LBP LEASING AND FINANCE CORPORATION

(A LANDBANK SUBSIDIARY)

2023

ANNUAL REPORT

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Corporate Profile

LBP LEASING AND FINANCE CORPORATION (LLFC, formerly LBP Leasing Corporation), a wholly owned subsidiary of Land Bank of the Philippines (LANDBANK) was established under the Corporation Code of the Philippines on March 17, 1983 to complement the product lines being offered by the Bank.

LLFC's leasing facilities make it easier for enterprises to expand, upgrade, or modernize their operations. Among others, leasing enables enterprises to:

- Match financing terms with the earning potential of the capital asset.
- Preserve working capital and credit lines.
- Address existing or current budget limitation

Based on the Amended Articles of Incorporation approved by SEC on November 3, 2015, LLFC's primary purposes are as follows:

- 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 properties.
- Engage in the business of financing merchandise in all their various forms.
- 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.
- Within the limits allowed by law, to make loans with or without such security as the Board of Directors may think fit.
- To the extent permitted by law, raise funds for the company's operations through the issuance of debt instruments and/or securitization of its assets.

Vision, Mission, and Core Values

Vision

- By 2025, LLFC will be among the country's top 5 bank affiliated leasing and finance companies in terms of total assets.

Mission

- To provide broad spectrum of leasing and financial products and services to government agencies, LBP borrowers, and clients in the priority sectors that support the National Economic agenda.

Core Values

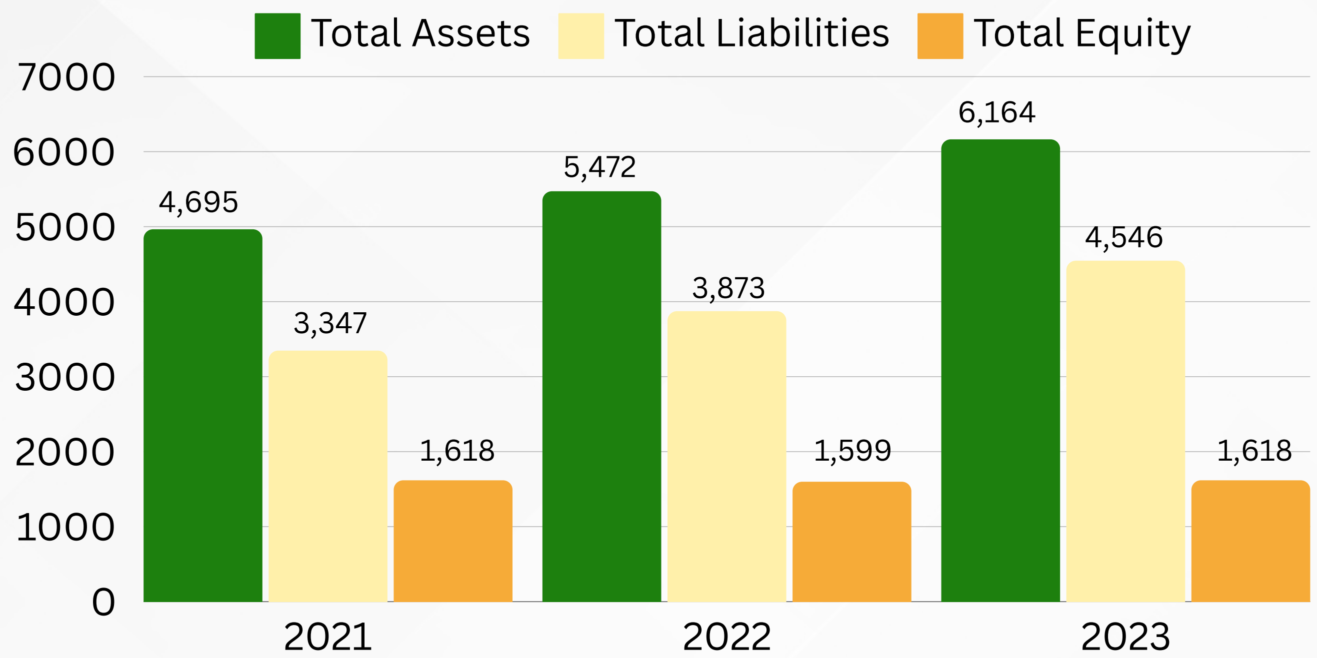
Core Values (Adopted from LANDBANK)

- Innovation
- Accountability
- Customer Focus
- Collaboration
- Excellence
- Social Responsibility
- Resilience

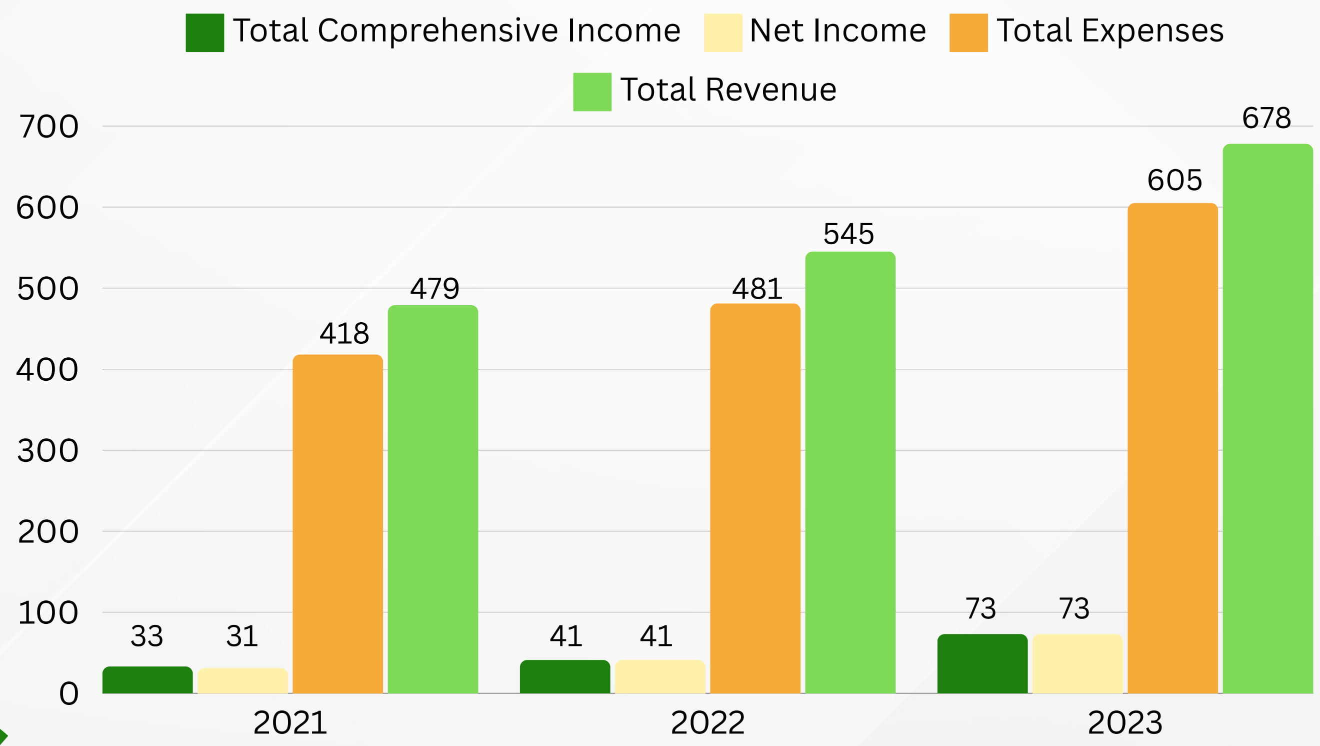
OPERATIONAL HIGHLIGHTS

(amount in millions)

STATEMENT OF FINANCIAL POSITION



STATEMENT OF COMPREHENSIVE INCOME



2023 PERFORMANCE SCORECARD ACCOMPLISHMENT

The Vision, Mission and Strategies as included in the performance scorecard for year 2023 was approved by the Board of Directors during its meeting on August 25, 2022. The 2023 performance scorecard accomplishment was presented and approved by the BOD on March 21, 2024.

COMPONENTS					2023 Modified Target	4th QUARTER 2023 (OCTOBER TO DECEMBER)		As of December 31, 2023 based on Unaudited PFRS FS	% of Accomplishment	Rating
	Objective Measure	Formula	Weight	Rating System		Actual	Over(Under)			
SO1	Sustain Capital and Financial Growth through the effective and efficient use of resources									
SM 1	Increase Total Portfolio	Total Outstanding Financing and Leasing Portfolio (based on Net Exposure) by End of December	15%	(Actual / Target) x Weight; 0% = If less than P3 Billion	P 5.418 B	P5.336 B	(P64.0 M)	P5.336 B	98.49%	14.77%
SM 2	Lower Net Past Due Rate	Total Past Due at the end of the period - Deferred Leasing Income, Unearned Credits, & Specific Loan Loss Provision over Total Portfolio	10%	(1-(Actual-Target)/ Target) x Weight	5.00%	7.61%	(2.48%)	7.61%	47.80%	4.78%
SM 3	Increase Asset Size	Absolute amount of Total Assets by end of December	5%	(Actual / Target) x Weight	P 5.700 B	P 6.164 B	P 0.461 B	P 6.164 B	108.14%	5.00%
SM 4	Increase Net Income After Tax	Total Revenues Less Total Expenses	15%	(Actual / Target) x Weight	P60.0 M	P29.55M	P14.55M	P73.446 M	122.41%	15.00%
SM 5	Efficient Utilization of Corporate Operating Budget	Total Disbursement / Board - Approved Coporate Operating Budget (both net of PS cost)	5%	(Actual / Target) x Weight	90%	67.86%	(22.14%)	67.86%	75.40%	3.77%
	SUB-TOTAL		50%							43.32%
SO 2	Provide financial products to achieve customer satisfaction and loyalty									
SM 6	Percentage of Portfolio Level allocated to priority sectors	Total amount of portfolio allocated to priority sector over Total portfolio at the end of the year	15%	Below 75% = 0%; 75% to less than 90% = 7.5%; 90% and above = 15%	90%	92.24%	2.24%	92.24%	104.09%	15.00%
SM 7	Percentage of Satisfied Customers	Number of respondents who gave a rating of at least Satisfactory/Total number of respondents	5%	(Actual / Target) x Weight; 0% = If below 80%	95%	99.81%	4.41%	99.81%	100%	5.00%
	SUB-TOTAL		20%							20.00%
SO 3	Enhance delivery of leasing and financing solutions									
SM 8	Percentage of Credit Approvals Processed within the Applicable Time	Total Number of Credit Approvals for New and Existing Clients Processed within the Applicable Processing Time / Total Number of Credit Approvals	15%	(Actual / Target) x Weight; 0% = If below 80%	100% of credit applications processed within the applicable processing time*	100%	0%	100%	100%	15.00%
SO 4	Improve procedures, systems, and programs on a continuing basis									
SM 9	Implement Quality Management System	Actual accomplishment	5%	All or nothing	Maintenance of ISO 9001:2015 Certification	100%	-	Passed	100%	5.00%
	SUB-TOTAL		20%							20.00%
SO 5	Strengthen organizational competencies									
SM 10	Percentage of Employees Meeting Required Competencies	Actual accomplishment	2.5%	All or nothing	Board Approved Revised Competency Framework	100%	-	*Revised competency framework was approved by the BOD on 20 December 2023*	50%	2.50%
			2.5%		Competency Assessment of all eligible employees**			*Assessed all eligible employees CY 2023*	50%	2.50%
SO 6	Optimize Linkages and Use of Information Technology									
SM 11	Implementation of IT Projects	Actual accomplishment	5%	All or nothing	100% completion of 2023 target ISSP Projects based on BOD approved or DICT endorsed ISSP	100%	-	*100% completed of the 2023 target ISSP Projects based on BOD approved or DICT endorsed ISSP*	100%	5.00%
	SUB-TOTAL		10%							10.00%
	TOTAL		100%							93.32%

** Applicable processing time will be based on LLFC's compliance with Republic Act No. 11032*

*** The competency baseline of the organization shall pertain to the average percentage required competencies met which can be computed using the formula*

CORPORATE GOVERNANCE

LBP Leasing and Finance Corporation (LLFC or the "Corporation" is committed to maintain a strong corporate governance culture across the organization by adhering to good governance practices.

LLFC has fully complied with the Code of Corporate Governance issued by GCG which is operationalized through its Manual of Corporate Governance.

The Board of Directors, Management, employees, and shareholders believe that corporate governance is a necessary component to enhance its long-term value to its stakeholders and improve financial performance of the Corporation thus they fully subscribe to comply with Good Governance Conditions.

GOVERNANCE STRUCTURE

BOARD OF DIRECTORS (BOD)

- **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 Chairperson 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 BOD. The Chairperson's primary responsibility is for leading the BOD 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**

  As a GOCC, LLFC has Appointive Directors and *"shall be appointed by the President of the Philippines from a shortlist prepared by the GCG."*

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

CORPORATE GOVERNANCE

- **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 BOD 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:

- The board of directors shall define the LLFC's corporate culture and values. It shall establish a code of conduct and ethical standards and shall institutionalize a system that will allow reporting of concerns or violations to an appropriate body.
- The board of directors shall be responsible for approving LLFC'S objectives and strategies and in overseeing management's implementation thereof.
- The board of directors shall be responsible for the appointment/selection of key members of senior management and heads of control functions and for the approval of a sound remuneration and other incentives policy for personnel.
- The board of directors shall be responsible for approving and overseeing implementation of the LLFC'S corporate governance framework.
- The board of directors shall be responsible for approving LLFC's risk governance framework and overseeing management's implementation

CORPORATE GOVERNANCE

- **Board Meetings and Attendance**

The BOD holds regular monthly meetings held every last Thursday of each month unless agreed otherwise. The schedule of the 2023 BOD meetings were presented and approved during the December 19, 2022, BOD meeting.

In 2023, there were sixteen (16) BOD meetings conducted to evaluate and approve various matters related to LLFC's operations. All members of the BOD were present during the meetings.

