Board to provide sufficient information as to the results of operations and other matters for rmation and action of the Board.

Corporation's Vision, Mission and Strategies included in the 2018 Annual Performance Scorecard was wed and approved by BOD prior to submission to GCG.

Summary of Board Attendance for 2018 (Total of 12 BOD Meetings for the Year)

2. Silvestre Manuel C. Punsalan Jr.	Vice-Chairma	12
5. Joel R. Caminade	Member	11
10. Leticia V. Damasco	Member	11

Self-Assessment

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

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

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

The Board performance criteria are as follows:

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

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

Access to Information

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

To allow directors sufficient time to prepare for the meetings, the Board materials are distributed at least three (3) working days in advance of the meeting. Any additional matter or information requested by the directors is promptly furnished. Management's proposals to the Board for approval provide background information such as facts, resources needed, risk analysis and mitigation strategies, financial impact, regulatory implications, conclusions and recommendations.

Remuneration of the Board

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

Board Committees

To aid in complying with the principles of good corporate governance, the Board constituted five (5) Board Committees – the Executive Committee, Audit Committee, Corporate Governance Committee, Risk Management Committee and Related Party Transaction Committee. The composition and the roles of each committee including their meetings and attendance during the year are presented below:

<u>Executive Committee</u>

Committee Role

The Executive Committee (ExCom) 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.

ExCom Composition

Edward John T. Reyes

* *ExCom Chairperson until November 2018*
**Replaced by Dir. Roberto Teo on February 2018.*

Meetings and Attendance for the Year

The Committee met thirteen (13) times during the year 201 Dir. Leonor are present in all meetings, Dir. Caminade, Dir Lopez and Dir. Reyes are present in 12 ExCom meetings, D Teo in 11 meetings and Dir. Punsalan in 2 meetings when h was still a member of the Committee.

ExCom Accomplishment for the Year

For the year 2018, the ExCom approved recommendations sixty seven (67) accounts and endorsed to the BOD forty c (41) accounts and three recommendation for write-off for BOD's approval.

The also deliberated on the status of past due accou particularly those under the transport re-fleeting progra accounts endorsed to RAMU, restructuring policy for transport re-fleeting accounts, proposed restructur proposal template and collection monitoring process prior its presentation to the BOD.

They also approved the acquisition of server and the renev of Annual Maintenance Agreement for Microsoft Dynam NAV and the Jet Reports.

Audit Committee

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 Office and Compliance Management Office endorses to the Board the appointment or removal of the IAO and CMO Heads as well as appraise their performance.

*Francisco J. Leonor Jr.****

**elected as member of AuditCom on February 2018*
***replaced on February 2018*
****elected as member of AuditCom on October 2018*
*****resigned May 2018*

Meetings and Attendance for the Year

The Committee had four (4) meetings in 2018. Dir. Salazar is present in all the meetings. Dir. Punsalan attended a total of 3 meetings after he was elected as member of the AuditCom in February. Dir. Leonor, Dir. Ayudtud, Dir. Damasco, and Dir. Teo attended 1 meeting prior to their replacement as AuditCom members. Dir. Minano was not able to attend any AuditCom meeting while he was a member of the Committee.

AuditCom Accomplishment for the Year

For the year 2018, the Audit Committee approved the 2018 Internal Audit Plan and Risk Assessment, noted the Final Audit Report on IT Processes, discussed the Audit Accomplishment Report for 2017, Report on Non-Performing Assets as of March 31, 2018, Report on Loan Classification and Valuation Reserves Review on UV Re-fleeting Program and past due accounts.

Function. The results of the LBP-IAG review on the Procurement and Bidding Procedures of LLFC was also discussed as well as the Reply on the BSP Report of Examination.

Before the end of the year 2018, the Committee approved the Audit Plan for 2019, Compliance Plan for 2019 and the revision of the Manual of Internal Auditing.

Assessment of Adequacy of Internal Controls of the Corporation

For the year 2018, 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.

(continued)

Committee Role

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

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

Composition

rperson		*Conrado S. Minano Jr.**
		*John E. Ayudtud***

**elected as Chairman on July 2018*
***resigned as Director on May 2018*

Meetings and Attendance for the Year

The Committee met three (3) times in 2018, Dir. Punsalan and Dir. Damasco are present in all the 3 meetings while Dir. Minano was present in 2 meetings after he was elected as member and Chairman of the CorpGov Committee in July 2018.

CorpGov Accomplishment for the Year

During the year 2018, the Committee discussed and endorsed to the BOD the Proposed Reorganization Plan and Five-Year Targets in Discussed LLFC's adoption of the Modified Salary Structure, as authorized by GCG, and the applicable provisions of CSC-DBM Joint Circular

the grant of PERA to LLFC Employees per Congress Joint Resolution No. 4 (JR 4) and E.O. No. 201; the creation of the Credit Group and Human Resources Unit as recommended by Management; the recommendation for the promotion of Cash Officer to Treasury Officer under the Modified SSL; the grant of the Productivity Enhancement Incentive (PEI) to LLFC Employees in accordance with GCG Memorandum Circular No. 2017-05 and Congress Joint Resolution No. 4 (JR 4) and the proposed hiring of Account Officer who was interviewed by the Committed during the meeting. The Committee also reviewed the LLFC Succession Plan.

(continued)

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.

Composition

Conrado S. Minano Jr.

**elected as Chairperson on September 2018 replacing Dir. Reyes*

Meetings and Attendance for the Year

The Committee met four (4) times in 2018. All RiskCom Directors are present in all the meetings.

RiskCom Accomplishment for the Year

For the year 2018, the RiskCom discussed the 2017 Risk Management Committee Accomplishment Report; approved 2018 Risk Management Plans and Programs; discussed and endorsed the Proposed Policy on Data Privacy; reviewed the Information Security Risk Assessment and Treatment Register for the Year 2018; discussed Concentration of Risks, 2018 Business Continuity Risk Assessment, Assessment of Marine Vessels held as Collateral, Liquidity Gap and Repricing Gap.

Report, the Proposed Policy on Classification of Pas Due Accounts and Non-Performing Loans and the Proposed Contingency Funding Plan.

They also discussed the Internal Credit Risk Rating System Performance, Results of Annual Account Review; and Results of the Periodic Review of Risk Management Manual and Business Continuity Manual.

The results of Fire and Earthquake Drills; Updates of Accounts Endorsed to Remedial Accounts Management Unit and Sources and Uses of Funds as of October 31, 2018; and Results of Periodic Review of the Information Technology Manual were also taken up during the Committee meetings.

The Internal Audit Office (IAO) reports directly to the Audit Committee and 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. IAO implements a risk-based approach in the conduct of audit in 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, removal and assessment of performance 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) acts as 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.

ıe Risk Management Office (RMO) is responsible r developing guidelines and policies to ensure fective risk management in the Corporation. It is so responsible for identifying the key risk posures, assessing and measuring the extent of k exposure of the Corporation in the conduct of siness on an enterprise wide basis. It performs dependent monitoring and objective assessment decisions to accept particular risks whether these e consistent with BOD approved policies on risk lerance and the effectiveness of the corresponding k mitigation measures.

ıe Corporation maintains a risk register that entifies the material risks and the internal controls place to manage and mitigate the risks. The risk gister is reviewed annually by the Risk anagement Committee.

ıe Risk Officer reports directly to the Risk anagement Committee.

ompliance and Anti-Money Laundering

ıe Compliance Office of the Corporation is sponsible in ensuring compliance with existing ws, rules and regulations issued by BSP, SEC and her regulatory agencies. It also ensures timely bmission of reports, issues advisories on new gulations or amendments, initiates policy onouncement and implementation, provides aining to employees and reports on significant mpliance issues to the Management and the BOD.

ıe Compliance Officer reports directly to the ıdit Committee.

(continued)

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 BOD particularly the Corporate Governance Committee in ensuring that the corporate governance principles are adhered to by employees as well as members of the BOD.