Summary of Board of Directors Attendance for the Year 2023:

Name	Position	No. of Meetings Attended
Cecilia Cayosa Borromeo*	Chairperson	4
Roberto U. Teo	Vice-chairperson	16
Fritz M. Salazar	Member	16
Conrado S. Miñano Jr.	Member	16
Leticia V. Damasco	Member	16
Virgilio M. Sangutan	Member	16
Nanziancino M. Dilay	Member	16
Edgar Crisanto R. Violan	Member	16
Michael P. Arañas	Member	16
Alvin I. Kong	Member	16

**Chairperson Borromeo cease her membership in the LLFC Board of Directors effective May 24, 2023.*

- **Meeting without the President**

During its November 29, 2023, meeting, the BOD held a meeting without the President/CEO present.

- **Release of Materials and Conduct of Meeting**

To allow directors sufficient time to prepare for the meetings, the BOD and Board Committee materials are distributed at least three (3) working days prior to the scheduled 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. Management also furnishes monthly reports to the BOD to provide sufficient information as to the results of operations and other matters for information and action of the BOD.

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

CORPORATE GOVERNANCE

- **Remuneration of the Board**
  Each director shall receive per diems, allowances, and incentives in accordance with the guidelines promulgated by the Governance Commission for GOCCs (GCG).

- **Board Self-Assessment**
  The BOD 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. Chairperson of the Board shall provide parameters for the assessment of the President and CEO.

  The BOD performance criteria are as follows:
  - *Performance of Individual Directors*
  - *Fulfillment of Board's Key responsibilities*
  - *Quality of Board – Management Relationship*
  - *Effectiveness of Board Processes and Meetings*
  - *Board Structure*

  For the year 2023, the BOD achieved an overall rating of 100% equivalent to "Excellent" based on the assessment conducted which was completed on January 4, 2024. Results of the BOD assessments is disclosed in the LLFC website under the Corporate Governance Seal.

  Pursuant to 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 Chairperson. GCG generates the rating forms submitted and provides the Board Chairperson with the rating for each Director.

CORPORATE GOVERNANCE

BOARD-LEVEL COMMITTEES

To aid in complying with the principles of good corporate governance, the Board constituted five (5) BOD Committees:

- Executive Committee,
- Audit Committee,
- Corporate Governance Committee (Compensation/Renumeration Committee)
- Risk Management Committee
- Related Party Transaction Committee.

The composition and the roles of each committee including their meetings and attendance during the year are presented in the succeeding pages.

Board-Level Committee Assessment

The Board-level Committees assess their performance using the approved Guidelines on the Performance rating System of LLFC Board-Level Committees approved on June 25, 2021, by the Board of Directors.

The result of each Board-Level Committee Assessment for the year 2023 were 100% equivalent to a qualitative rating of "Excellent". It is disclosed in the LLFC website under the Corporate Governance Seal.

CORPORATE GOVERNANCE

EXECUTIVE COMMITTEE

Composition

Chairperson:	Roberto U. Teo*
Members:	Fritz M. Salazar
	Edgar Cristanto R. Violan**
	Conrado S. Miñano, Jr.
	Michael P. Arañas

**Replaced Dir. Borromeo in June 2023*
***elected as ExCom member in October 2023*

Committee Role

The Executive Committee shall possess and may exercise all the powers on specific matters within the competence of the BOD particularly in the management and direction of the affairs of the Corporation and as may be delegated by the majority of the BOD subject to the limitations provided by the Corporation Code.

The Executive Committee performs the following:

- Evaluate and approve lease/credit transactions and restructuring proposals in accordance with the Codified Approving and Signing Authorities;
- Evaluate and recommend to the Board for consideration and approval credit proposals coursed through the Executive Committee;
- Formulate and recommend credit policies for Board consideration and approval;
- Review and monitor the performance of credit facilities previously approved;
- Approve procurement and disposal of Corporate Assets and administrative services in accordance with the Codified Approving and Signing Authorities;
- Approve sale of Acquired Assets in accordance with the Codified Approving and Signing Authorities; and
- Perform such other duties and functions and/or assume such responsibilities as may be delegated by the Board of Directors.

Meetings and Attendance for the Year

The ExCom met thirteen (13) times during the year 2023. All scheduled meetings are attended by all members of the Committee. The details of the attendance is also disclosed in the Corporate Governance Seal` section of the LLFC website.

CORPORATE GOVERNANCE

- **Accomplishment for the year 2023**

COMMITTEE/ DATE OF MEETING	ACTIONS TAKEN
Executive Committee	
18-Jan-23	Notation of three items Approval of one account and one item Endorsement of one account and three items Deferment of two accounts
17-Feb-23	Notation of four items Approval of three accounts Endorsement of eight accounts and one item Deferment of one item
15-Mar-23	Notation of four items Endorsement of four accounts Deferment of two accounts
24-Apr-23	Notation of two items Approval of one account Endorsement of six accounts and one item Deferment of three accounts
19-May-23	Notation of five accounts Approval of two accounts Endorsement of five accounts and one item Deferment of one account
21-Jun-23	Notation of five accounts Approval of two accounts Endorsement of five accounts and one item Deferment of one account
19-Jul-23	Notation of two items Approval of three accounts Endorsement of five accounts Deferment of one account
27-Jul-23	Notation of one account Approval of eight accounts
14-Aug-23	Notation of three items Approval of two accounts Endorsement of three accounts and one item
22-Sep-23	Notation of three items Approval of two accounts Endorsement of nine accounts and two items
18-Oct-23	Notation of one item Approval of two accounts and one item Endorsement of four accounts
22-Nov-23	Notation of three items Approval of four accounts Endorsement of two accounts and two items Retainment of one item
14-Dec-23	Notation of three items Approval of two items Endorsement of three accounts

CORPORATE GOVERNANCE

AUDIT COMMITTEE

Composition

Chairperson:	Nanziancino M. Dilay
Members:	Virgilio M. Sangutan
	Alvin I. Kong
	Leticia V. Damasco*

**elected as AudCom member in October 2023*

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 exercises office functional supervision of the Internal Audit Office and Compliance Management and endorses to the Board the appointment or removal of the IAO and CMO Heads as well as appraise their performance.

Meetings and Attendance for the Year

The Committee had six (6) meetings in 2023. The Audit Committee members are all present in their scheduled meetings. The details of the attendance is also disclosed in the Corporate Governance Seal section of the LLFC website.

Certification of Adequacy of Internal Control

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 for the year 2023. This was presented and approved by the BOD on December 28, 2023.

CORPORATE GOVERNANCE

- **Accomplishment for the year 2023**

COMMITTEE/ DATE OF MEETING	ACTIONS TAKEN
Audit Committee	
January 12, 2023	1) Approval of Audit Committee minutes of meeting dated December 15, 2022. 2) Presentation of the Problematic and Past due Accounts 3) Additional staff to replace resigned Audit Analyst
March 22, 2023	1) Approval of the January 12, 2023, minutes of meeting 2) Matters arising related to work volume analysis to be prepared by HR Officer and written request to the Audit Committee whoever would like to secure copies of the report stating its purpose. 3) Presentation of LBP-CMG reports on compliance matters on the following: a. Regulatory issuances for the period October to December 2022 b. AML/CTFP reports for the 3rd quarter of 2022. 4) Presentation of Internal Audit Reports on the review of unit/processes stated below: a. Information Technology b. Administrative General Services c. Status/Update on the past due/problematic accounts
April 26, 2023	1) Approval of the March 22, 2023, minutes of meeting 2) Presentation of LBP-CMG on compliance matters related to AML/CTFP for the 1st quarter of 2023. 3) Internal Audit Report on Past Due and Problematic accounts on Total Power, Inc., Vibal Group Inc. and Mediarchives 4) AuditCom instructions to VP Riza Hernandez and Atty. Marla Barcenilla on RCJ Lines Inc. related to latest copy of the land title of the encumbered additional security and report on RCJ updated development on the actions taken on the collaterals, respectively.
May 31, 2023	1) Approval of the April 26, 2023, minutes of meeting 2) Continuation of discussion related to the open findings of the following accounts: Total Power, Inc., Vibal Group Inc., RCJ Bus Lines, Shogun Ships, Inc., McPhil Maru, DCD Construction Corp., Medical One Corp., and PhilCentennial Development Corp. 3) Presentation of the Internal Audit Manual, revised Internal Audit and Audit Committee Charters, Guide to Internal Audit Rating System, and revised internal audit forms and templates.

CORPORATE GOVERNANCE

- **Accomplishment for the year 2023**

COMMITTEE/ DATE OF MEETING	ACTIONS TAKEN
August 11, 2023	1) Approval of the May 31, 2023, minutes of meeting 2) Matters arising from previous meeting 3) Presentation of Compliance reports by LBP-CMG for notation related to: a. Regulatory Issuances for the 1st quarter 2023 & Results of Pre-Testing b. AML/CTPF Reports for the period April to June 2023 related to: o Freeze Order and Alerts System o CTR and STR o Trainings of LLFC Officers and employees 4) Presentation of the Final Report on Lease and Loan Operations Review for CY 2022 including results of the MLPP Internal Audit Program
August 17, 2023	1) Discussion on the Open Audit Findings for Lease and Loan Operations with instruction /recommendation as follows: a. All equipment/chattel finance under lease and loan shall be subjected to inspection/checking prior to payment of insurance. b. LLFC will not accept any loan/equipment to be installed in a building without the execution of Memorandum of Agreement or Understanding with the owner of the facility.
September 28, 2023	1) Approval of the August 11 and 17, 2023 minutes of meeting 2) Report of LBP-CMG on compliance related to the following: Regulatory Issuances and results of Pre-testing for the 2nd quarter of 2023 3) Presentation of the final audit report on the review of the Treasury Unit and its processes 4) Presentation of the 2024 Internal Audit and Risk Assessment Plan for the CY 2024 for approval
November 28, 2023	1) Approval of the November 28, 2023, minutes of meeting 2) Presentation of LBP-CMG reports on compliance matters on the following: a. Regulatory issuances and results of pre-testing for the 3rd quarter of 2023 b. Results of the periodic compliance testing for the 3rd quarter of 2023 c. AML/CTFP reports for the 3rd quarter of 2023. 3) Presentation of the final audit report on the review of the Management Services Unit 4) Request for a Board Resolution on the adequacy of the Internal Control, Risk assessment and governance systems 5) Presentation of the tentative schedule of Audit Committee meetings for CY 2024.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE COMMITTEE
(COMPENSATION/ REMUNERATION COMMITTEE)

Composition

Chairperson:	Roberto U. Teo
Members:	Edgar Crisanto R. Violan
	Leticia V. Damasco
	Conrado S. Miñano, Jr.*

**elected as CorpGov member in October 2023*

Committee Role

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

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

The Committee is responsible for the following:

- Oversee the nomination process for members of the board of directors and for positions appointed by the board of directors.
- Oversee the continuing education program for the board of directors.
- Oversee the performance evaluation process.
- Oversee the design and operation of the remuneration and other incentives policy.
- Developing recommendations to the GCG for updating the CPCS and ensuring the the same continues to be consistent with the GOCC's culture, strategy, control environment, as well as the pertinent laws, rules, and regulations.

Meetings and Attendance for the Year

The Committee had seven (7) meetings in 2023. The Corporate Governance Committee members are all present in their scheduled meetings. The details of the attendance is also disclosed in the Corporate Governance Seal section of the LLFC website.

CORPORATE GOVERNANCE

- **Accomplishment for the year 2023**

COMMITTEE/ DATE OF MEETING	ACTIONS TAKEN
Corporate Governance Committee	
16 January 2023	Confirmed the endorsement via referendum of the following: 1. Grant of Service Recognition Incentive for FY2022 Discussed and endorsed to the Board the following: 1. Enhanced Guidelines for Payment of Reimbursable Expenses of the Board of Directors Discussed and noted the following: 1. Authorization to Grant FY2020 Performance-Based Incentive to LLFC Entitled Board of Directors 2. Results of 2021 Corporate Governance Scorecard Validation 3. Performance Assessment for CY2022
17 February 2023	Discussed and approved the following: 1. Release of the Yr2020 Performance-Based Incentives to LLFC Entitled Board of Directors Discussed and endorsed to the Board the following: 1. Guidelines on the Grant of Parental Leaves for Solo Parents 2. Revised Table of Organization 3. Overall Results of the Yr2022 Board-Level Committee Assessment
12 May 2023	Discussed and endorsed to the Board the following: 1. Guidelines on Compensation for Overtime Work 2. Transfer of Employee Membership from SSS to GSIS 3. Promotion to Information Technology Unit Head (Assistant Manager 4. Promotion to Head-Credit Investigation and Appraisal Unit (Assistant Manager) 5. Promotion to Account Officer (Assistant Manager) 6. Promotion to Group Head-Account Management Group (Vice-President) 7. Yr2022 Board Self-Assessment
14 July 2023	Discussed and endorsed to the Board the following: 1. Proposed Hiring of the General Counsel 2. Proposed Revised Guidelines on Five-Day Mandatory/Forced Vacation Leave 3. Proposed Adjustments in Salary Scheme for Various Position Level under Job Grade 11 and 12
11 August 2023	Discussed and endorsed to the Board the following: 1. Proposed Guidelines on Availment of Rehabilitation Privilege 2. Proposed Revised Guidelines on Maternity Leave Benefits 3. Application for Yr2021 Performance-Based Bonus (PBB)
22 November 2023	Discussed and noted the following: 1. Accident Insurance for the Members of the Board Confirmed the endorsement via referendum of the following: 1. Yr2021 BPI Forms for Submission to GCG Discussed and endorsed to the Board the following: 1. Job Offer for ULFC Officers 2. Proposed Guidelines on the Establishment of Provident Fund 3. Proposed Guidelines on LLFC's Inception of Collective Negotiation Agreement (CNA) Incentive 4. Proposed Revised Whistleblowing Policy and Procedure 5. Proposed Revisions on the Manual on Corporate Governance
20 December 2023	Discussed and endorsed to the Board the following: 1. Proposed Revised Competency Framework and Job Profiles 2. Grant of One-Time Rice Assistance for FY2022 3. Grant of Service Recognition Incentive for FY2023

RISK MANAGEMENT COMMITTEE

Composition

Chairperson:	Virgilio M. Sangutan*
Members:	Leticia V. Damasco
	Alvin I. Kong
	Nanziancino M. Dilay**

**elected as Riskcom Chairperson in October 2023*
***replaced Dir. Violan in October 2023*

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.