Code of Ethics and Conduct

The Corporation institutionalizes the highest ethical standards through the strict implementation of the provisions of RA 671, An Act Establishing a Code of Conduct and Ethical Standards for Public Officials and Employees. Members of the Board, 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 Disciples 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 is required to fully comply with the Code of Conduct and Employee Discipline. The Administrative Unit monitors compliance of employees in the Code of Conduct by preparing regular reports (i.e. tardiness, among others) and offenses are properly sanctioned on a timely basis.

Stakeholders' Interest

LBP Leasing and Finance Corporation (LLFC) employs various practices for the protection, fair treatment and dealings with all stakeholders.

Customers

LLFC is committed to providing the needs of its clients' through quality service and provisioning of relevant products and services that adds value to the client's business.

The Corporation actively implements the Anti Red Tape Act which prescribes 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 has adopted a system to address complaints and suggestions by clients.

The Corporation also started its endeavor to secure the ISO 9001:2015 Certification thru the guidance of the Development Academy of the Philippines (DAP). This is still in line with the commitment of the LLFC to improve its services especially to its clients by ensuring quality in the services being provided.

(continued)

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

Likewise, the Corporation regularly conducts fellowship and wellness activities to continue to nurture its employees as well as encourage positive relationship among members of the organization.

For the year 2018, the Corporation participated in the annual bowling tournament spearheaded by the Philippine Finance Association (PFA). Other leasing and finance companies also participated in the said tournament. All employees also joined the teambuilding activities held in Shercon Resort in Batangas. The activities allowed the employees to strengthen their camaraderie and emphasized the importance of working together to reach a common goal. Regular fellowship activities were not missed during the year.

2018 Trainings and Seminars

			Male	Female		
		February 21-23, 2018	1	0		24 hours
eneral Analysis & Harmonized ender and Development uidelines	LBP Plaza	Februray 12 & 13, 2018	1	1	Vinegas Development Consulting Services	16 hours
		March 2, 2018	1	1		
-PhilGEPS Focus Group scussion	ference Room al Paco Manila	February 6, 2018	1	3	PhilGEPS	4 hours
		February 20, 2018	0	3		
		February 15, 2018	0	2		4 hours
asterclass on Writing Minutes of e Meetings	e Hotel Muntinlupa	April 24, 2018	0	2	Global Best Practices	8 hours
		April 11-13, 2018	0	1		24 hours
						8 hours
		May 23-25, 2018	1	2		24 hours
		March 23, 2018	1	1		8 hours
alogue with Large Taxpayers	B Diliman Quezon	April 4, 2018	1	0	BIR Head Office	4 hours
		June 27-29, 2018	1	0		24 hours
PC's National Data Privacy onference	PICC Hall	May 28-29, 2018	0	2	National Privacy Commission	16 hours
		May 31, 2018	0	2		4 hours
		June 27-29, 2018	0	1		24 hours
e BSMA Security Summit	SMX Aura Taguig City	June 21-22, 2018	0	1	Bank Security Management Association	16 hours
w to Structure & Compute						8 hours
laries, Wages, & Ben. with the 18 Train Incentives for xpayers	EDSA Shangri-La	July 6, 2018	0	1	Center for Best Practices	8 hours
		July 6, 2018	0	1		
						8 hours
CPA Seminars (Various)	PICPA Bldg	November 1, 23 & December 6, 201	0	1	PICPA	24 hours


San Mig
Mahaba-habang

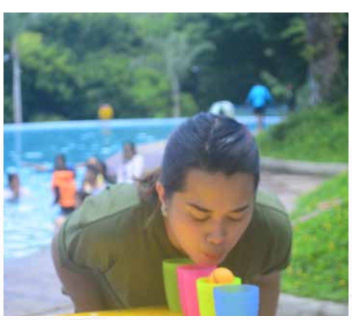

GLOBAL GUTZ
WE SURVIVED THE
PAINTBALL WAR
CHALLENGE


BREAKOUT
PLAN. SOLVE. ESCAPE.
#TRAPPED FOREVER
#BreakoutPH
ANYARE?!

(continued) Include Pictures Teambuilding Activities







CORPORATE SOCIAL

Community and Environment

The Corporation is an active partner o Manila Bay S.U.N.S.E.T Partnershi Program Inc., that promote and implemen sustainable and supplementary efforts t improve the environmental quality o Manila Bay. This activity develop environmental awareness as well a reinforces commitment to corporate socia responsibility. LLFC has committed t make annual contribution to help facilitat the implementation of projects an programs by the Manila Bay S.U.N.S.E. Partnership Program Inc., and encourage its employees to actively participate in th clean-up programs. In 2018, the employee joined the clean-up at the Las Pinas Paranaque Critical Habitat and Ecotourisn Area as well as in the Annual Manila Ba Clean-up at the Baywalk Area in Roxa Blvd., Manila.

Various groups/units of the Corporatio have also conducted outreach program fo their teambuilding activities in 2018. The visited various organizations like those tha take care of elderly people. The Corporatio and the employees contributed to provide for some of their needs. A short progran was also held that brought smile on the face of these elderly people and genuinely touc the hearts of those who participated.

BOARD OF DIRECTORS

Alex V. Buenaventura
Chairman

Alex Valdez Buenaventura, 66 years old, assumed as LANDBANK's 9th President and CEO in November 2016. In February 2017, he was nominated and elected by the LBP Leasing and Finance Corporation Board of Directors as Chairman of the Board.

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

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

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

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

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

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

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

Silvestre Manuel C. Punsalan Jr.
Vice-Chairman

Mr. Silvestre Manuel C. Punsalan Jr., 79 years old, has been a member of the Board since August 2001. He was elected as Vice Chairman of the Board of the Corporation in May 2003. He is a member of the Audit Committee and also the Chairman of the Related Party Transaction.

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

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

Manuel H. Lopez
Director

Mr. Manuel H. Lopez, 63 years of age, joined the Corporation in 1996 as General Manager. He was appointed as President and CEO in May 2003 simultaneously with his appointment as a Director in the Board.

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

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

Edward John T. Reyes
Director

Mr. Edward John T. Reyes, 61 years old, was appointed to the Board in May 2011. He was the former Executive Vice President and Head of Agrarian Development and Lending Sector of Land Bank of the Philippines (LBP). Mr. Reyes joined LBP in 1994 and has held various executive positions in the Bank. He was also became a Board Director of the GM Bank of Luzon, Inc.

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

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

Francisco J. Leonor Jr.
Director

Francisco J. Leonor, Jr. 50 years of age, was appointed as a Member of the Board Directors of LBP Leasing and Finance Corporation on November 28, 2016.

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

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

Joel R. Caminade
Director

Joel R. Caminade, 54 years old, was appointed as a Member of the Board of Directors of LBP Leasing and Finance Corporation on 16 December 2016. He resigned as LLFC Director on November 2018.

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

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

Mr. Caminade resigned as member of LLFC Board

Fritz M. Salazar
Director

Fritz M. Salazar, 45 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 food cart 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.

Roberto U. Teo
Director

Roberto U. Teo, 69 years old, was appointed as a Member of the Board of Directors of LBP Leasing and Finance Corporation on 02 June 2017.

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

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

Director

Conrado S. Miñano Jr., 65 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.

Leticia V. Damasco
Director

Leticia Villamoran Damasco, 69 years old, was appointed as LLFC Director on 24 January 2018. On 28 February 2018, she was nominated and elected as member of the Risk Management Committee and Corporate Governance Committee.

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

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

John E. Ayudtud
Director

John E. Ayudtud, 66 years old, was appointed as a Member of the Board of Directors of LBP Leasing and Finance Corporation on 10 May 2017.

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

Mr. Ayudtud authored books including The Barangay Book, The Values Formation Book, Arresting The Youth, Actualize Your Personal Potential and The Spirit of Noah and Manual for LGU Workers. Mr. Ayudtud graduated from Philippine Christian Academy with a degree of Business Management.

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

LBP LEASING AND FINANCE CORPORATION
(A LANDBANK SUBSIDIARY)

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, 2018 and 2017, 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: ______________________
MANUEL H. LOPEZ
President/CEO

Signature: ______________________
MA. LOURDES G. GONZAGA
VP/Chief Financial Officer

Signed this 28th day of May 2019

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 accompanying financial statements of **LBP Leasing and Finance Corporation (LLFC)** (a wholly-owned subsidiary of Land Bank of the Philippines), which comprise the statements of financial position as at December 31, 2018 and 2017, 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 and other explanatory information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the LLFC as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended, in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

Other Matter

In our report dated May 17, 2018, we expressed a qualified opinion on the CY 2017 financial statements of the LLFC because the interest expense on borrowed fund for the acquisition of land in 2014 amounting to P12.335 million for CY 2017 and P27.893 million for CYs 2014 to 2016 were capitalized to the Equipment and Other Properties for Lease account although all the conditions for a qualifying asset were not met, contrary to pertinent provisions of Philippine Accounting Standard (PAS) 23. In 2018, the LLFC already reversed the capitalized borrowing costs on the land purchased in 2014 and restated its CY 2017 financial statements to conform with pertinent provisions of PAS 23. Accordingly, our present opinion on the restated CY 2017 financial statements as presented herein, is different from that expressed in our previous report.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, management is responsible for assessing the LLFC's ability to continue as 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 Foundation or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the LLFC's internal control.

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

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

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

Report on Other Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 32 to the 2018 financial statements is presented for purposes of filing with the Bureau of Internal Revenue 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

May 28, 2019

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date JUL 11 2019
RECEIVED

LBP LEASING AND FINANCE CORPORATION
(Formerly LBP Leasing Corporation)
(A wholly-owned subsidiary of Land Bank of the Philippines)
CONDENSED STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017 and 2016
(In Philippine Peso)

	Notes	2018	2017 (As Restated)	2016 (As Restated)
ASSETS				
Current assets				
Cash and cash equivalents	7	48,137,857	41,940,002	42,510,620
Financial Assets at Amortised Cost	8, 14	1,558,289,710	995,614,363	1,323,867,525
Other current assets, net	13	21,186,625	13,667,475	9,564,731
Total current assets		1,627,614,192	1,051,221,840	1,375,942,876
Non-current assets				
Financial Assets at Amortised Cost	8, 14	2,681,747,577	2,748,479,410	2,070,922,207
Investment properties, net	9, 14	9,697,212	5,447,418	20,106,679
Equipment and other property for lease, net	10	30,229,918	347,448,629	382,145,832
Property and equipment, net	11	30,681,091	26,994,027	28,243,765
Non-current assets held for sale, net	12, 14	308,858,250	-	3,012,091
Deferred tax asset	24	57,547,448	65,602,628	58,699,554
Other non-current assets, net	13	1,976,373	1,872,623	1,495,832
Total non-current assets		3,120,737,869	3,195,844,735	2,564,625,960
TOTAL ASSETS		4,748,352,061	4,247,066,575	3,940,568,836
LIABILITIES AND EQUITY				
LIABILITIES				
Current liabilities				
Financial Liabilities, current portion	15	2,225,772,656	1,636,849,627	1,220,885,315
Current portion of deposit on lease contracts	21	133,702,433	84,813,670	121,878,183
Inter-Agency Payables	16	14,273,740	11,902,710	25,190,053
Other payables	17	57,154,101	71,451,292	61,885,841
Total current liabilities		2,430,902,930	1,805,017,299	1,429,839,392
Non-current liabilities				
Financial Liabilities, net of current portion	15	620,450,577	792,384,039	998,434,167
Deposit on lease contracts, net of current portion	21	188,920,823	211,381,522	121,313,597
Retirement liability	22(b)	17,113,259	15,355,633	8,199,927
Total non-current liabilities		826,484,659	1,019,121,194	1,127,947,691
Total liabilities		3,257,387,589	2,824,138,493	2,557,787,083
Equity				
Capital stock	18(a)			
Issued capital		485,552,550	485,552,550	485,552,550
Additonal paid-in capital		113,970,900	113,970,900	113,970,900
Treasury stock		(20)	-	(30)
		599,523,430	599,523,450	599,523,420
Retained earnings	18(b)			
Appropriated		600,000,000	600,000,000	600,000,000
Unappropriated		295,586,380	228,692,798	183,369,857
		895,586,380	828,692,798	783,369,857
Accumulated other comprehensive income (loss)				
Remeasurement of retirement benefit obligation	22(b)	(4,145,338)	(5,288,166)	(111,524)
		(4,145,338)	(5,288,166)	(111,524)
Total equity		1,490,964,472	1,422,928,082	1,382,781,753
TOTAL LIABILITIES AND EQUITY		4,748,352,061	4,247,066,575	3,940,568,836

LBP LEASING AND FINANCE CORPORATION
(Formerly LBP Leasing Corporation)
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2018 and 2017
(In Philippine Peso)

	Notes	2018	2017 (As Restated)
INTEREST INCOME			
Leases	8, 21	**236,506,805**	168,144,412
Loans	8	**167,330,267**	121,100,550
Deposits in banks	7	**149,114**	108,237
		403,986,186	289,353,199
INTEREST EXPENSE			
Borrowed funds	15	**102,999,771**	74,099,022
NET INTEREST INCOME		**300,986,415**	215,254,177
OTHER INCOME			
Operating leases	8, 21	**55,865,443**	50,932,708
Other income	19	**122,541,303**	131,028,712
		178,406,746	181,961,420
DIRECT EXPENSES			
Security, messengerial, janitorial and contractual services	21	**159,523,974**	136,923,823
Provision for credit and impairment losses	14	**32,997,215**	24,754,755
Compensation and fringe benefits - Marketing operations	22(a)	**19,763,017**	17,386,214
Documentary stamp used		**16,476,913**	6,796,870
Depreciation-equipment and other property for lease	10	**8,218,860**	7,563,236
Insurance		**7,305,915**	7,202,963
Repairs and maintenance		**4,266,180**	5,222,274
Transfer mortgage and registration fees		**1,043,963**	1,295,076
		249,596,037	207,145,211
GROSS INCOME		**229,797,124**	190,070,386
GENERAL AND ADMINISTRATIVE EXPENSES			
Taxes, Insurance Premiums and Other Fees		**27,460,090**	21,351,815
Compensation and fringe benefits	22(a)	**21,698,439**	22,804,295
Depreciation/amortization	11	**2,953,451**	2,636,701
Other Maintenance and Operating Expenses	20	**17,909,276**	17,762,640
		70,021,256	64,555,451
NET INCOME BEFORE INCOME TAX		**159,775,868**	125,514,935
Income tax expense	24	**44,569,786**	31,439,994
NET INCOME AFTER TAX		**115,206,082**	94,074,941
OTHER COMPREHENSIVE INCOME/(LOSS)			
Item that will not be reclassified to profit and loss			
Remeasurement loss on retirement benefit obligation	21(b)	**1,142,828**	(5,176,642)
TOTAL COMPREHENSIVE INCOME		**116,348,910**	88,898,299
EARNINGS PER SHARE	27	**2.37**	P2.15

LBP LEASING AND FINANCE CORPORATION
(Formerly LBP Leasing Corporation)
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2018 and 2017
(In Philippine Peso)

	Issued Capital	Additional Paid-in Capital	Treasury Stock	Retained Earnings		Accumulated Other Comprehensive Gains/(Losses) Note 18(c)	Total
				Unappropriated	Appropriated		
Balance, 1 January 2017, as restated	485,552,550	113,970,900	(30)	183,369,857	600,000,000	(111,524)	1,382,781,753
Cash dividend to National Government				(48,752,000)			(48,752,000)
Reacquisition of common stock			30				30
Net income for the year				94,074,941			94,074,941
Remeasurement loss on retirement benefit obligation						(5,176,642)	(5,176,642)
Balance, 1 January 2018, as restated	485,552,550	113,970,900	0	228,692,798	600,000,000	(5,288,166)	1,422,928,082
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 on retirement benefit obligation						1,142,828	1,142,828
Balance, 31 December 2018	**485,552,550**	**113,970,900**	**(20)**	**295,586,380**	**600,000,000**	**(4,145,338)**	**1,490,964,472**

The Notes on pages 9 to 82 form part of these financial statements.