The RiskCom is appointed by the BOD to advise the BOD on LLFC's overall current and future risk appetite, oversee Management's adherence to the risk appetite statement; and report on the state of LLFC's culture.

Meetings and Attendance for the Year

The Committee had seven (7) meetings in 2023. The Risk Management Committee members are all present in their scheduled meetings. The details of the attendance is also disclosed in the Corporate Governance Seal section of the LLFC website.

CORPORATE GOVERNANCE

Accomplishment for the year 2023

COMMITTEE/ DATE OF MEETING	ACTIONS TAKEN
Risk Management Committee	
19-Jan-23	Confirmed • Minutes of Meeting of Regular Risk Management Committee held on 18 November 2022 • Designation of the Head of Risk Management Office Endorsed to the Board • Revised Internal Credit Risk Rating System (ICRRS) Approved • 2022 Accomplishments of Risk Management Committee (Riskcom) and Risk Management (RM) Office • 2023 Plans and Program of Riskcom and RM Office • 2022 Office Performance Commitment Review (OPCR) of Risk Management Office and Individual Performance Commitment Review (IPCR) of RM Officer • 2023 Office Performance Commitment Review (OPCR) of Risk Management Office and Individual Performance Commitment Review (IPCR) of RM Officer Noted • Status of ERM Action Plans as of December 2022 • ERM Risk Assessment Criteria Matrix as of December 2022 • 4th Quarter 2022 Risk Event Monitoring (REM) Report • Review Riskcom Charter • Commendation of Mr. Don V. Sumadchat
17-Feb-23	Confirmed • Minutes of Meeting of Regular Risk Management Committee held on 19 January 2023 Confirmed/Endorsed to the Board • Confirmation of Loan Impairment Testing Sheet Noted • Report on Past Due Accounts as of December 2022 • Credit Concentration Risk Report • REM Report – Customer Complaint on Disposal of LLFC's Unserviceable Properties • Accounts Endorsed to RAMU
14-Mar-23	Confirmed • Minutes of meeting of Special Risk Management Committee held on 17 February 2023 Endorsed to the Board • Office Circular on the Use of Risk Management Tools • Revised Risk Management Manual version 2023 Noted • Review on the Conduct of regular Riskcom meeting • Status of Account Receivables of LANDBANK
20-Apr-23	Confirmed • Minutes of Meeting of Special Risk Management Committee held on 14 March 2023 Endorsed to the Board • Liquidity Gap Report • Repricing Gap Report • Results of Liquidity Stress Test Noted • Risk Event Monitoring Reports as of 1st Quarter 2023 • Status Update fao Shogun Ship Co., Inc.
16-Jun-23	Confirmed • Minutes of meeting of Special Risk Management Committee held on 20 April 2023 Noted • Matters Arising from the Previous Riskcom Meeting • Directors and Officers Liability Insurance • Chronological Timeline on Account Receivables of Landbank • Report on Common Clients of LBP and LLFC • Report on the Status of CARES Program as of April 2023 • Report on Past Due Accounts as of April 2023
17-Aug-23	Confirmed • Minutes of Meeting of Regular Risk Management Committee held on 16 June 2023 Confirmed/Endorsed to the Board • Confirmation of Loan Impairment Testing Sheet Noted • Matters Arising from the Previous Riskcom Meeting • Updates on Legal Risk Exposure • Sources and Uses of Funds • Report on Past Due Accounts as of June 2023 • 2023 Risk Control and Self-Assessment (RCSA) • Result of Call Tree due to earthquake on 15 June 2023

COMMITTEE/ DATE OF MEETING	ACTIONS TAKEN
	• Risk Event Monitoring Report as of 2nd Quarter 2023 • Results of Investigation on Risk Event • Review of the SLA with LBP-RMG
26-Oct-23	Confirmed • Minutes of Meeting of Regular Risk Management Committee held on 17 August 2023 Approved • Appointment of Director Virgilio M. Sangutan as Chairperson of Riskcom Endorsed to the Board • Revised IT Manual • Proposed Revision in the Treasury Manual Noted • Matters Arising from the Previous Riskcom Meeting • LBP Updates • ROPA as of September 2023 • Marine Vessels Mortgaged to LLFC • Report on Past Due Report as of September 2023 • Risk Event Monitoring (REM) Report as of 3rd Quarter 2023 • 2023 Business Continuity Risk Assessment (BCRA) • 2023 Business Impact Analysis (BIA) • Petition for Rehabilitation fao Shogun Shipping Lines/Loans, LBP Receivables, Creation of Collection Loans Unit & Assignment of Marketing Officer
14-Nov-23	Confirmed • Minutes of Meeting of Special Risk Management Committee held on 26 October 2023 Endorsed to the Board • Review of Business Continuity Framework and General Policy • Review of Business Continuity Plan Noted • Matters Arising from the Previous Riskcom Meeting • Results of Allowance for Credit Losses (ACL) Calculation • Report on Common Client of LBP and LLFC as of September 2023 • Semi-Annual Report on CARES Program as of September 2023 • Report on Large Exposure as of September 2023 • Results of Annual Call Tree Test
19-Dec-23	Confirmed • Minutes of meeting of Regular Risk Management Committee held on 14 November 2023 Noted • Matters Arising from the Previous Riskcom Meeting • Functions of Riskcom and RM Office • Report on Risk Strategies for CY 2023

CORPORATE GOVERNANCE

RELATED-PARTY TRANSACTIONS COMMITTEE

Composition

Chairperson:	Alvin I. Kong*
Members:	Frtiz M. Salazar
	Virgilio M. Sangutan
	Nanziancino M. Dilay**

**elected as RPTCom Chairperson in October 2023*
***elected as RPTCom member in October 2023*

Committee Role

The Related Party Transaction Committee shall evaluate related party transactions to ensure that the transactions are at arm's length basis.

The Related Party Transaction Committee shall be primarily responsible for the evaluation and monitoring of transactions or dealings with related parties of LLFC, regardless of whether or not a price is charged. It shall include not only transactions that are entered into with related parties but also the outstanding transactions that were entered into with an unrelated party that subsequently becomes a related party.

Meetings and Attendance for the Year

The Committee had seven (7) meetings in 2023. The RPT members are all present in their scheduled meetings. The details of the attendance is also disclosed in the Corporate Governance Seal section of the LLFC website.

Accomplishment for the year 2023

COMMITTEE/ DATE OF MEETING	ACTIONS TAKEN
Related Party Transactions (RPT) Committee	
18 January 2023	Discussed and endorsed to the Board the following: 1. Receivables from Land Bank of the Philippines as of November 30, 2022 Discussed and noted the following: 1. Status of Service Vehicles Deployed to Landbank 2. Performance Assessment for CY2022
18 April 2023	Discussed and endorsed to the Board the following: 1. Receivables from Landbank as of February 28, 2023 with approval to report the March 31, 2023 balances Discussed and noted the following: 1. Updates on the Meeting with LBP Facilities Management Department 2. Extension of the Availability Period of the Credit Facilities granted by Landbank
18 July 2023	Discussed and noted the following: 1. LBP Updates - Updates on the Meeting with LBP Facilities Management Department Discussed and endorsed to the Board the following: 1. Receivables from Landbank as of June 30, 2023
08 September 2023	Discussed and noted the following: 1. Receivables from Landbank as of July 31, 2023 2. LBP Updates - Updates on the Meeting with LBP Facilities Management Department
17 October 2023	Discussed and confirmed the following: 1. Extension of the Availability End Date of the Credit Facilities granted by Land Bank of the Philippines Discussed and noted the following: 1. Receivables and Collections from Landbank as of September 30, 2023 2. LBP Updates - Updates on the Meeting with LBP Facilities Management Department
29 November 2023	Discussed and noted the following: 1. RPT Committee Charter 2. LBP Updates - Updates on the Meeting with LBP Facilities Management Department 3. Existing LLFC Contracts with Landbank 4. LLFC Articles of Incorporation and By-Laws
19 December 2023	Discussed and noted the following: 1. Receivables and Collections from Landbank as of November 30, 2023 2. LBP Updates

INTERNAL AUDIT

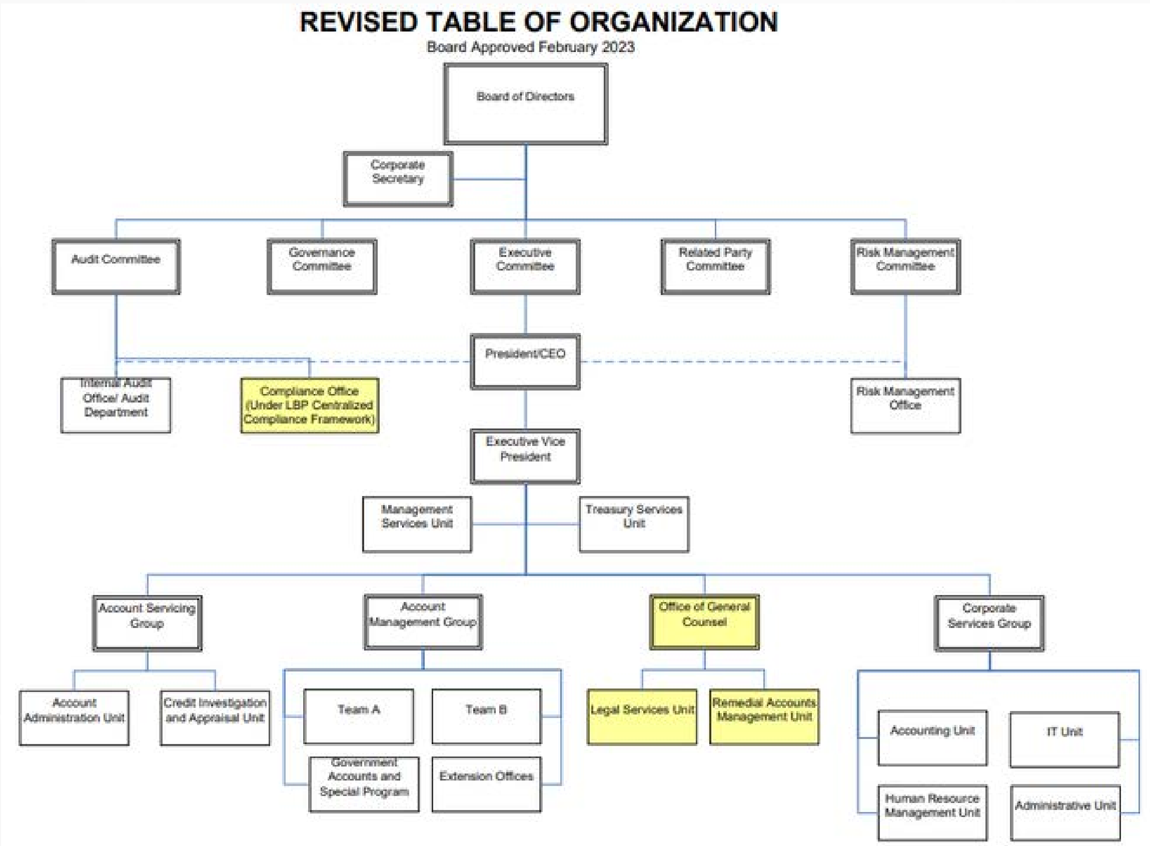
The Internal Audit Office under the direct supervision of the Audit Committee is tasked to provide independent assessment and reasonable assurance of the adequacy and effectiveness of the Corporation's system of internal controls, risk management and governance processes. It has implemented a risk-based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

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

EXTERNAL AUDIT

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

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



RISK MANAGEMENT

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

The Corporation implements Enterprise Risk Management System (ERM). The adoption of ERM approach in risk management aims to:

- Improved business process;
- Enhanced operational efficiency;
- Improved replayment rate;
- Optimized earning potential; and
- Embedded risk management culture.

ERM is a process effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity and manage risk to be within its risk appetite.It provides reasonable assurance regarding achievement of the entity's objectives.

The Corporation maintains a risk register that identifies the material risks and the internal controls in place to manage and mitigate the risks. The risk register is reviewed annually by the Risk Management Committee.

The Risk Officer reports directly to the Risk Management Committee. The scope of authority and responsibility of the Risk Management Office enumerated in their approved Risk Committee Charter.

COMPLIANCE AND ANTI-MONEY LAUNDERING

Beginning March 2021, LANDBANK implemented LBP Group Centralized Compliance Management (CCM) Framework. With this, the LANDBANK Compliance Officer was designated as LBP Group CCO. The Corporation for its part designated a Compliance Coordinator. Under the CCM Framework the LBP-CMO shall be responsible for the following:

- visit the websites of various regulatory/ government agencies for new regulatory issuances and download the laws, rules and regulations applicable to the activities of the LBP Group,
- Identify the requirements and assess the compliance risk,
- Issues Compliance Bulletin and/or Business Unit Compliance Action Plan for appropriate action, information or reference
- Act as regulatory contact unit/liaison among LBP units, Subsidiaries, BSP, AMLC, COA and other regulatory agencies
- Manage/coordinate BSP examination, COA audit and AMLC inquiry
- Handle/coordinate submission of various adhoc regulatory requirements
- Handle clarification of pertinent provisions of laws, rules and regulations with the regulatory issuances
- Dissemination of new laws, rules & regulations and regulatory requirements to the LBP Units and Subsidiaries
- Clarification/interpretation of relevant laws, rules and regulations and guidance on implementation
- Research on regulations and compliance matters
- Compliance awareness training
- Review and update Compliance and MTTP Manual
- Conduct compliance monitoring and testing
- Report to Senior Management, various Committees and Board of Directors

The LBP Group CCO reports directly to the LLFC Audit Committee. LLFC regularly submit AMLA required reports to LBP-AMLA DES with the guidelines issued by Anti-Money Laundering Council (AMLC)

COMPLIANCE TO GOOD GOVERNANCE CONDITIONS

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

Whistleblowing Policy

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

Code of Ethics and Conduct

The Corporation institutionalizes the highest ethical standards through the strict implementation of the provisions of RS 6713, An Act Establishing a Code of Conduct and Ethical Standards for Public Officials and Employees. Board and Officers of LBP Leasing and Finance Corporation are among the Public Officials defined in the aforementioned law.