LBP LEASING AND FINANCE CORPORATION
(Formerly LBP Leasing Corporation)
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2018 and 2017
(In Philippine Peso)

	2018	2017 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Inflow		
Interest received	**401,285,280**	289,979,612
Other income received	**293,723,805**	36,380,550
Cash received from clients	**6,232,675,179**	4,166,071,360
Cash Outflow		
Cash paid to clients	**(6,849,208,976)**	(4,355,393,644)
Cash paid to settle expenses	**(278,856,611)**	(221,451,584)
Interest paid	**(93,264,425)**	(74,957,786)
Income taxes paid	**(40,822,138)**	(51,052,465)
Net cash generated from/(used in) operating activities	**(334,467,886)**	(210,423,957)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment	**(6,367,793)**	(6,608,682)
Disposal of property and equipment	**862,501**	21,485,744
Net cash provided by investing activities	**(5,505,292)**	14,877,062
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings under line of credit agreement	**7,154,655,665**	5,510,194,241
Payment of long term debt	**(6,760,172,112)**	(5,266,465,994)
Reacquisition of shares	**(20)**	0
Reissuance of shares	**0**	30
Cash dividends paid	**(48,312,500)**	(48,752,000)
Net cash provided by/(used in) financing activities	**346,171,033**	194,976,277
NET DECREASE IN CASH AND CASH EQUIVALENTS	**6,197,855**	(570,618)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**41,940,002**	42,510,620
CASH AND CASH EQUIVALENTS AT END OF YEAR	**48,137,857**	41,940,002

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

1. GENERAL INFORMATION

1.1 Corporate Information

The LBP Leasing and Finance Corporation, *formerly LBP Leasing Corporation*, (LLFC or "the Corporation") was registered with the Securities and Exchange Commission on March 17, 1983 under SEC Registration No. 111115. It was granted by the SEC a license to operate as a finance company on March 18, 1983.

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

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

The principal activities of LLFC are as follows:

(a) To engage in direct leasing or financial leasing and to arrange or underwrite and administer leases of all kinds of equipment, machines, vehicles, facilities, appliances and all types of personal and real property;

(b) To engage in the business of financing merchandise particularly but not limited to appliance, automobile, and truck retail sales, agricultural machinery and equipment and to engage in the business of commercial, agricultural and industrial financing, factoring and/or leasing, in all other various forms, within and without the Republic of the Philippines;

(c) To extend credit facilities for and otherwise assist in the establishment, operation, development, expansion and/or reorganization of industrial, commercial, agricultural and other productive or profitable enterprises;

(d) To make loans with or without such security, as the Board of Directors may think fit within the limits allowed by law; and

(e) To raise funds for the Corporation's operations through the issuance of debt instruments and/or securitization of its assets.

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

1.2 Issuance of financial statements

The Board of Directors (BOD), through Resolution No. 19-065, approved and authorized for issuance the Corporation's financial statements as of and for the years ended December 31, 2018 and 2017 on April 25, 2019.

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 (PFRS) 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.

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.

Current versus non-current 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 non-current. Deferred tax assets and liabilities are classified as non-current.

Changes in accounting policies and disclosures

a. New standards and amendments issued and effective from January 1, 2018.

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS which the Corporation adopted effective for annual periods beginning on or after January 1, 2018

- PFRS 9, *Financial Instruments* – This standard replaces PAS 39, *Financial Instruments: Recognition and Measurement* (and all the previous versions of PFRS 9). It provides requirements for the classification and measurement of financial assets and liabilities, impairment, hedge accounting, recognition, and derecognition.

  - PFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which these are held and its contractual cash flow characteristics.

  - For financial liabilities, the most significant effect of PFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss 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.

  - For the impairment of financial assets, PFRS 9 introduces an "expected credit loss" model based on the concept of providing for expected losses at inception of a contract; recognition of a credit loss should no longer wait for the objective evidence of impairment to manifest.

- For hedge accounting, PFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.

- The derecognition provisions are carried over almost unchanged from PAS 39.

Based on the Corporation's analysis of its business model and the contractual cash flow characteristics of its financial assets and liabilities as at December 31, 2018, the Corporation has concluded that all of its financial assets and liabilities shall continue to be measured on the same basis as under PAS 39.

The following table shows the original classification categories under PAS 39 and the new classification categories under PFRS 9 for each class of the Company's financial assets as at January 1, 2018:

Account Classification	Measurement		Carrying Amount under PAS 39	Carrying Amount under PFRS 9
	Under PAS 39	Under PFRS 9		
Cash and cash equivalents	Amortised Cost	Financial assets at amortised cost	P41,940,002	P41,940,002
Loans and receivables	Amortised Cost	Financial assets at amortised cost	3,761,106,362	3,744,093,773

The Corporation has adopted the retrospective approach in accordance with the transition provisions of PFRS 9. The effect of adoption of PFRS 9 in the amounts recognized in the statements of financial position as at January 1, 2018 and 2017 and the statements of comprehensive income for the year ended December 31, 2017 are as follows:

Accounts Classification	Carrying Amount under PAS 39 as at December 31, 2017	Reclassification Adjustments	Remeasurement Adjustments	Accounts Classification	Carrying Amount under PFRS 9 as at January 1, 2018
Cash and cash equivalents	P41,940,002	P0	P0	Cash and cash equivalents	P41,940,002
Loans and receivables	3,761,106,362	0	17,012,589	Financial Assets at Amortised Cost	3,744,093,773

Accounts Classification	Carrying Amount under PAS 39 as at December 31, 2016	Reclassification Adjustments	Remeasurement Adjustments	Accounts Classification	Carrying Amount under PFRS 9 as at January 1, 2017
Cash and cash equivalents	P42,510,620	P0	P0	Cash and cash equivalents	P42,510,620
Loans and receivables	3,404,547,566	0	(9,757,834)	Financial Assets at Amortised Cost	3,394,789,732

	2017 As previously Presented	Adjustments	2017 As Restated
Interest income	P387,753,199	P0	P387,753,199
Interest expense	61,763,892	0	61,763,892
Net interest income	325,989,307	0	325,989,307
Other non-operating income	83,561,420	0	83,561,420
Direct expenses	194,820,058	7,254,755	202,074,813
Gross income	214,730,669		207,475,914
General and administrative expenses	63,979,722		63,979,722
Income before income tax	150,750,947		143,496,192
Income tax expense	36,749,416	2,176,427	38,925,843
Net income after tax	114,001,531		104,570,349
Other comprehensive income	(309,460)		(309,460)
Total comprehensive income	P113,692,071		P104,260,889

The Company has assessed the impact of the adoption of PFRS 9 on determining impairment loss using a forward-looking expected credit loss model (and/or simplified approach) as at January 1:

	2017	2016
Provision for impairment allowance, as previously reported under PAS 39	**P17,500,000**	P21,620,000
Adjustments	**7,254,755**	9,757,834
Provision for impairment allowance, as restated for the effects of adoption of PFRS 9	**P24,754,755**	P31,377,834

Moreover, the following table shows the adjustments made in the amounts recognized in retained earnings as at January 1:

	2017	2016
Retained earnings, as previously reported using PAS 39	**P284,666,422**	P219,416,891
Adjustments:		
a. Provision for probable losses	**(7,254,755)**	(9,757,834)
b. Deferred tax	**2,176,427**	2,927,350
Total adjustments	**(5,078,328)**	(6,830,484)
Retained earnings, as restated for the effects of adoption of PFRS 9	**P279,588,094**	P212,586,407
Basic and diluted EPS	**1.94**	1.72

The Corporation's financial liabilities have the same classification and basis of measurement under PAS 39 and PFRS 9.