In addition, the Corporation also adopts a Code of Conduct and Employees Discipline to ensure the maintenance of administrative discipline among its officers and employees based on the principle that discipline is fundamental to its success as an organization and as a business concern. As such everyone is required to fully comply with the Code of Conduct and Employees Discipline. The Human Resource Unit under Corporate Services Group monitors compliance in the Code of Conduct by preparing regular reports (i.e. tardiness, among others) and ensuring that offenses are properly sanctioned on a timely basis. The code including other related policies such as No Gift Policy and Anti-Sexual Harassment are disclosed, uploaded and available in the corporate website. Annually, employees and directors are asked to sign the Certificate of Compliance and Recommitment on the Code of Ethics.

Stakeholders' Interest

LBP Leasing and Finance Corporation had put in place various practices for the protection, fair treatment and dealings with all stakeholders. The needs and expectation of Relevant Interested Parties (RIPs) are documented and monitored.

Customers

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

Directors/Officers and Employees

LLFC continues to promote betterment of it its officers and employees by sending them to various training and development programs during the year. All employees as well as directors attended training for the year 2023. The trainings attended by employees and directors are disclosed in the Corporate Governance seal of the LLFC website.

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

2023 EMPLOYEE TRAINING AND DEVELOPMENT

Schedule of Employee Training for the year 2023

TRAINING	NO. OF EMPLOYEES ATTENDED	DATE	LOCATION	CONDUCTED BY	PURPOSE
18-DAY VAWC SEMINAR	63	11/28/2023	LLFC Office	Dulce G. Manansala, RSW	Training
ANTI-MONEY LAUNDERING (AML) AND COUNTER- TERRORIST FINANCING PROGRAM (CTPF) TRAINING REFRESHER	51	12/21/2023	CISCO WebEx	Khristine Alvarez	Training
ANTI-MONEY LAUNDERING/COUNTER TERRORISM FINANCING WEBINAR	10	6/27/2023	Virtual Training	Anti-Money Laundering Council	Training
BSP GUIDELINES ON THE IMPLEMENTATION OF THE ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT (ESRM) SYSTEM WEBINAR	1	8/23/2023	Zoom Meeting	Bankers Institute of the Philippines, Inc.	Training
BUSINESS CONTINUITY - PATH TO RESILIENCY WEBINAR	1	11/7/2023	Zoom Meeting	Bankers Institute of the Philippines, Inc.	Training
CLOUD SECURITY	2	10/27/2023	Zoom Meeting	Bankers Institute of the Philippines, Inc.	Training
CYBERSECURITY GOVERNANCE, RISK, AND COMPLIANCE WEBINAR	1	10/12/2023	Zoom Meeting	Bankers Institute of the Philippines, Inc.	Training
CYBERSECURITY THREAT LANDSCAPE, AWARENESS, AND POLICIES	66	12/15/2023	MS Teams	DICT Cybersecurity Bureau	Training
DATA PRIVACY ACT: HOW TO COMPLY	2	12/15/2023	Zoom Meeting	Credit Management Association of the Philippines, Inc.	Training
DIRECTOR PERFORMANCE REVIEW SYSTEM (DPRS) ORIENTATION	2	9/5/2023	GCG Training Room, 3F BDO Towers Paseo, 8741 Paseo De Roxas, Makati City	GCG	Training
ENADOC TRAINING	29	8/29/2023	LLFC Boardroom	Melody Carmela C. Mercado	Training
ENTERPRISE RISK MANAGEMENT TRAINING	2	6/15/2023	Zoom Meeting	Bankers Institute of the Philippines, Inc.	Training
GSIS ORIENTATION	51	8/8/2023	MS Teams	HR Unit	Training
GUIDE TO SSS VOLUNTARY REMITTANCE OF CONTRIBUTIONS AND LOANS	63	8/14/2023	MS Teams	HR Unit	Training
INFORMATION SECURITY RISK ASSESSMENT WALKTHROUGH	15	9/14/2023	MS Teams	LBP - Risk Management Group	Training
INTERIM WORK-FROM-HOME ARRANGEMENT ORIENTATION2	51	7/7/2023	MS Teams	HR Unit	Training
ISO 9001:2015 QMS AWARENESS TRAINING	132	9/15/2023	LLFC Boardroom	Ana Marisse C. Dalawis	Training
LLFC 2024 OPERATIONAL PLANNING	56	6/2/2023	Holiday Inn, Makati City	HR Unit	Training
LLFC'S 40TH ANNIVERSARY CELEBRATION	63	7/21/2023	LLFC Office	HR Unit GAD Committee	Training
MICROSOFT 365 TRAINING (REFRESHER)	48	10/13/2023	LLFC Boardroom	Tech One Global	Training
ORGANIZATIONAL GENDER AUDIT	12	12/7/2023	LLFC Boardroom	Jemelle Z. Milanes	Training
ORIENTATION AND RE-TRAINING OF ELECTRONIC REMITTANCE FILE (ERF) HANDLERS	1	3/17/2023	GSIS Central Office, Pasay City	GSIS	Training
ORIENTATION ON CODE OF CONDUCT, ACCEPTABLE USE POLICY FOR IT SYSTEMS, ANTI-SEXUAL HARASSMENT AND ESTABLISHMENT OF CODI FOR SEXUAL	55	5/2/2023	MS Teams	HR Unit	Training
ORIENTATION ON GSIS MULTI-PURPOSE LOAN (MPL) FLEX PROGRAM	69	12/11/2023	MS Teams	Byron Agbayani	Training
ORIENTATION ON MANDATORY LEAVE, MATERNITY LEAVE, AND HMO	46	10/9/2023	MS Teams	HR Unit	Training
ORIENTATION ON THE GUIDELINES IN THE MAINSTREAMING AND INSTITUTIONALIZATION OF GAD, GRANT OF PARENTAL LEAVES FOR SOLO PARENT, GUIDELINES ON THE IMPLEMENTATION OF THE LLFC RECORDS, EMPLOYEE HANDBOOK, AND GUIDELINES	46	1/13/2023	MS Teams	HR Unit	Training
ORIENTATION ON THE GUIDELINES ON THE GRANT OF UNIFORM CLOTHING ALLOWANCE, ROLL OVER, GUIDELINES ON THE CUSTOMER COMPLAINTS MANAGEMENT, GUIDELINES ON THE USE OF CCTV SYSTEM AND BACK-UP POLICY	48	10/25/2023	MS Teams	Clariza G. Gonzales Peter Paul I. Rigor Riza M. Hernandez Melody Carmela C. Mercado	Training
PHILIPPINE FINANCE ASSOCIATION NATIONAL CONVENTION 2023	5	9/15/2023	Crown Plaza Hotel, Ortigas Center, Pasig City	Philippine Finance Association	Training
POSITIVELY YOU: WORKPLACE WELLNESS WEBINAR	65	4/24/2023	MS Teams	Bofill Psychological Services, Inc.	Training
PROPERTY APPRAISAL (WITH CPD CREDIT UNITS) TRAINING	4	3/1/2023	City Garden Hotel, Makati City	(blank)	Training
RCSA WALKTHROUGH	57	7/7/2023	MS Teams	LBP - Operational Risk Management Department	Training
SEMINAR ON GENDER MAINSTREAMING IN ORGANIZATIONS	43	11/10/2023	MS Teams	Jemelle Z. Milanes	Training
SEMINAR ON STOCK WITHDRAWAL APP, OPERATIONAL RISK MANAGEMENT, AND DOCUMENTS CONTROL	60	10/19/2023	MS Teams	Virgilio S. Angeles Jr. Angelique D. Javier Narmylin A. Ordonez	Training
SEMINAR WORKSHOP ON STRENGTHENING GENDER ADVOCACY	26	10/20/2023	LLFC Boardroom	Jemelle Z. Milanes	Training
TRAINING WORKSHOP ON MAINSTREAMING GENDER IN LLFC PROGRAMS	35	9/22/2023	LLFC Boardroom	Jemelle Z. Milanes	Training
UPDATES ON ANTI-MONEY LAUNDERING (AMLA) WEBINAR	5	9/19/2023	Zoom Meeting	Atty. Matthew M. David	Training
WEBINAR ON ONLINE REGISTRATION AND UPDATE SYSTEM	2	7/21/2023	Zoom Meeting	BIR	Training
WOMEN'S MONTH CELEBRATION	67	9/25/2023	LLFC Office	HR Unit GAD Committee	Training
WORKSHOP ON MOVABLE ASSET FINANCE	6	7/4/2023	One Shangri-La Place, Ortigas Center, Mandaluyong City	Philippine Finance Association	Training

CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility (CSR) is a significant aspect of modern business, and many companies, including LBP Leasing and Finance Corporation (LLFC), strive to make a positive impact through various initiatives. LLFC supports CSR activities that includes promoting environmental sustainability, community engagement, ensuring ethical business practices, promotion of gender equality and investing in employee well-being - all creating more opportunities for LLFC to give back to the society.

ENVIRONMENT

In compliance with Government Energy Management Program (GEMP) under IAEECC Resolution No. 1, s. 2020, and IAEECC Advisory No. 2 re: Mandatory Implementation of Energy Efficiency and Conservation Programs & the Strict Observance of the GEMP Guidelines, LBP Leasing and Finance Corporation continuously adopts its energy conservation program and the efficient use of energy throughout the organization.

COMMUNITY

LLFC conducted a community service program in collaboration with the Makati Social Welfare Department last November 29, 2023, at Makati Poblacion Multi-Purpose Hall. This was part of the activities in promoting advocacy on Violence Against Women of the Philippine Commission on Women.

CORPORATE SOCIAL RESPONSIBILITY

CUSTOMER AND EMPLOYEE SAFETY, HEALTH AND WELLNESS

LBP Leasing and Finance Corporation implemented Guidelines on the Availment of Rehabilitation Privilege for all employees with an aim to ensure fair and consistent treatment of employees who sustain injuries or illnesses while in the performance of their duties.

Throughout the year 2023, LLFC conducted several activities related to employee and workplace wellness that help support positive employee health and behavior.

In addition, LLFC employees were subjected to drug test pursuant to Drug-Free Workplace Program and an X-ray chest examination which is a requirement in securing issuance of Sanitary Permit. Monthly Pest Control and Office Disinfection were also conducted regularly to minimize the spread of disease and maintain cleanliness in the office premises.

CLIENT SATISFACTION SURVEY

LLFC adopted the ARTA issued Client Satisfaction Measure for the year 2023 which resulted in an overall rating of 99.43% facilitated by a third-party service provider. LLFC has consistently been receiving good feedback from its customers despite the change in methodology which proves that LLFC's commitment to provide quality service for its customers as well as stakeholders.

GENDER AND DEVELOPMENT (GAD)

Pursuant to Republic Act 9710 or the Magna Carta of Women mandates all government agencies, offices, bureaus, instrumentalities, State Universities and Colleges, Government Owned and Controlled Corporations and LGUs to adopt gender mainstreaming strategy to promote and fulfill women's human right and eliminate gender discrimination in their systems, structures, policies, programs, processes and procedures.

In 2023, LBP Leasing and Finance Corporation conducted various set of GAD Programs, Activities, and Projects (PAPs) based on its Plans and Budget for CY 2023 such as the conduct of various seminars on Gender Mainstreaming, Organizational Audit using GMEF, Reconfiguration of the breastfeeding area, among others. Detailed GAD Plans and Programs CY 2023 may be accessed in the GAD Corner of LLFC website.

Further, LLFC conducted various advocacy activities for the Annual Celebration of the National Women's Month with the theme "WE Make CHANGE Work for Women" and the observance of the "18-Day Campaign to End Violence Against Women" with the theme : "UNiTEd for a VAW-free Philippines" The highlights of the GAD Activities are shown in the GAD Corner of LLFC's website.

LBP LEASING AND FINANCE CORPORATION

(A LANDBANK SUBSIDIARY)

UNAUDITED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2023

LBP LEASING AND FINANCE CORPORATION
(Formerly LBP Leasing Corporation)
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF FINANCIAL POSITION
December 31, 2023 and 2022
(In Philippine Peso)

	Notes	2023	2022 (as reclassified)
ASSETS			
Current assets			
Cash and cash equivalents	7	36,466,014	49,424,156
Financial Assets at Amortised Cost	8, 13	1,603,295,308	1,110,409,542
Other current assets	12	56,191,603	64,937,964
Total current assets		1,695,952,925	1,224,771,662
Non-current assets			
Financial Assets at Amortised Cost	8, 13	3,707,288,598	3,811,828,022
Investment properties, net	9, 13	30,613,800	3,730,500
Equipment and other property for lease, net	10	525,158,271	232,022,273
Property and equipment, net	11, 13	29,461,837	34,032,315
Deferred tax asset	23	173,486,242	165,672,063
Other non-current assets	12	2,108,587	520,583
Total non-current assets		4,468,117,335	4,247,805,756
TOTAL ASSETS		6,164,070,260	5,472,577,418
LIABILITIES AND EQUITY			
LIABILITIES			
Current liabilities			
Financial Liabilities, current portion	14	2,414,103,213	2,254,237,459
Current portion of deposit on lease contracts	20	271,957,636	214,843,625
Inter-Agency Payables	15	15,935,801	13,456,460
Other payables	16	105,734,655	207,309,837
Total current liabilities		2,807,731,305	2,689,847,381
Non-current liabilities			
Financial Liabilities, net of current portion	14	1,080,666,667	710,000,000
Deposit on lease contracts, net of current portion	20	640,665,051	457,884,678
Retirement liability	21(b)	16,746,527	15,556,402
Total non-current liabilities		1,738,078,245	1,183,441,080
Total liabilities		4,545,809,550	3,873,288,461
Equity			
Capital stock	17(a)		
Issued capital		485,552,550	485,552,550
Additonal paid-in capital		113,970,900	113,970,900
Treasury stock		(20)	(10)
		599,523,430	599,523,440
Retained earnings	17(b)		
Appropriated		600,000,000	600,000,000
Unappropriated		428,440,169	409,468,406
		1,028,440,169	1,009,468,406
Accumulated other comprehensive income (loss)			
Remeasurement of retirement benefit obligation	21(b)	(9,702,889)	(9,702,889)
		(9,702,889)	(9,702,889)
Total equity		1,618,260,710	1,599,288,957
TOTAL LIABILITIES AND EQUITY		6,164,070,260	5,472,577,418

The Notes on pages 9 to 80 form part of these financial statements.

LBP LEASING AND FINANCE CORPORATION
(Formerly LBP Leasing Corporation)
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2023 and 2022
(In Philippine Peso)

	Notes	2023	2022
INTEREST INCOME			
Leases	8, 20	**421,146,969**	286,221,407
Loans	8	**176,022,083**	169,332,595
Deposits in banks	7	**16,512**	44,291
Others	7	**-**	-
		597,185,564	455,598,293
INTEREST EXPENSE			
Borrowed funds	14	**187,855,740**	103,448,790
NET INTEREST INCOME		409,329,824	352,149,503
OTHER INCOME			
Operating leases	8, 20	**-**	44,509,816
Other income	18	**81,399,062**	148,397,967
		81,399,062	192,907,783
DIRECT EXPENSES			
Security, messengerial, janitorial and contractual services	20	**155,480,453**	196,263,519
Provision for credit and impairment losses	13	**48,362,178**	94,512,363
Compensation and fringe benefits - Marketing operations	21(a)	**26,110,411**	21,162,146
Documentary stamp used	14	**20,806,608**	16,202,204
Depreciation-equipment and other property for lease	10	**626,786**	752,143
Insurance		**8,273,820**	8,829,537
Repairs and maintenance		**1,424,865**	8,589,281
Transfer mortgage and registration fees		**1,535,839**	15,041,159
		262,620,960	361,352,352
GROSS INCOME		**228,107,926**	183,704,934
GENERAL AND ADMINISTRATIVE EXPENSES			
Taxes, Insurance Premiums and Other Fees		**36,154,811**	33,591,822
Compensation and fringe benefits	21(a)	**39,205,347**	49,480,023
Depreciation/amortization	11	**6,537,058**	5,786,392
Other Maintenance and Operating Expenses	19	**41,676,145**	31,987,559
		123,573,361	120,845,796
NET INCOME BEFORE INCOME TAX		**104,534,565**	62,859,138
Income tax expense	23	**31,088,661**	21,791,277
NET INCOME AFTER TAX		**73,445,904**	41,067,861
OTHER COMPREHENSIVE INCOME/(LOSS)			
Item that will not be reclassified to profit and loss			
Remeasurement gain/(loss) on retirement benefit obligation	21(b)	**-**	(145,135)
TOTAL COMPREHENSIVE INCOME		**73,445,904**	40,922,726
EARNINGS PER SHARE	26	**1.51**	0.85

The Notes on pages 9 to 80 form part of these financial statements.

LBP LEASING AND FINANCE CORPORATION
(Formerly LBP Leasing Corporation)
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2023 and 2022
(In Philippine Peso)

	Issued Capital	Additional Paid-in Capital	Treasury Stock	Retained Earnings		Accumulated Other Comprehensive Gains/(Losses)	Total
				Unappropriated	Appropriated		
		Note 17(a)		Note 17(b)		Note 18(c)	
Balance, 1 January 2022	**485,552,550**	**113,970,900**	**(10)**	**427,867,179**	**600,000,000**	**(9,557,754)**	**1,617,832,865**
Cash dividend to National Government				(58,134,200)			(58,134,200)
BIR Audit Tax Deficiency				(1,332,434)			(1,332,434)
Net income for the year				41,067,861			41,067,861
Remeasurement gain on retirement benefit obligation						(145,135)	(145,135)
Balance, 31 December 2022	**485,552,550**	**113,970,900**	**(10)**	**409,468,406**	**600,000,000**	**(9,702,889)**	**1,599,288,957**
Cash dividend to National Government				(54,474,141)			(54,474,141)
BIR Audit Tax Deficiency							-
Reacquisition of common stock			(10)				(10)
Reaissuance of common stock							-
Net income for the year				73,445,904			73,445,904

Unrealized loss on Available for Sale Securities							-
Unrealized gain on exchange/foreclosure							-
Remeasurement gain on retirement benefit obligation						-	-
Balance, 31 December 2023	**485,552,550**	**113,970,900**	**(20)**	**428,440,169**	**600,000,000**	**(9,702,889)**	**1,618,260,710**

The Notes on pages 9 to 80 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, 2023 and 2022
(In Philippine Peso)

	Note	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Inflow			
Interest received		**593,618,860**	466,506,710
Other income received		21,117,769	57,829,242
Cash received from clients		**1,713,888,779**	1,363,475,603
Total Cash Inflow		**2,328,625,408**	1,887,811,555
Cash Outflow			
Cash paid to clients		**(1,995,153,942)**	(1,543,086,525)
Cash paid to settle expenses		**(266,997,614)**	(383,282,363)
Interest paid		**(198,481,891)**	(105,671,285)
Income taxes paid		**-**	-
Total Cash Outflow		**(2,460,633,447)**	(2,032,040,173)
Net cash generated from/(used in) operating activities		**(132,008,039)**	(144,228,618)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Inflow			
Disposal of property and equipment		**18,402,414**	26,459,084
Cash Outflow			
Acquisitions of property and equipment		**(280,161,968)**	(91,441,229)
Net cash provided by investing activities		**(261,759,554)**	(64,982,145)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Inflow			
Proceeds from borrowings under line of credit agreement		**2,874,000,000**	2,287,177,437
Reissuance of shares	17a	**0**	0
Total Cash Inflow		**2,874,000,000**	2,287,177,437
Cash Outflow			
Payment of long term debt		**(2,438,716,398)**	(2,031,622,999)
Reacquisition of shares	17a	**(10)**	0
Cash dividends paid	17b	**(54,474,141)**	(58,134,200)
BIR Audit Tax Deficiency		**-**	(1,332,434)
Total Cash Outflow		**(2,493,190,549)**	(2,091,089,633)
Net cash provided by/(used in) financing activities		**380,809,451**	196,087,804
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(12,958,142)**	(13,122,959)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**49,424,156**	62,547,115
CASH AND CASH EQUIVALENTS AT END OF YEAR		**36,466,014**	49,424,156

The Notes on pages 9 to 80 form part of these financial statements.

LBP LEASING AND FINANCE CORPORATION
(A wholly-owned subsidiary of Land Bank of the Philippines)
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022
(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. ________, approved and authorized for issuance the Corporation's financial statements as of and for the years ended December 31, 2023 and 2022 on ______________.

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

2.1 Statement of Compliance

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

2.2 Basis of Preparation

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

The accompanying financial statements have been prepared in accordance with PFRSs, as modified by the application of the following financial reporting reliefs issued by the Bangko Sentral ng Pilipinas and approved by the Securities and Exchange Commission in response to the COVID-19 pandemic:

- Staggered booking of allowance for credit losses over a maximum period of five years

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 24 to the financial statements.

Current versus Noncurrent Classification

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

[redacted]

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

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

Functional and Presentation Currency

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

Use of judgments and estimates

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

Changes in accounting policies and disclosures

a. New standards and amendments issued and effective from January 1, 2023.

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, 2023.

a) New standards, interpretations and amendments adopted from January 1, 2023:

- PAS 1 Presentation of Financial Statements - Classification of Liabilities as Current or Non-Current - The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

- Disclosure of Accounting Policies - Amendments to PAS 1 and PFRS Practice Statement 2, Disclosure and Initiative – Accounting Policies - The amendments to PAS 1 require entities to disclose their material accounting policies information rather than their significant accounting policies. The amendments to PFRS Practice Statement 2 provide guidance on how an entity can identify a material accounting policy.

- Definition of Accounting Estimates (Amendments to PAS 8 - The amendments replace the definition of a change in accounting estimates

[redacted]

with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty."

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to PAS 12 – the amendments that clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations.

- Annual Improvements to PFRS Standards 2018-2020

  o PFRS 1, First-time Adoption of Philippine Financial Reporting Standards

  The amendment permits a subsidiary that applies paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to PFRSs.

  o PFRS 9, Financial Instruments

  The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of PFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

  o PFRS 16, Leases

  The amendment to Illustrative Example 13 accompanying PFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

  o PAS 41, Agriculture

  The amendment removes the requirement in paragraph 22 of PAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

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, 2023 and have not been applied in preparing the financial statements are summarized below.

The following amendments are effective for the period beginning 1 January 2024:

[redacted]

- Amendments to PAS 1, Presentation of Financial Statements, Non-Current Liabilities with Covenants – To clarify how conditions with which entity must comply within the twelve months after the reporting period affect the classification of a liability.

- Amendments to PFRS 16 Leases, Lease Liability in a Sale and Leaseback - The amendment requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognize any amount of the gain or loss that relates to the right of use it retains. The new requirements do not prevent a seller-lessee from recognizing in profit or loss any gain or loss relating to the partial or full termination of a lease.

The Corporation does not expect any other standards issued by the International Accounting Standards Board, but not yet effective, to have a material impact on the financial statements.

The following is a list of other new and amended standards which are effective in future periods. The amount of quantitative and qualitative detail to be given about each of the standards will depend on each entity's own circumstances.

- Initial Application of PFRS 17 and PFRS 9 — Comparative Information - Amendment to PFRS 17 (Effective January 1, 2025) - The amendment is a transition option relating to comparative information about financial assets presented on initial application of PFRS 17. The amendment is aimed at helping entities to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and therefore improve the usefulness of comparative information for users of financial statements.

- PFRS 17 Insurance Contracts (Effective January 1, 2025) - The amendments address concerns and implementation challenges that were identified after PFRS 17 was published in 2017, including deferral of its date of initial application by two years to annual periods beginning on or after January 1, 2025.

The Corporation is currently assessing the impact of these new accounting standards and amendments.

3.1 Financial instruments

Initial recognition

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

Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The 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.

[redacted]

The Corporation's cash and cash equivalents and financial assets at amortised cost, as disclosed in Notes 7 and 8, 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

[redacted]

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 14 and 20, 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.

[redacted]

Derecognition of financial assets and liabilities

Financial assets

A financial asset or, where applicable, a part of a financial asset or part of a group of similar financial assets, is derecognized when (1) the rights to receive cash flows from the asset have expired; (2) the Corporation retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; (3) the Corporation has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of ownership of the asset, or (4) has neither transferred nor retained substantially all the risks and rewards of ownership of the asset, but has transferred control of the asset.

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

Financial liabilities

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

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

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

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

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

Offsetting of financial assets and financial liabilities

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 Financial Liability and Equity Instrument

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

- Deliver cash or another financial asset to another entity;

- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Corporation; or

- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

A financial instrument is an equity instrument only if:

- the instrument includes no contractual obligation to deliver cash or another financial asset to another entity; and

- if the instrument will or may be settled in the issuer's own equity instruments, it is either (a) a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or (b) a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

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	12 - month ECL

[redacted]

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

12 Month - 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 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 12 - month ECL

[redacted]

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 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

[redacted]

which costs are incurred. Depreciation is calculated on a straight-line basis using the useful life from the time of acquisition of investment properties ranging from five to ten years.

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

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

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

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

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

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

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

Depreciation is computed using the straight-line method over the estimated useful life of the depreciable assets. Government agencies are guided by the revised estimated useful life of property and equipment prescribed under Government agencies are guided by the revised estimated useful life of property and equipment prescribed under Commission on Audit Circular No. 2017-004 dated December 13, 2017, with selected property and equipment applicable to the Corporation as follows:

[redacted]

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

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

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

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

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

[redacted]

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

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

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

3.8 Inter-agency and other payables

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

3.9 Provisions and contingencies

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

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

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

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

3.10 Dividends

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

3.11 Equity

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

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

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

The Corporation's retained earnings account is composed of:

<u>Appropriated retained earnings</u>

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.

<u>Unappropriated retained earnings</u>

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.

<u>Treasury Shares</u>

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

[redacted]

Other Comprehensive Income (Loss)

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

3.12 Revenue recognition

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

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

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

(a) Interest Income

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

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

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

(b) Income from operating leases

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

(c) Penalties and service fees

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

(d) Gain (Loss) on foreclosures

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

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

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

(f) Other income

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

3.13 Costs and expenses recognition

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

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

Borrowing costs

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

3.14 Employee benefits

(a) Retirement benefit obligations

The Corporation has a funded non-contributory defined benefit retirement plan (the Plan) covering substantially all of its officers and regular employees. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Defined benefit costs comprise the following:

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

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

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

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

[redacted]

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

(b) Compensated absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of each reporting period. These are included in "Accrued Other Expenses Payable" account at the undiscounted amount that the Corporation expects to pay as a result of the unused entitlement.

3.15 Leases

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

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

Finance Lease

Corporation as Lessor.

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

Operating Lease

Corporation as Lessee.

[redacted]

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

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

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

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

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

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

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

Short-term leases and leases of low-value assets - The Corporation applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e.,

[redacted]

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

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

Corporation as Lessor.

Leases where the Corporation does not transfer substantially all the risks and rewards of ownership of the assets are classified as operating leases. Rent income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as rent income. Contingent rents are recognized as income in the period in which they are earned.

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

3.16 Residual value of leased assets and deposits on lease contracts

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

3.17 Related parties

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

3.18 Income tax

Current income tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Taxable income differs from net income as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

[redacted]

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

Deferred tax

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

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

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

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each financial reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

[redacted]

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

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

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

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

3.19 Earnings per share

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

3.20 Events after the financial reporting date

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

3.21 Contingencies

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the financial statements in accordance with PFRSs 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

[redacted]

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 2023 and 2022, Management has assessed an amount of P692,844,968 and P661,466,341 as doubtful of collection (Note 13). Accordingly, a provision for impairment was recognized in the statements of comprehensive income.