- Amendments to PFRS 2, *Share-based Payment - Classification and Measurement of Share-based Payment Transactions* – The amendments clarify the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment transactions, the accounting for share-based payment transactions with a net settlement feature for withholding tax obligations, and the effect of a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

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

- Amendments to PFRS 4, *Insurance Contracts - Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts* – The amendments give all insurers the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9, *Financial Instruments* is applied before implementing PFRS 17, *Insurance Contracts* ('the overlay approach'). Also, entities whose activities are predominantly connected with insurance are given an optional temporary exemption (until 2021) from applying PFRS 9. Thus, continuing to apply PAS 39, *Financial Instruments: Recognition and Measurement* instead ('the deferral approach').

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

- PFRS 15, *Revenue from Contracts with Customers* – The new standard replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and their related interpretations. It establishes a single comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (e.g. the point at which revenue is recognized, accounting for variable considerations, costs of fulfilling and obtaining a contract, etc.).

Based on the Corporation's assessment, all of the Corporation's contracts with customers generally undertake to provide single performance obligation at a fixed price which is mainly the leasing and financing facilities provided. Thus, the allocation of transaction price to the single performance obligation is not applicable. The Corporation recognizes revenue as the services are rendered over time. Accordingly, the adoption of PFRS 15 has no impact in the timing of the Corporation's revenue recognition.

- Amendments to PFRS 15, *Revenue from Contract with Customers - Clarification to PFRS 15* – The amendments provide clarifications on the following topics: (a) identifying performance obligations; (b) principal versus agent considerations; and (c) licensing. The amendments also provide some transition relief for modified contracts and completed contracts.

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

- Amendments to PAS 28, *Investments in Associates and Joint Ventures - Measuring an Associate or Joint Venture at Fair Value* – The amendments are part of the Annual Improvements to PFRS 2014-2016 Cycle and clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, mutual fund, unit trust or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

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

- Amendments to PAS 40, *Investment Property - Transfers of Investment Property* – The amendments clarify that transfers to, or from, investment property (including assets under construction and development) should be made when, and only when, there is evidence that a change in use of a property has occurred.

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

- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration* – The interpretation provides guidance clarifying that the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency is the one at the date of initial recognition of the non-monetary prepayment asset or deferred income liability.

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

b. New and Amended PFRS Issued But Not Yet Effective

Relevant new and amended PFRS which are not yet effective for the year ended December 31, 2018 and have not been applied in preparing the financial statements are summarized below.

Effective for annual periods beginning on or after January 1, 2019:

- PFRS 16, *Leases* – This standard will replace PAS 17, *Leases* and its related interpretations. The most significant change introduced by the new standard is that almost all leases will 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, however, remains largely unchanged and the distinction between operating and finance lease is retained.

  For the Corporation's non-cancellable operating lease commitments as at December 31, 2018, a preliminary assessment indicates that these arrangements will continue to meet the definition of a lease under PFRS 16. Thus, the Corporation will have to recognize a right-of-use asset and a corresponding liability in respect of all these leases - unless these qualify for low value or short-term leases upon the application of PFRS 16 – which might have a significant impact on the amounts recognized in the Corporation's financial statements. However, it is not practicable to provide a reasonable estimate of that effect until the Corporation complete the review.

- Amendments to PFRS 9, *Financial Instruments - Prepayment Features with Negative Compensation* – The amendments allow entities to measure particular prepayable financial assets with negative compensation at amortized cost or at fair value through other comprehensive income (instead of at fair value through profit or loss) if a specified condition is met. It also clarifies the requirements in PFRS 9, *Financial Instruments* for adjusting the amortized cost of a financial liability when a modification or exchange does not result in its derecognition (as opposed to adjusting the effective interest rate).

- Amendments to PAS 28, *Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures* – The amendments clarify that long-term interests in an associate or joint venture that, in substance, form part of the entity's net investment but to which the equity method is not applied, are accounted for using PFRS 9, *Financial Instruments*.

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 PFRS 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 Company 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 Company; 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 Company 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 Months (12) 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 Company as an owner-occupied property becomes an investment property, the Company 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 Annex A of COA Circular No. 2003-007 dated December 11, 2003, with selected property and equipment applicable to the Corporation as follows:

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

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

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

The carrying values of the property and equipment and EOPL are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, an impairment loss is recognized in 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. 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 impairment loss is reversed if there has been change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of impairment loss is credited to current operations.

3.8 Inter-agency and other payables

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

3.9 Provisions and contingencies

Provisions are recognized when: (a) the Company 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.

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 Company 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 Company perform its obligations; (b) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date. Otherwise, revenue is recognized at a point in time.

The Company also assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Company 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

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.

The Corporation is a lessor under finance leases.

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

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) a renewal option is exercised or an extension is granted, unless the term of the renewal or extension was initially included in the lease term;

(c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or

(d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d), and at the date of renewal or extension period for scenario (b) above.

Operating Lease

Company as Lessee.

Leases which do not transfer to the Company substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the separate statements of income on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

Company as Lessor.

Leases where the Company 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 Company 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 Company 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the separate 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 2018 and 2017, Management has assessed an amount of P196,239,856 and P218,675,423 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 and P10,752,550 as of December 31, 2018 and 2017 (Note 9), respectively, while there are no allowance for impairment losses on Non-Current Assets Held for Sale in 2018 and 2017 (Note 12), respectively. There are no impairment losses on EOPL and Property and Equipment for the years 2018 and 2017.

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

	2018	2017 As restated
Investment Properties (Note 9)	**9,697,212**	5,447,418
EOPL (Note 10)	**30,229,918**	347,448,629
Property and Equipment (Note 11)	**30,681,091**	26,994,027
Non-Current Assets Held for Sale (Note 12)	**308,858,250**	0

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 P2,900,454 and P1,979,064 as at December 31, 2018 and 2017, respectively, as disclosed in Note 22(a).

The related liability stands at P17,113,259 and P15,355,633 as at December 31, 2018 and 2017, respectively, as disclosed in Note 22(b).

Realizability of deferred tax assets

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 P57,547,448 and P65,602,628 as at December 31, 2018 and 2017, respectively, as disclosed in Note 24.

Management believes that the amount is fully recoverable.

4.2 Judgments

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

Determination of functional currency

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

Classification of financial instruments

The Corporation 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.

Classification of leases

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

As a lessor, total rental earned from operating leases amounted to P55,865,443 in 2018 and P50,932,708 in 2017, as disclosed in Note 21.

Interest earned on finance lease arrangements amounted to P236,506,805 and P168,144,412 in 2018 and 2017, respectively, as disclosed in Note 21 to the financial statements.

As a lessee, total rental expenses incurred from the leases amounted to P203,372 in 2018 and P654,256 in 2017, as disclosed in Note 20 and 21.

5. FINANCIAL RISK AND CAPITAL MANAGEMENT OBJECTIVES AND POLICIES

Principal financial instruments

The Corporation's principal financial instruments comprised cash, 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:

	2018	2017
Secured		
Property under finance lease	**1,112,286,818**	904,142,203
Real estate mortgage	**1,164,673,089**	1,072,105,089
Chattel mortgage	**1,834,771,223**	1,501,511,562
	4,111,731,130	3,477,758,854
Unsecured	**324,546,013**	485,010,342
	4,436,277,143	3,962,769,196

(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*

	2018		2017	
	Carrying Value	**Maximum Exposure**	Carrying Value	Maximum Exposure
Financial assets:				
Cash in Banks	**48,090,857**	**48,090,857**	41,895,002	41,895,002
Financial Assets at Amortised Cost	**4,436,277,143**	**4,436,277,143**	3,962,769,196	3,962,769,196
	4,484,368,000	**4,484,368,000**	4,004,664,198	4,004,664,198

The preceding table represents the maximum credit risk exposure of the Corporation at December 31, 2018 and 2017, 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 ten in the country.