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

The Corporation estimates the useful lives of property and equipment, EOPL and investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment, EOPL 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 property and equipment, EOPL 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 property and equipment, EOPL and investment properties would increase recorded operating expenses and decrease non-current assets.

[redacted]

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

Estimation of impairment of Investment properties, property and equipment, EOPL 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 P1,100,000 as of December 31, 2023 and 2022 (Note 9) while allowance for impairment losses on Property and Equipment amounted to nil and P121,910 in 2023 and 2022 (Note 11). There are no impairment losses on EOPL for the years 2023 and 2022.

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

	2023	2022
Investment Properties (Note 9)	**30,613,800**	3,730,500
EOPL (Note 10)	**525,158,271**	232,022,273
Property and Equipment (Note 11)	**29,461,837**	34,032,315

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 PAS 19R, 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 P1,190,124 and P3,657,262 as at December 31, 2023 and 2022, respectively, as disclosed in Note 21(a).

[redacted]

The related liability stands at P16,746,526 and P15,556,402 as at December 31, 2023 and 2022, respectively, as disclosed in Note 21(b).

Realizability of deferred tax assets

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

4.2 Judgments

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

Determination of functional currency

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

Classification of financial instruments

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

The Corporation's financial assets and liabilities are presented in Notes 7, 8 and 14.

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.

The fair value of the Corporation's financial assets is presented in Note 6.

Determination Whether an Arrangement Contains a Lease.

The Corporation assesses whether an arrangement contains a lease based on PFRS 16, as disclosed in Note 3.15. On adoption of PFRS 16, the Corporation elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied PFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under PAS 17 and IFRC 4 were not reassessed for whether there is a lease. Therefore, the definition of lease under PFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

Classification of leases

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

Corporation as Lessor.

As a lessor, total rental earned from operating leases amounted to Nil in 2023 and P44,509,816 in 2022, as disclosed in Note 20.

Interest earned on finance lease arrangements amounted to P421,146,969 and P286,221,407 in 2023 and 2022, respectively, as disclosed in Note 20 to the financial statements.

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

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

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

As a lessee, total rental expenses incurred from the leases amounted to P1,740,575 and P1,220,625 in 2023 and 2022, respectively, as disclosed in Notes 19 and 20.

Refer to Note 20 for information on potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term.

Evaluating Deferred Tax

In determining the amount of current and deferred tax, the Corporation takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Corporation believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws

[redacted]

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 P173,486,242 and P165,672,063 as at December 31, 2023 and 2022, respectively, as disclosed in Note 23.

Management believes that the amount is fully recoverable.

5. FINANCIAL RISK AND CAPITAL MANAGEMENT OBJECTIVES AND POLICIES

Principal financial instruments

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

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

- Credit Risk
- Interest Rate Risk
- Liquidity Risk

Risk Management Framework

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

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

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

The Corporations' risk management policies are summarized below:

[redacted]

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 Land Bank of the Philippines as 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:

	2023	2022
Secured		
Property under finance lease	**2,367,005,968**	1,787,694,419
Real estate mortgage	**580,448,218**	883,081,332
Chattel mortgage	**2,738,737,565**	2,607,274,105
	5,686,191,861	5,278,049,856
Unsecured	**317,237,011**	305,654,049
	6,003,428,872	5,583,703,905

(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.

	2023		2022	
	Carrying Value	**Maximum Exposure**	Carrying Value	Carrying Value
Financial assets:				
Cash in Banks	**36,366,014**	**36,366,014**	49,379,156	49,379,156
Financial Assets at Amortised Cost	**6,003,428,872**	**6,003,428,872**	5,583,703,905	5,583,703,905
	6,039,794,886	**6,039,794,886**	5,633,083,061	5,633,083,061

The preceding table represents the maximum credit risk exposure of the Corporation at December 31, 2023 and 2022, without taking into account any collateral held or other credit enhancements as it is impracticable to determine the fair values of these collaterals held by the Corporation as security against its financial assets at amortised cost. The exposures set out above are based on gross carrying amounts as reported in the statement of financial position.

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

The Corporation maintains it Cash in bank in its Parent Bank and with other universal banks which are highly rated among the top 10 in the country.

[redacted]

(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, 2023

	Cash	**Financial Assets at Amortised Cost**
Wholesale and retail trade	**0**	**652,314,950**
Manufacturing	**0**	**1,619,478,095**
Public utilities	**0**	**450,661,797**
Services	**0**	**1,186,278,492**
Banks and other financial institutions	**36,366,014**	**955,592,680**
Real estate	**0**	**114,837,402**
Public sector	**0**	**492,126,763**
Agriculture, fishing and forestry	**0**	**2,959,187**
Others	**0**	**529,179,506**
Total	**36,366,014**	**6,003,428,872**
Less: Allowance for probable losses/fair value changes	**0**	**(692,844,968)**
	36,366,014	**5,310,583,904**

As at December 31, 2022

	Cash	Financial Assets at Amortised Cost
Wholesale and retail trade	0	476,696,093
Manufacturing	0	1,049,418,161
Public utilities	0	469,782,296
Services	0	1,501,421,513
Banks and other financial institutions	49,379,156	865,571,758
Real estate	0	63,228,265
Public sector	0	628,379,804
Others	0	529,206,015
Total	49,379,156	5,583,703,905
Less: Allowance for probable losses/fair value changes	0	(661,466,341)
	49,379,156	4,922,237,564

(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:

[redacted]

As at December 31, 2023

	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Cash in Banks	**36,366,014**	**0**	**0**	**36,366,014**
Financial Assets at Amortised Cost	**4,337,129,136**	**5,176,325**	**1,661,123,411**	**6,003,428,872**
	4,373,495,150	**5,176,325**	**1,661,123,411**	**6,039,794,886**

As at December 31, 2022

	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Cash in Banks	49,379,156	0	0	49,379,156
Financial Assets at Amortised Cost	3,484,876,509	26,215,781	2,072,611,615	5,583,703,905
	3,534,255,665	26,215,781	2,072,611,615	5,633,083,061

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, 2023

	Up to 1 year	**Over 1 year to 3 years**	**Over 3 years**	**Total**
Bills Payable	**2,290,461,166**	**767,666,667**	**313,000,000**	**3,371,127,833**
Accounts Payable – Trade	**100,981,911**	**0**	**0**	**100,981,911**
Accrued Interest Payable	**22,660,136**	**0**	**0**	**22,660,136**
Other Payables	**105,734,654**	**0**	**0**	**105,734,654**
Deposits on Lease Contracts	**271,957,636**	**326,714,904**	**313,950,147**	**912,622,687**
	2,791,795,503	**1,094,381,571**	**626,950,147**	**4,513,127,221**

As at December 31, 2022

	Up to 1 year	Over 1 year to 3 years	Over 3 years	Total
Bills Payable	2,225,844,231	480,000,000	230,000,000	2,935,844,231
Accounts Payable – Trade	15,782,606	0	0	15,782,606
Accrued Interest Payable	12,610,622	0	0	12,610,622
Other Payables	207,309,837	0	0	207,309,837
Deposits on Lease Contracts	214,843,625	169,734,584	288,150,094	672,728,303
	2,676,390,921	649,734,584	518,150,094	3,844,275,599

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, 2023 and 2022.

[redacted]

	2023		2022	
	Carrying Amount	**Carrying Amount**	Fair Value	Fair Value
Financial Assets:				
Cash and Cash Equivalents (Note 7)	**36,366,014**	**36,366,014**	49,379,156	49,379,156
Financial Assets at Amortised Cost (Note 8)	**6,003,428,872**	**6,003,428,872**	5,583,703,905	5,583,703,905
	6,039,794,886	**6,039,794,886**	5,633,083,061	5,633,083,061

	2023		2022	
	Cost	**Cost**	Fair Value	Fair Value
Financial liabilities:				
Bills Payable (Note 14)	3,371,127,833	3,371,127,833	2,935,844,231	2,935,844,231
Accounts Payable - Trade (Note 14)	**100,981,911**	**100,981,911**	15,782,606	15,782,606
Accrued Interest Payable (Note 14)	**22,660,136**	**22,660,136**	12,610,622	12,610,622
Other Payables (Note 16)	**105,734,653**	**105,734,653**	207,309,837	207,309,837
Deposit on Lease Contracts (Note 20)	**912,622,687**	**912,622,687**	672,728,303	672,728,303
	4,513,127,220	**4,513,127,220**	3,844,275,599	3,844,275,599

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.

[redacted]

(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:

	2023	2022
Cash in Banks	**36,366,014**	49,379,156
Cash on Hand	**100,000**	45,000
	36,466,014	49,424,156

Cash in banks earns interest at floating rates based on daily bank deposit rates. Annual interest earned on deposits in banks is 0.05 per cent in 2023 and 2022, respectively. Interest income earned from deposits in banks reported in the statements of comprehensive income totaled P16,512 and P44,291 for the years ended December 31, 2023 and 2022, respectively.

Cash on hand includes petty cash amounting of P100,000 and P45,000 as at December 31, 2023 and 2022.

8. FINANCIAL ASSETS AT AMORTISED COST

The current portion consists of:

	2023	2022
Finance Lease Receivables	**525,523,410**	304,885,976
Finance Lease Receivables – LBP	**37,720,246**	16,722,576
Loans and Receivables – Others	**955,926,521**	703,670,732
Allowance for Probable Losses	**(223,925,010)**	(211,374,892)
	1,295,245,167	813,904,392
Accounts Receivable – Clients	**12,520,515**	12,295,221
Allowance for Probable Losses	**(4,869,815)**	(5,590,067)
	7,650,700	6,705,154
Accrued Interest Receivable	**14,057,424**	10,490,720
Allowance for Probable Losses	**(999,049)**	(318,808)
	13,058,375	10,171,912

[redacted]

Due from Parent Bank	**289,442,648**	281,944,066
Due from National Government Agencies	**798,287**	498,287
Due from Officers and Employees	**418,095**	425,712
Allowance for Probable Losses	**(3,317,966)**	(3,239,981)
	287,341,064	279,628,084
	1,603,295,306	1,110,409,542

The non-current portion consists of:

	2023	2022
Finance Lease Receivables	**2,065,467,250**	1,889,336,660
Allowance for Probable Losses	**(151,637,137)**	(94,860,370)
	1,913,830,113	1,794,476,290
Finance Lease Receivables - LBP	**386,267,981**	439,297,514
Allowance for Probable Losses	**(3,403,142)**	(3,862,939)
	382,864,839	435,434,575
Loans and Receivables - Others	**1,715,286,495**	1,924,136,441
Allowance for Probable Losses	**(304,692,849)**	(342,219,284)
	1,410,593,646	1,581,917,157
	3,707,288,598	3,811,828,022
Total Financial Asset at Amortised Cost	**5,310,583,904**	4,922,237,564

As at December 31, 2023, 55 per cent of the Corporations' finance lease and loans receivable are subject to interest re-pricing (2022: 40 per cent). The remaining loans earn annual fixed interest rates ranging from 2 per cent to 17.25 per cent and 2 per cent to 15.50 per cent in 2023 and 2022, respectively.

Due from parent bank represents amounts 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 serviced by the Corporation.

Total revenues generated from finance and operating lease facilities with the Parent Bank amounted to P248,792,973 and Nil, respectively, in 2023 (2022: P136,684,793 for finance lease and P44,509,816 for operating leases) as disclosed in Notes 20 and 22 to the financial statements.

<u>Finance lease receivables</u>

An analysis of the LLFC's finance lease receivables as at December 31, 2023 and 2022 is presented as follows:

	2023	2022
Finance Lease Receivables:		
Within 1 year	**123,701,177**	23,561,337
Beyond 1 year but not beyond 5 years	**1,122,947,566**	1,141,652,312

[redacted]

	2023	2022
Beyond 5 years	**483,325,925**	522,553,301
	1,729,974,668	1,687,766,950
Residual value of leased assets:		
Within 1 year	**290,222,852**	132,406,992
Beyond 1 year but not beyond 5 years	**565,676,986**	505,690,691
Beyond 5 years	**0**	0
	855,899,838	638,097,683
Total minimum lease receivable	**2,585,874,506**	2,325,864,633
Less: Unearned Leasing Income		
Within 1 year	**28,965,084**	1,586,102
Beyond 1 year	**430,704,167**	501,240,000
	459,669,251	502,826,102
Net investment in finance lease receivables	**2,126,205,255**	1,823,038,531
Past due receivables		
Within 1 year	**58,351,561**	41,743,232
Beyond 1 year	**83,034,837**	10,108,272
	141,386,398	51,851,504
Restructured accounts		
Within 1 year	**0**	33,989,229
Beyond 1 year	**104,063,834**	33,644,973
	104,063,834	67,634,202
Past due - restructured accounts		
Within 1 year	**0**	0
Beyond 1 year	**0**	243,191,551
	0	243,191,551
Items in Litigation		
Within 1 year	**93,135,207**	85,458,059
Beyond 1 year	**225,678,393**	0
	318,813,600	85,458,059
	2,690,469,087	2,271,173,847
Less: Unearned Leasing Income		
Within 1 year	**10,922,302**	10,686,771
Beyond 1 year	**88,556,124**	66,264,440
	99,478,426	76,951,211
	2,590,990,661	2,194,222,636

	2023	2022
Finance Lease Receivables – LBP		
Within 1 year	**39,903,707**	15,733,176
Beyond 1 year but not beyond 5 years	**132,936,998**	41,455,960
Beyond 5 years	**436,645,770**	640,865,607
	609,486,475	698,054,743
Residual value of leased assets:		
Within 1 year	**0**	989,400
	0	989,400
Total minimum lease receivable	**609,486,475**	699,044,143

[redacted]

	2023	2022
Less: Unearned leasing income		
Within 1 year	**2,183,461**	0
Beyond 1 year	**183,314,788**	243,024,053
	185,498,249	243,024,053
Net investment in finance lease receivables – LBP	**423,988,226**	456,020,090

Loans and receivables – others

The breakdown of loans and receivables – others as at December 31, 2023 and 2022 are as follows:

	2023	2022 (as reclassified)
Loans and Receivables – Others		
Within 1 year	**616,549,789**	279,866,026
Beyond 1 year	**601,587,660**	523,702,378
	1,218,137,449	803,568,404
Past due receivables		
Within 1 year	**33,337,721**	132,711,374
Beyond 1 year	**0**	4,060,915
	33,337,721	136,772,289
Restructured accounts		
Within 1 year	**186,195,224**	148,359,313
Beyond 1 year	**814,172,772**	1,466,991,901
	1,000,367,996	1,615,351,214
Past due – restructured accounts		
Within 1 year	**99,649,799**	136,271,188
Beyond 1 year	**5,101,313**	14,283,118
	104,751,112	150,554,306
Items in litigation		
Within 1 year	**84,961,618**	59,613,579
Beyond 1 year	**360,000,000**	0
	444,961,618	59,613,579
	2,801,555,896	2,765,859,792
Less: Unearned Interest Income		
Within 1 year	**64,767,630**	53,150,748
Beyond 1 year	**65,575,250**	84,901,871
	130,342,880	138,052,619
	2,671,213,016	2,627,807,173

Summary of Financial Assets at Amortised Cost

Loans and lease receivables

	2023	2022 (as reclassified)

[redacted]

Finance lease receivables	**2,590,990,661**	2,194,222,636
Finance lease receivables – LBP	**423,988,226**	456,020,090
Loans and receivables - others	**2,671,213,016**	2,627,807,173
	5,686,191,903	5,278,049,899

Other receivables

	2023	2022
Due from parent bank	**289,442,648**	281,944,066
Accounts receivable – clients	**12,520,515**	12,295,221
Accrued interest receivable	**14,057,424**	10,490,720
Due from officers and employees	**418,095**	425,712
Due from national government agencies	**798,287**	498,287
	317,236,969	305,654,006

Interest and lease income on receivables

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

	2023	2022
Lease Contracts Receivables	**421,146,969**	286,221,407
Loans and Receivables	**176,022,083**	169,332,595
	597,169,052	455,554,002

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, 2023

	Finance lease receivables	Loans and receivables – others	Other receivables	Total
At January 1, 2023	159,877,419	492,440,066	9,148,856	661,466,341
Provisions during the year	876,980	46,102,460	975,437	47,954,877
Write-offs during the year (Note 13)	0	0	0	0
Foreclosures and adjustments (Note 9, 13)	59,954,042	(75,592,829)	(937,463)	(16,576,250)
At December 31	220,708,441	462,949,697	9,186,830	692,844,968
Specific impairment provision	191,880,672	402,481,656	6,284,421	600,646,749
Collective impairment provision	28,827,769	60,468,041	2,902,409	92,198,219
Total impairment provision	220,708,441	462,949,697	9,186,830	692,844,968
Gross amount of loans specifically determined to have significant increase in credit risk since initial recognition before deducting individually-assessed credit losses	356,208,930	1,294,253,405	10,661,075	1,661,123,411

As at December 31, 2022

	Finance lease receivables	Loans and receivables – others	Other receivables	Total
At January 1, 2022	216,304,439	366,659,682	15,669,905	598,634,026
Provisions during the year	876,980	93,625,275	10,108	94,512,363
Write-offs during the year (Note 13)	0	(21,228,611)	(85,840)	(21,314,451)
Foreclosures and adjustments (Note 9, 13)	(57,304,000)	53,383,720	(6,445,317)	(10,365,597)
At December 31	159,877,419	492,440,066	9,148,856	661,466,341
Specific impairment provision	147,937,095	455,662,553	6,324,432	609,924,080
Collective impairment provision	11,940,324	36,777,513	2,824,424	51,542,261
Total impairment provision	159,877,419	492,440,066	9,148,856	661,466,341
Gross amount of loans specifically determined to have significant increase in credit risk since initial recognition before deducting individually-assessed credit losses	284,952,397	1,776,757,348	10,901,870	2,072,611,615

BSP Reporting

Regulatory Relief for Bank Supervised Financial Institutions (BSFIs) Affected by the Corona Virus Disease 2019 (COVID-19)

The Monetary Board, in its Resolution No. 397 dated March 13, 2020, approved the granting of temporary regulatory and rediscounting relief measures to BSFIs. All BSFIs are eligible to avail of the regulatory relief package specified in Annex A under Memorandum M-2020-008 within one year from March 8, 2020, the date of declaration of the President of the state of public health emergency under Presidential Proclamation No. 922. The period of eligibility may be extended depending on the developments of the COVID-19 situation.

The following are the regulatory relief being applied by the Corporation:

- Staggered booking of allowance for credit losses over a maximum period of five years

The following are the details of the affected line items if the allowance was measured and recorded in accordance with PFRS:

As of December 31, 2023

	PFRS	**PFRS with regulatory relief**	**Difference**
Past Due and Non-performing Lease Receivables	**380,320,048**	**380,320,048**	**0**
Past Due and Non-performing Loans Receivables	**547,402,322**	**547,402,322**	**0**
Allowance for Credit Losses	**692,844,968**	**801,932,549**	**(109,087,581)**
Retained Earnings	**1,028,440,169**	**946,624,485**	**81,815,684**
Deferred Tax Asset	**173,486,242**	**200,758,138**	**(27,721,896)**
Provision for credit and impairment losses	**48,362,178**	**(1,985,936)**	**50,348,114**
Deferred Tax Expense	**(7,814,179)**	**4,772,850**	**(12,587,029)**
Earnings per Share	**2.29**	**1.51**	**0.78**

[redacted]

As of December 31, 2022

	PFRS	PFRS with regulatory relief	Difference
Past Due and Non-performing Lease Receivables	311,342,197	311,342,197	0
Past Due and Non-performing Loans Receivables	306,608,336	306,608,336	0
Allowance for Credit Losses	661,466,341	820,902,036	(159,435,695)
Retained Earnings	1,009,286,843	889,710,074	119,576,769
Deferred Tax Asset	165,672,063	205,530,987	(39,858,924)
Provision for credit and impairment losses	94,512,363	44,164,249	50,348,114
Deferred Tax Expense	(15,441,765)	(2,854,736)	(12,587,029)
Earnings per Share	0.85	1.62	0.78

Allowance for credit losses booked during the year is at P50,348,114 and P50,348,114 as of December 31, 2023 and 2022, respectively.

The Corporation applied for a relief for staggered booking of allowance for credit losses from Bangko Sentral ng Pilipinas on March 1, 2021. Total amount of allowance for staggered booking amounted to P251,740,571 for accounts with aggregate total lease and loan balance of P944,308,528. The said application was approved on June 27, 2021 with a reckoning start date of February 2021 until February 2026.

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)

	2023	2022
Services	**19.76**	26.89
Manufacturing	**26.98**	18.79
Banks and other financial institutions	**15.92**	15.50
Public sector	**8.20**	11.25
Wholesale and retail trade	**10.87**	8.54
Public utilities	**7.51**	8.41
Real estate	**1.91**	1.13
Agriculture, fishing and forestry	**0.05**	0.00
Others	**8.80**	9.49
	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.

[redacted]

As to collateral

	2023	2022
Secured		
Property under finance lease	**2,367,005,968**	1,787,694,419
Real estate mortgage	**580,448,218**	883,081,332
Chattel mortgage	**2,738,737,675**	2,607,274,105
	5,686,191,861	5,278,049,856
Unsecured	**317,237,011**	305,654,049
	6,003,428,872	5,583,703,905

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, 2023 and 2022, non-performing loans (NPLs) not fully- covered by allowance for credit losses follow:

	2023	2022
Total NPLs	**927,632,370**	1,786,460,068
Less: NPLs fully-covered by allowance for credit losses	**(570,813,003)**	(879,234,986)
	356,819,367	907,225,082

As of December 31, 2023 and 2022, secured and unsecured NPLs follow:

	2023	2022
Secured	**927,632,345**	1,786,460,043
Unsecured	**25**	25
	927,632,370	1,786,460,068

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:

	2023	2022
Cost		
At January 1	**4,830,500**	13,047,500
Additions	**26,883,300**	3,323,000
Disposal	**0**	(11,540,000)
At December 31	**31,713,800**	4,830,500
Allowance for Impairment		
At January 1	**1,100,000**	6,337,516
Disposal	**0**	(5,237,516)
At December 31	**1,100,000**	1,100,000

	2023	2022
Net book value		
December 31	**30,613,800**	3,730,500

LLFC foreclosed various lands and condominium unit realizing a gain on foreclosure amounting to P10,474,436 and P906,961 in 2023 and 2022, respectively as disclosed in Note 18 under Gain on Exchange of Non-financial Asset.

The Corporation sold foreclosed land in 2022 with a total carrying value of 6,302,484 on which it realized a gain of P5,353,516 respectively, as disclosed in Note 18 to the Financial Statements under the Gain on Sale of Non-financial Asset.

The aggregate market value of investment properties as at December 31, 2023 and 2022 amounted to P35,420,300 and P10,971,000, 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.

Management still exhausting all available options to dispose the said investment properties which includes conducting regular bidding throughout the year.

10. EQUIPMENT AND OTHER PROPERTY FOR LEASE

The Corporation enters into financial lease transactions with various lessees either by property lease, purchase from equipment suppliers or by sale and leaseback with lease terms ranging from 24 to 180 months. The cost of the equipment acquired, and expenses incurred during the construction of buildings in the case of property leases are initially booked under 'Equipment and Other Property for Lease – Finance Lease' until the Certificate of Acceptance from client is received, and the corresponding implementation memorandum is approved for booking to 'Lease Contract Receivables'.

The Corporation also entered into an operating lease with its Parent Bank, with lease terms ranging from 12 to 60 months, involving vehicles. The operating lease transaction with the Parent bank has been fully terminated on December 31, 2022. The vehicles booked in 'Equipment and Other Property for Lease – Operating Lease' are the remaining vehicles previously leased to the Parent Bank that are for disposal.

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

	2023	2022
Finance lease	**524,532,623**	226,213,823
Operating lease	**625,648**	5,808,450
	525,158,271	232,022,273

Equipment and other property for lease under finance lease comprises of releases for the contractors and capitalized interest expenses for the construction of a building (for property lease) currently in progress as of December 31, 2023 and 2022.

[redacted]

As of December 31, 2023 and 2022, a total of P20,675,665 and P8,864,355 representing borrowing costs on the construction of a building currently in progress, were capitalized as Equipment and Other Property for Lease – Finance Lease' (See Note 14).

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

	2023	2022
Cost		
At January 1	42,414,869	70,182,456
Disposals	(36,158,383)	(27,767,587)
At December 31	6,256,486	42,414,869
Accumulated depreciation		
At January 1	36,606,419	60,845,104
Depreciation for the year	626,786	752,143
Disposals	(31,602,367)	(24,990,828)
At December 31	5,630,838	36,606,419
Allowance for Impairment		
At January 1	0	0
Addition	351,964	
Disposal	(351,964)	0
At December 31	0	0
Net book value, December 31	625,648	5,808,450

Depreciation charges amounting to P626,786 and P752,143 for 2023 and 2022, respectively, are lodged under the Depreciation-EOPL account under Direct Expenses as shown in the statement of comprehensive income.

In 2023 and 2022, the Corporation sold vehicles previously covered by operating lease agreements with a total carrying value of P4,204,052 and P2,776,759 on which it realized a gain of P8,350,498 and P7,274,325, as disclosed in Note 18 to the financial statements.

11. PROPERTY AND EQUIPMENT

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

As at December 31, 2023

	Building and improvements	Furniture and Fixtures	Transportation Equipment	Other properties acquired	Total
Cost					
At January 1	42,566,207	16,239,279	7,852,750	3,099,875	69,758,111
Additions	0	221,633	2,297,200	2,949,603	5,468,436
Disposals	0	0	0	(5,739,478)	(5,739,478)
At December 31	42,566,207	16,460,912	10,149,950	310,000	69,487,069
Accumulated depreciation					
At January 1	24,485,224	8,404,900	2,072,175	641,587	35,603,886
Depreciation for the year	1,256,776	1,896,666	1,826,991	1,296,671	6,277,104
Disposals	0	0	0	(1,855,758)	(1,855,758)
At December 31	25,742,000	10,301,566	3,899,166	82,500	40,025,232

[redacted]

	Building and improvements	**Furniture and Fixtures**	**Transportation Equipment**	**Other properties acquired**	**Total**
Allowance for impairment					
At January 1	**0**	**0**	**0**	**121,910**	**121,910**
Addition	**0**	**0**	**0**	**55,337**	**55,337**
Disposal	**0**	**0**	**0**	**(177,247)**	**(177,247)**
At December 31	**0**	**0**	**0**	**0**	**0**
Net book value	**16,824,207**	**6,159,346**	**6,250,784**	**227,500**	**29,461,837**

As at December 31, 2022

	Building and improvements	Furniture and Fixtures	Transportation Equipment	Other properties acquired	Total
Cost					
At January 1	42,566,207	10,427,118	2,883,150	3,566,500	59,442,975
Additions	0	5,812,161	4,969,600	4,305,047	15,086,808
Disposals	0	0	0	(4,771,672)	(4,771,672)
At December 31	42,566,207	16,239,279	7,852,750	3,099,875	69,758,111
Accumulated depreciation					
At January 1	23,228,448	6,556,219	1,255,032	553,936	31,593,635
Depreciation for the year	1,256,776	1,848,681	817,143	1,658,071	5,580,671
Disposals	0	0	0	(1,570,420)	(1,570,420)
At December 31	24,485,224	8,404,900	2,072,175	641,587	35,603,886
Allowance for impairment					
At January 1	0	0	0	121,910	121,910
Addition	0	0	0	0	0
At December 31	0	0	0	121,910	121,910
Net book value	18,080,983	7,834,379	5,780,575	2,336,378	34,032,315

As at December 31, 2023 and 2022, the total cost of fully-depreciated property and equipment still in use by the Corporation amounted to P7,889,854 and P3,376,246 respectively.

LLFC foreclosed other properties realizing a gain on foreclosure amounting to P70,000 and P263,488 in 2023 and 2022 respectively as disclosed in Note 18 under the Gain on Exchange of Non-Financial Assets.