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

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

As at December 31, 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**

As at December 31, 2017

	Cash	Financial Assets at Amortised Cost
Agriculture, fishing and forestry	0	19,070,154
Wholesale and retail trade	0	513,083,314
Manufacturing	0	166,285,121
Public utilities	0	284,993,536
Services	0	1,072,110,713
Banks and other financial institutions	41,895,002	725,569,025
Real estate	0	59,390,090
Public sector	0	781,468,686
Others	0	340,798,557
Total	41,895,002	3,962,769,196
Less: Allowance for probable losses/fair value changes	0	(218,675,423)
	41,895,002	3,744,093,773

(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, 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**

As at December 31, 2017

	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Cash in Banks	41,895,002	0	0	41,895,002
Financial Assets at Amortised Cost	3,554,911,709	86,297,993	321,559,494	3,962,769,196
	3,596,806,711	86,297,993	321,559,494	4,004,664,198

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, 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

As at December 31, 2017

	Up to 1 year	Over 1 year to 3 years	Over 3 years	Total
Bills payable	1,629,898,375	0	792,384,039	2,422,282,414
Accounts payable – trade	1,752,628	0	0	1,752,628
Accrued interest payable	5,198,624	0	0	5,198,624
Other payables	71,451,292	0	0	71,451,292
Deposits on lease contracts	84,813,670	158,873,937	52,507,585	296,195,192
	1,793,114,589	158,873,937	844,891,624	2,796,880,150

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, 2018 and 2017.

	2018		2017	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets:				
Cash and Cash Equivalents (Note 7)	**48,137,857**	**48,137,857**	41,940,002	41,940,002
Financial Assets at Amortised Cost (Notes 8 and 14)	**4,436,277,143**	**4,436,277,143**	3,962,769,196	3,962,769,196
	4,484,415,000	**4,484,415,000**	4,004,709,198	4,004,709,198

	2018		2017	
	Cost	**Fair Value**	Cost	Fair Value
Financial liabilities:				
Bills payable (Note 15)	**2,816,765,967**	**2,816,765,967**	2,422,282,414	2,422,282,414
Trade and other payables (Note 15)	**14,523,296**	**14,523,296**	1,752,628	1,752,628
Accrued interest payable (Note 15)	**14,933,970**	**14,933,970**	5,198,624	5,198,624
Other payables (Note 17)	**57,154,101**	**57,154,101**	71,451,292	71,451,292
Deposit on lease contracts (Note 21)	**322,623,256**	**322,623,256**	296,195,192	296,195,192
	3,226,000,590	**3,226,000,590**	2,796,880,150	2,796,880,150

·Trade and other payables identified as financial liabilities do not include government dues.

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:

	2018	2017
Cash in banks	**48,090,857**	41,895,002
Cash on hand	**47,000**	45,000
	48,137,857	41,940,002

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 2018 and 2017. Interest income earned from deposits in banks reported in the statements of comprehensive income totaled P149,114 and P108,237 for the years ended December 31, 2018 and 2017, respectively.

Cash on hand includes petty cash amounting of P45,000 as at December 31, 2018 and 2017.

8. FINANCIAL ASSETS AT AMORTISED COST

The current portion consists of:

	2018	2017 As restated
Finance lease receivables	**186,212,108**	100,883,629
Finance lease receivables - LBP	**4,387,707**	12,281,357
Loans and receivables - others	**1,109,153,257**	489,395,026
Allowance for probable losses	**(16,398,751)**	(5,372,841)
	1,283,354,321	597,187,171
Accounts receivable – clients	**3,559,486**	5,255,623
Allowance for probable losses	**(2,358,278)**	(1,213,195)
	1,201,208	4,042,428
Accrued interest receivable	**5,446,388**	2,745,482
Sales Contract Receivable (Note 12)	**0**	8,223,456
Allowance for probable losses	**(54,464)**	(109,690)
	5,391,924	10,859,248

Due from parent bank	**270,865,915**	386,710,508
Due from national government agencies	**115,630**	252,914
Due from officers and employees	**486,797**	851,646
Allowance for probable losses	**(3,126,085)**	(4,289,552)
	268,342,257	383,525,516
	1,558,289,710	995,614,363

The non-current portion consists of:

	2018	2017
Finance lease receivables	**1,562,767,744**	1,585,804,990
Allowance for probable losses	**(22,971,076)**	(24,377,908)
	1,539,796,668	1,561,427,082
Finance lease receivables - LBP	**148,365,244**	75,751,156
Allowance for probable losses	**(1,360,226)**	(703,053)
	147,005,018	75,048,103
Loans and receivables - others	**1,144,916,867**	1,294,613,409
Allowance for probable losses	**(149,970,976)**	(182,609,184)
	994,945,891	1,112,004,225
	2,681,747,577	2,748,479,410
Total Financial Asset at Amortised Cost	**4,240,037,287**	3,744,093,773

As at December 31, 2018, 31 per cent of the Corporations' finance lease and loans receivable are subject to interest re-pricing (2017: 30 per cent). The remaining loans earn annual fixed interest rates ranging from three per cent to 30 per cent in 2018 and 2017, 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 P79,781,317 and P55,865,443 in 2018 (2017: P15,779,619 for finance leases and P50,932,708 for operating leases) as disclosed in Note 23 to the financial statements.

<u>Finance lease receivables</u>

An analysis of the LLFC's finance lease receivables as at December 31, 2018 and 2017 is presented as follows:

	2018	2017
Finance lease receivables:		
Within 1 year	**26,884,837**	44,886,792
Beyond 1 year but not beyond 5 years	**723,215,319**	620,441,241
Beyond 5 years	**1,010,604,952**	1,205,049,700
	1,760,705,108	1,870,377,733
Residual value of leased assets:		
Within 1 year	**105,678,094**	57,610,729
Beyond 1 year but not beyond 5 years	**181,411,526**	208,196,614
Beyond 5 years	**124,686,545**	126,186,545
	411,776,165	391,993,888
Total minimum lease receivable	**2,172,481,273**	2,262,371,621
Less: Unearned Leasing Income		
Within 1 year	**2,427,755**	1,613,892
Beyond 1 year	**555,232,612**	635,555,008
	557,660,367	637,168,900
Net investment in finance lease receivables	**1,614,820,906**	1,625,202,721
Past due receivables	**102,397,353**	14,852,759
Restructured accounts	**14,852,759**	25,721,366
Past due - restructured accounts	**3,630,715**	0
Items in litigation	**32,665,488**	32,665,487
	153,546,315	73,239,612
Less: Unearned leasing income	**19,387,369**	11,753,714
	134,158,946	61,485,898
	1,748,979,852	1,686,688,619

	2018	2017
Finance lease receivables – LBP		
Within 1 year	**27,494,948**	25,556,228
Beyond 1 year but not beyond 5 years	**104,788,236**	89,882,816
Beyond 5 years	**229,763,520**	108,572,520
	362,046,704	224,011,564
Residual value of leased assets:		
Within 1 year	**989,400**	989,400
Beyond 1 year but not beyond 5 years	**0**	0
Beyond 5 years	**0**	0
	989,400	989,400
Total minimum lease receivable	**363,036,104**	225,000,964
Less: Unearned leasing income		
Within 1 year	**24,096,641**	14,264,271
Beyond 1 year	**186,186,512**	122,704,180
	210,283,153	136,968,451
Net investment in finance lease receivables – LBP	**152,752,951**	88,032,513

Loans and receivables – others

The breakdown of loans and receivables – others as at December 31, 2018 and 2017 are as follows:

	2018	2017
Loans and receivables – others		
Within 1 year	970,665,845	489,395,026
Beyond 1 year	945,703,110	905,606,338
	1,916,368,955	1,395,001,364
Past due receivables	115,155,674	139,329,357
Restructured accounts	95,815,466	116,558,531
Past due – restructured accounts	93,341,680	44,891,957
Items in litigation	44,192,627	98,797,786
	348,505,447	399,577,631
Less: Unearned interest income	10,804,278	10,570,560
	337,701,169	389,007,071
	2,254,070,124	1,784,008,435

Summary of Financial Assets at Amortised Cost

Loans and lease receivables

	2018	2017
Finance lease receivables	1,748,979,852	1,686,688,619
Finance lease receivables - LBP	152,752,951	88,032,513
Loans and receivables - others	2,254,070,124	1,784,008,435
	4,155,802,927	3,558,729,567

Other receivables:

	2018	2017
Due from parent bank	270,865,915	386,710,508
Accrued interest receivable	5,446,388	2,745,482
Accounts receivable – clients	3,559,486	5,255,623
Due from officers and employees	486,797	851,646
Due from national government agencies	115,630	252,914
Sales contract receivable	0	8,223,456
	284,110,463	404,039,629

Interest and lease income on receivables

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

	2018	2017
Lease contracts receivables	236,506,805	168,144,412
Loans and receivables	167,330,267	121,100,550
	403,837,072	289,244,962

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, 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

As at December 31, 2017 (as restated)

	Finance lease receivables	Loans and receivables – others	Other receivables	Total
At January 1, 2017	21,232,094	170,278,030	4,155,052	195,665,176
Provisions during the year	5,700,331	16,995,165	2,059,259	24,754,755
Foreclosures and adjustments (Note 14)	(1,372,573)	229,939	(601,874)	(1,744,508)
At December 31, as restated	25,559,852	187,503,134	5,612,437	218,675,423
Specific impairment provision	18,920,200	173,097,526	1,608,988	193,626,714
Collective impairment provision	6,639,652	14,405,608	4,003,449	25,048,709
Total impairment provision	25,559,852	187,503,134	5,612,437	218,675,423
Gross amount of loans specifically determined to have significant increase in credit risk since initial recognition before deducting individually-assessed credit losses	61,485,888	343,447,684	2,923,915	407,857,487

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)*

	2018	2017
Services	**25.06**	27.05
Public sector	**16.16**	19.72
Banks and other financial institutions	**15.49**	18.31
Manufacturing	**13.72**	4.20
Wholesale and retail trade	**9.52**	12.95
Public utilities	**8.68**	7.19
Real estate	**0.88**	1.50
Agriculture, fishing and forestry	**0.04**	0.48
Others	**10.45**	8.60
	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

	2018	2017
Secured		
Property under finance lease	**1,112,286,818**	904,142,203
Real estate mortgage	**1,164,673,089**	1,072,105,089
Chattel mortgage	**1,834,771,223**	1,501,511,562
	4,111,731,130	3,477,758,854
Unsecured	**324,546,013**	485,010,342
	4,436,277,143	3,962,769,196

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, 2018 and 2017, non-performing loans (NPLs) not fully- covered by allowance for credit losses follow:

	2018	2017
Total NPLs	**295,319,965**	321,559,494
Less: NPLs fully-covered by allowance for credit losses	**(77,027,701)**	(132,763,869)
	218,292,264	188,795,625

As of December 31, 2018 and 2017, secured and unsecured NPLs follow:

	2018	2017
Secured	**251,248,183**	232,112,427
Unsecured	**44,071,782**	89,447,067
	295,319,965	321,559,494

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:

	2018	2017
Cost		
At January 1	**16,916,001**	27,488,856
Additions	**0**	5,556,145
Transfer to NCAHS (Note 12)	**0**	(16,129,000)
At December 31	**16,916,001**	16,916,001
Accumulated depreciation		
At January 1	**716,033**	1,044,660
Depreciation for the year	**165,239**	451,328
Transfer to NCAHS (Note 12)	**0**	(779,955)
At December 31	**881,272**	716,033
Allowance for Impairment		
At January 1	**10,752,550**	6,337,517
Reclassification (Note 8)	**(4,415,033)**	4,415,033
Provision for the year	**0**	0
At December 31	**6,337,517**	10,752,550
Net book value		
December 31	**9,697,212**	5,447,418

Additions to investment properties in 2017 pertain to foreclosed parcels of land and building with redemption period by the borrowers and with on-going court cases.

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

Land and Building with a net carrying amount of P15,349,045 was transferred to Non-Current Assets Held for Sale in 2017 (Note 12).

The aggregate market value of investment properties as at December 31, 2018 and 2017 amounted to P19,256,000 and P17,916,000, 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 P30,000 and P187,823 in 2018 and 2017, 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:

	2018	2017
Finance lease	**0**	308,738,250
Operating lease	**30,229,918**	38,710,379
	30,229,918	347,448,629

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

	2018	2017
Cost		
At January 1	**81,567,064**	83,868,328
Additions	**0**	5,850,000
Disposals	**(2,616,002)**	(8,151,264)
At December 31	**78,951,062**	81,567,064
Accumulated depreciation		
At January 1	**42,856,685**	42,593,349
Depreciation for the year	**8,218,860**	7,563,236
Disposals	**(2,354,401)**	(7,299,900)
At December 31	**48,721,144**	42,856,685
Net book value, December 31	**30,229,918**	38,710,379

Depreciation charges amounting P8,218,860 and P7,563,236 for 2018 and 2017, respectively, are lodged under the Depreciation-EOPL account under Direct Expenses in the statements of comprehensive income.

In 2018 and 2017, the Corporation sold vehicles previously covered by operating lease agreements with a total carrying value of P261,600 and P851,364, respectively, on which it realized a gain of P268,900 and P1,656,238, respectively, as disclosed in Note 19 to the Financial Statements.

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 (Note 12).

11. PROPERTY AND EQUIPMENT

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

As at December 31, 2018

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

As at December 31, 2017

	Building and improvements	Furniture and Fixtures	Transportation Equipment	Other properties acquired	Total
Cost					
At January 1	42,566,207	11,650,434	1,567,273	0	55,783,914
Additions	0	638,682	0	34,400	673,082
Disposals	0	0	0	(34,400)	(34,400)
At December 31	42,566,207	12,289,116	1,567,273	0	56,422,596
Accumulated depreciation					
At January 1	16,944,568	9,101,674	1,493,907	0	27,540,149
Depreciation for the year	1,256,776	631,644	0	0	1,888,420
Disposals	0	0	0	0	0
At December 31	18,201,344	9,733,318	1,493,907	0	29,428,569
Net book value	24,364,863	2,555,798	73,366	0	26,994,027

As at December 31, 2018 and 2017, the total cost of fully-depreciated property and equipment still in use by the Corporation amounted to P9,524,737 and P10,772,609, respectively.

In 2018, LLFC sold its transportation equipment from which a gain of P258,634 was realized as disclosed in Note 19 to the Financial Statements.

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

The Corporation recognized depreciation/amortization charges in the amount of P11,172,312 in 2018 and P10,199,937 in 2017, as shown in the Direct and General and Administrative Expense sections in the statements of comprehensive income, with details as follows:

	2018	2017
Direct expense		
Equipment and other properties for lease (Note 10)	**8,218,860**	7,563,236
General and administrative expense		
Investment properties (Note 9)	**165,239**	451,328
Property and equipment (Note11)	**2,487,363**	1,888,420
Intangibles (Note 13)	**300,849**	296,953
	2,953,451	2,636,701
	11,172,311	10,199,937

Management has reviewed the carrying values of the Corporation's property and equipment as at December 31, 2018 and 2017 for impairment. Based on the results of its evaluation, there were no indications that the property and equipment are impaired.

12. NON-CURRENT ASSETS HELD FOR SALE

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

As at December 31, 2018

	Land	Building	Equipment	Total
At January 1, net	**0**	**0**	**0**	**0**
Transfer from Equipment and Other Properties for Lease (Note 10)	**308,858,250**	**0**	**0**	**308,858,250**
At December 31	**308,858,250**	**0**	**0**	**308,858,250**

As at December 31, 2017

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

The changes in allowance for impairment are as follows:

	2018	2017
At January 1	**0**	4,415,033
Reversal of provision for impairment	**0**	(4,415,033)
At December 31	**0**	0

The provision for impairment amounting to P4,415,033 was reversed in December 2017 simultaneously with the sale of property of which the Corporation realized a gain of P5,036,544 as disclosed in Note 19.

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

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, 2018 and 2017 are as follows:

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**

As at December 31, 2017

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

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:

	2018	2017
Cost		
At January 1	**2,532,374**	2,006,056
Additions	**404,599**	526,318
At December 31	**2,936,973**	2,532,374
Accumulated Amortization		
At January 1	**1,950,112**	1,653,159
Amortization for the year	**300,849**	296,953
At December 31	**2,250,961**	1,950,112
Net book value, December 31	**686,012**	582,262

The Corporation recognized amortization charges in the amount of P300,849 in 2018 and P296,953 in 2017, 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:

	2018	2017 As restated
At January 1		
Finance lease receivables	**25,559,852**	21,232,094
Loans and receivables - others	**187,503,134**	170,278,030
Other receivables	**5,612,437**	4,155,052
Investment properties	**10,752,550**	6,337,517
Non-current assets held for sale	**0**	4,415,033
	229,427,973	206,417,726
Provisions for the year	**32,997,215**	24,754,755
Accounts charged-off	**(59,847,815)**	(1,744,508)
At December 31	**202,577,373**	229,427,973

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

	2018	2017 As restated
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

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:

	2018	2017
Bills payable	**2,816,765,967**	2,422,282,414
Accounts payable – trade	**14,523,296**	1,752,628
Accrued interest payable	**14,933,970**	5,198,624
At December 31	**2,846,223,233**	2,429,233,666

Current and non-current classification of financial liabilities as at December 31, 2018 and 2017 are as follows:

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**

As at December 31, 2017

	Due within 1 year	Due beyond 1 year	Total
Bills payable	1,629,898,375	792,384,039	2,422,282,414
Accounts payable – trade	1,752,628	0	1,752,628
Accrued interest payable	5,198,624	0	5,198,624
	1,636,849,627	792,384,039	2,429,233,666

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

Interest rates on bills payable range from 2.75 per cent to 7.00 per cent in 2018 and 2.75 per cent to 4.00 per cent in 2017.

Bills payable are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances as of December 31, 2018 and 2017 are partially secured with terms of maturity ranging from 23 days to nine years. Interest expense on borrowings amounted to P102,999,771 and P74,099,022 for the years ending December 31, 2018 and 2017, respectively.

As at December 31, 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:

	2018	2017 As restated
Due to BIR	**10,113,959**	3,496,158
Due to Philhealth	**36,283**	13,388
Due to Pag-ibig Fund	**36,686**	18,459
Due to Social Security System	**24,295**	4,656
Income tax payable (Note 24)	**4,062,517**	8,370,049
	14,273,740	11,902,710

Except for income tax payable, all other inter-agency payables were remitted to the Agency concerned in January 2019.

17. OTHER PAYABLES

This account consists of:

	2018	2017 As restated
Accounts payable – others	**569,550**	834,694
Accrued expenses – others	**32,952,256**	45,905,265
Miscellaneous liabilities	**23,632,295**	24,711,333
	57,154,101	71,451,292

Accrued expenses – others includes costs of security, messengerial, and janitorial services amounting to P20,981,583 and P25,396,581 in 2018 and 2017, respectively, payable to a service corporation and monetary value of employees' leave credits amounting to P8,664,609 and P7,320,353 in 2018 and 2017, respectively.

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

As at December 31, 2018 and 2017, 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, 2018 and 2017 is presented hereunder:

	2018	2017
	No. of Shares	
Issued and paid	**48,555,255**	48,555,255
Treasury stock	**(2)**	0
Total outstanding shares	**48,555,253**	48,555,255

As of January 1, 2017, there is an outstanding three treasury share which was re-issued during 2017 to the newly appointed directors of the Corporation.

Additional two shares were reacquired in 2018 following the resignations of two members of the Board of Directors.

(b) Retained earnings

<u>Dividend declaration</u>

In compliance with Republic Act No. 7656 requiring the GOCCs to declare and remit dividends to the National Government (NG) of at least 50 per cent of their annual earnings, the Board of Directors of LLFC declared cash dividends to the NG through a Resolution dated May 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.

The Board of Directors of LLFC also declared cash dividends to the NG through a Resolution dated May 26, 2017 amounting to P48,752,000 or P1.004 per share to stockholders as of date of record December 31, 2016 and remitted/paid the same on May 31, 2017.

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.

Reconciliation of Retained earnings-unappropriated

The financial statements of the Corporation as of and for the years ended December 31, 2017 and 2016, respectively, have been restated to reflect the impact of transitional adjustments in accordance with PFRS 9 and prior period adjustments resulting from the adoption of the modified salary standardization law effective January 1, 2017 and capitalization of borrowing costs on prior years (Note 30).

Presented in the table below is a reconciliation of the retained earnings account:

At December 31, 2016, as previously stated		**P219,416,891**
Add: Effect of prior period adjustment		
Transitional adjustment – PFRS 9		(6,830,484)
Borrowing costs adjustments		(27,829,870)
Income Tax adjustments		(1,386,680)
At December 31, 2016, as restated		**183,369,857**
Declaration of Cash dividend paid to the National Government		(48,752,000)
Net income for the year ended December 31, 2017, as previously stated	114,001,531	
Add/(Deduct): Effect of prior period adjustments		
Additional Interest expense	(12,335,130)	
Additional Provision for losses	(7,254,755)	
Additional Provision for deferred tax expense	2,176,427	
Accrual of salary and bonuses differential for the year	(8,248,222)	
Adjustment of retirement benefit cost	2,602,095	
Adjustment of Provision for current tax expense	3,132,995	
Net Income for the year ended December 31, 2017, as restated		94,074,941
At December 31, 2017, as restated		**228,692,798**
Cash dividend paid to the National Government		(48,312,500)
Net income for the year ended December 31, 2018		115,206,082
At December 31, 2018		**P295,586,380**

(c) Other Comprehensive Income/(Loss)

	Remeasurement on Retirement Benefit Obligation (as restated)
Balance, January 1, 2017	**(111,524)**
Add/(Deduct):Transactions during the year	(5,176,642)
Balance, December 31, 2017 – as restated	**(5,288,166)**
Add: Transactions during the year	1,142,828
Balance, December 31, 2018	**(4,145,338)**

19. OTHER INCOME

This account is composed of:

	2018	2017 as reclassified
Fleet management service fees (Note 23)	**8,972,080**	9,406,200
Fleet management service chauffeuring fees (Note 23)	**107,508,000**	98,400,000
Gain on exchange of non-financial asset (Note 9)	**0**	5,556,145
Gain on sale of non-financial assets (Note 12)	**0**	5,036,544
Gain on sale of equipment and other property for lease (Note 10)	**268,900**	1,656,238
Gain on disposal/sale of property and equipment (Note 11	**258,634**	0
Recovery from charged-off assets	**50,841**	0
Miscellaneous income	**5,482,848**	10,973,585
	122,541,303	131,028,712

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:

	2018	2017
Security, messengerial, janitorial and contractual services	**4,043,362**	3,204,043
Representation and entertainment	**2,914,312**	1,984,844
Transportation and travelling	**2,791,861**	2,644,622
Power, light and water	**1,132,433**	1,200,000

5. Taxes and Licenses

The documentary stamp taxes paid/accrued on loans availed and renewed during the year totalled P16,476,901.

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

Particulars	Amount
b. Local	
Realty Taxes	289,402
Licenses	1,084,766
Community Tax Certificate	10,500
b. National	
Annual Non-VAT Registration Fee	500
Gross Receipt Tax	25,605,685
	26,990,853

PRODUCTS AND SERVICES

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