The Corporation sold other properties in 2023 and 2022 resulting in a gain of P2,141,391 and P1,550,748, respectively as disclosed in Note 18 under Gain on Sale of Non-Financial Assets.

The Corporation recognized total depreciation/amortization charges in the amount of P7,163,844 in 2023 and P6,538,535 in 2022, as shown in the Direct and General and Administrative Expense sections in the statements of comprehensive income, with details as follows:

	2023	2022
Direct Expense		
Equipment and Other Properties for Lease (Note 10)	**626,786**	752,143
General and Administrative Expense		
Property and Equipment	**6,277,104**	5,580,671
Intangibles (Note 12)	**259,954**	205,721
	6,537,058	5,786,392
	7,163,844	6,538,535

[redacted]

Management has reviewed the carrying values of the Corporation's property and equipment as of December 31, 2023 and 2022 for impairment. Based on the results of its evaluation, the Corporation booked an allowance for impairment amounting to Nil for 2023 and P121,910 for 2022, for its other properties acquired which were no longer unserviceable.

12. OTHER ASSETS

Current and non-current classification of other assets as at December 31, 2023 and 2022 are as follows:

As at December 31, 2023

	Due within 1 year	Due beyond 1 year	Total
Prepaid Expense	**2,235,277**	**0**	**2,235,277**
Prepaid Income Tax (Note 23)	**44,112,770**	**0**	**44,112,770**
Creditable Withholding Taxes	**8,807,213**	**0**	**8,807,213**
Security and Utility Deposits	**0**	**1,210,485**	**1,210,485**
Stationeries and Supplies – Unissued	**1,036,343**	**0**	**1,036,343**
Intangibles	**0**	**881,796**	**881,796**
Other Investments	**0**	**16,000**	**16,000**
Other Assets	**0**	**306**	**306**
	56,191,603	**2,108,587**	**58,300,190**

As at December 31, 2022

	Due within 1 year	Due beyond 1 year	Total
Prepaid Expense	13,840,718	0	13,840,718
Prepaid Income Tax (Note 23)	45,117,449	0	45,117,449
Creditable Withholding Taxes	5,791,569	0	5,791,569
Security and Utility Deposits	0	284,536	284,536
Stationeries and Supplies – Unissued	188,228	0	188,228
Intangibles	0	219,741	219,741
Other Investments	0	16,000	16,000
Other Assets	0	306	306
	64,937,964	520,583	65,458,547

Creditable withholding taxes are being used to reduce tax obligation such as withholding tax on VAT and percentage taxes and Income Tax Payable, respectively (Note 15).

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

[redacted]

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 10 per cent residual value.

Movements of the Intangibles account are as follows:

	2023	2022
Cost		
At January 1	**4,464,119**	4,312,919
Additions	**922,009**	151,200
At December 31	**5,386,128**	4,464,119
Accumulated Amortization		
At January 1	**4,244,378**	4,038,657
Amortization for the year	**259,954**	205,721
At December 31	**4,504,332**	4,244,378
Net book value, December 31	**881,796**	219,741

The Corporation recognized amortization charges in the amount of P259,954 and P205,721 in 2023 and 2022, respectively, (Note 11) as shown in the General and Administrative Expense sections in the statements of comprehensive income.

13. ALLOWANCE FOR CREDIT AND IMPAIRMENT LOSSES

Changes in the allowance for probable losses are as follows:

	2023	2022
At January 1		
Finance Lease Receivables	**159,877,419**	216,304,439
Loans and Receivables - Others	**492,440,066**	366,659,682
Other Receivables	**9,148,856**	15,669,905
Investment Properties	**1,100,000**	6,337,516
Property and Equipment	**121,910**	121,910
	662,688,251	605,093,452
Provisions for the Year	**48,362,178**	94,512,363
Write-Offs	**0**	(21,314,451)
Disposal	**(529,211)**	0
Accounts Charged-Off/Other Adjustments (Note 8 and 9)	**(16,576,250)**	(15,603,113)
At December 31	**693,944,968**	662,688,251

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

	2023	2022
Finance Lease Receivables	**220,708,441**	159,877,419
Loans and Receivables - Others	**462,949,697**	492,440,066
Other Receivables	**9,186,830**	9,148,856
Investment Properties	**1,100,000**	1,100,000
Property and Equipment	**0**	121,910
	693,944,968	662,688,251

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.

14. FINANCIAL LIABILITIES

This account consists of:

	2023	2022
Bills Payable	**3,371,127,833**	2,935,844,231
Accounts Payable – Trade	**100,981,911**	15,782,606
Accrued Interest Payable	**22,660,136**	12,610,622
At December 31	**3,494,769,880**	2,964,237,459

Current and non-current classification of financial liabilities as at December 31, 2023 and 2022 are as follows:

As at December 31, 2023

	Due within 1 year	**Due beyond 1 year**	**Total**
Bills Payable	**2,290,461,166**	**1,080,666,667**	**3,371,127,833**
Accounts Payable – Trade	**100,981,911**	**0**	**100,981,911**
Accrued Interest Payable	**22,660,136**	**0**	**22,660,136**
	2,414,103,213	**1,080,666,667**	**3,494,769,880**

As at December 31, 2022

	Due within 1 year	Due beyond 1 year	Total
Bills Payable	2,225,844,231	710,000,000	2,935,844,231
Accounts Payable – Trade	15,782,606	0	15,782,606
Accrued Interest Payable	12,610,622	0	12,610,622
	2,254,237,459	710,000,000	2,964,237,459

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

Interest rates on bills payable range from 5.00 to 7.25 per cent in 2023 and 4.25 per cent to 6.25 per cent in 2022, respectively.

Bills payable are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances as of December 31, 2023 and 2022 are partially secured with terms of original maturity ranging from 30 days to 17 years. Interest expense on borrowings amounted to P187,855,740 and P103,448,790 for the years ending December 31, 2023 and 2022, respectively, as stated in the Statements of Comprehensive Income. Documentary stamp used for the borrowings amounted to 20,806,608 and 16,202,204 for the years ending December 31, 2023 and 2022, respectively, as stated in the Statements of Comprehensive Income.

[redacted]

Total interest expense as presented in the statements of comprehensive income, is net of P20,675,665 in 2023 and P8,864,355 in 2022 representing finance charges on borrowings used to finance the construction of a property lease facility, which were capitalized as EOPL in accordance with the provisions of PAS 23 on Borrowing Costs (Note 10).

As at December 31, 2023 and 2022, 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.

15. INTER-AGENCY PAYABLES

This account consists of payables to the following:

	2023	2022
Due to BIR	**14,903,976**	12,987,220
Due to GSIS	**706,721**	0
Due to Pag-ibig Fund	**102,883**	94,122
Due to Social Security System	**0**	218,103
Due to Philhealth	**222,221**	157,015
	15,935,801	13,456,460

All other inter-agency payables were remitted to the Agency concerned in January 2023. Due to BIR remittances will be net of applicable creditable withholding tax booked under Other Assets (Note 12). The Corporation transitioned its membership from SSS to GSIS effective August 1, 2023.

16. OTHER PAYABLES

This account consists of:

	2023	2022
Accounts payable – Others	**7,164,725**	15,840,748
Accrued expenses – Others	**64,561,298**	79,313,237
Miscellaneous Liabilities	**34,008,631**	112,155,852
	105,734,654	207,309,837

Accounts Payable – Others include retention fees, non-trade payables and due to employees.

Accrued expenses – others include costs of security, messengerial, and janitorial services amounting to P34,577,264 and P49,081,269 in 2023 and 2022, respectively, payable to a service corporation and monetary value of employees' leave credits amounting to P11,125,288 and P11,140,039 in 2023 and 2022, respectively.

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

[redacted]

As at December 31, 2023 and 2022, the balances comprising this account will mature within the next 12 months from respective reporting dates.

17. 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, 2023 and 2022 is presented hereunder:

	2023	2022
	No. of Shares	
Issued and paid	**48,555,255**	48,555,255
Treasury Stock	**(2)**	(1)
Total outstanding shares	**48,555,253**	48,555,254

As of January 1, 2022, there is an outstanding one treasury share which was reacquired in the previous years. During 2023, one issued and paid outstanding share was reacquired due to resignation of one director.

(b) Retained earnings

Dividend declaration

In compliance with Republic Act No. 7656 requiring the GOCCs to declare and remit dividends to the National Government (NG) of at least 50 per cent of their annual earnings, the Board of Directors of LLFC declared cash dividends to the NG through a Resolution dated April 26, 2023, the Board of Directors of LBP Leasing and Finance Corporation, through its Resolution No. 23-077, approved the declaration of cash dividends amounting to P54,474,141 or P1.1219 per share on the 48,555,254 common stocks held by all stockholders as of date of record, December 31, 2022.

The Board of Directors of LLFC also declared cash dividends to the NG through a resolution dated April 19, 2022, the Board of Directors of LBP Leasing and Finance Corporation, through its Resolution, approved the declaration of cash dividends amounting to P51,191,805 or P1.0543 per share on the 48,555,254 common stocks held by all stockholders of date of record, December 31, 2021.

Additional cash dividend was declared and paid on March 2022 through compliance with the Republic Act 7656 amounting to P6,942,395 for dividend year 2020.

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.

Retained earnings-unappropriated

During 2022, the Corporation paid P1,332,434 for the additional tax assessment made by BIR as a result of their audit of 2018 transactions. This was charged to the Retained Earnings account.

(c) Other Comprehensive Income/(Loss)

	Remeasurement on Retirement Benefit Obligation
Balance, January 1, 2022	**(9,557,754)**
Add/(Deduct):Transactions during the year (Note 21b)	(145,135)
Balance, December 31, 2022	**(9,702,889)**
Add/(Deduct):Transactions during the year (Note 21b)	0
Balance, December 31, 2023	**(9,702,889)**

18. OTHER INCOME

This account is composed of:

	2023	2022
Fleet management service chauffeuring fees (Note 22)	**33,200,503**	110,546,757
Fleet management service fees (Note 22)	**4,113,600**	13,184,055
Gain on sale of non-financial assets (Note 9, 11)	**2,141,391**	6,904,264
Gain on sale of equipment and other properties for lease (Note 10)	**8,350,498**	7,274,325
Gain on exchange of non-financial asset (Note 9, 11)	**10,544,436**	1,170,449
Recovery from charged-off assets	**0**	1,004,321
Miscellaneous Income	**23,048,634**	8,313,796
	81,399,062	148,397,967

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 paid by clients.

19. 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:

[redacted]

	2023	2022
Litigation/assets acquired expenses	**11,300,403**	2,330,115
Representation and entertainment	**4,710,380**	4,785,101
Transportation and travelling	**4,516,322**	3,136,844
Security, messengerial, janitorial and contractual services	**4,220,111**	4,983,798
Information technology	**3,219,427**	3,351,339
Repairs and maintenance	**1,798,763**	1,739,822
Rent (Note 20)	**1,740,575**	1,220,625
Power, light and water	**1,404,583**	1,450,000
Fuels and lubricants	**1,237,274**	1,264,224
Membership fees and dues	**1,093,304**	964,576
Postage, cables, telephone and telegram	**1,060,591**	1,163,457
Advertising and publicity	**838,222**	685,963
Management and other professional fees	**747,449**	1,769,258
Stationeries and supplies used	**288,498**	1,447,835
Data processing charges	**98,413**	123,240
Bank charges	**34,521**	29,071
Periodicals and magazines	**5,000**	5,000
Fines, penalties and other charges	**3,281**	126,700
Miscellaneous expenses	**3,359,028**	1,410,591
	41,676,145	31,987,559

20. LEASE COMMITMENTS

The Corporation has the following lease commitments:

Corporation as lessor

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

Interest income earned from finance leases amounted to P421,146,969 and P286,221,407 in 2023 and 2022, respectively, as presented in the statements of comprehensive income.

The Corporation also entered into operating leases on certain motor vehicles. These operating leases are from periods ranging from six to 60 months with equal monthly rental payments as set forth in the lease agreement. Operating lease income presented under Other Income in the Corporation's statements of comprehensive income for the years ended December 31, 2023 and 2022 amounted to Nil and P44,509,816, respectively.

The carrying amount of lease deposits payable to the respective lessees as of December 31, 2023 and 2022 are presented in the table below:

[redacted]

	2023	2022
Finance leases	**901,515,487**	661,621,103
Operating leases	**11,107,200**	11,107,200
	912,622,687	672,728,303

The breakdown of deposits on finance and operating leases by contractual settlement dates as at December 31, 2023 and 2022 is as follows:

	2023	2022
Due within 1 year	**271,957,636**	214,843,625
After 1 year up to maturity	**640,665,051**	457,884,678
	912,622,687	672,728,303

Operating lease commitments

Future minimum rental receivables under non-cancelable operating leases as of December 31, 2023 and 2022 are as follows:

	2023	2022
Due within 1 year	**0**	0
After 1 year up to maturity	**0**	0
	0	0

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

	2023	2022
Finance lease	**126,528,327**	74,585,109
Operating lease	**0**	20,931,023
Fleet Management	**28,952,126**	100,747,387
	155,480,453	196,263,519

Corporation as lessee

Short-term and leases of low-value assets

On July 1, 2021, the Corporation entered into an operating lease agreement with a National Government Agency (NGA) wherein seven parking slots were designated for LLFC's use at a monthly rental rate of P5,625 per vehicle. The lease agreement can be terminated any time by both the lessor and lessee.

On August 25, 2022, the Corporation entered into an operating lease agreement with the same NGA wherein additional 52 parking slots were designated for LLFC's use at a monthly rental rate of P5,625 per vehicle outstanding for the month as temporary storage for those returned operating lease vehicles whose lease term are already matured and awaiting disposal. The lease agreement can be terminated any time by both the lessor and lessee.

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

Rental fees paid to the lessors for the years ended December 2023 and 2022 totalled P1,740,575 and P1,220,625 (Note 19), respectively.

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

21. PERSONNEL SERVICES

(a) Compensation and employee benefits

Expenses recognized for compensation and employee benefits are presented below:

	2023	2022
Salaries and wages	**45,000,673**	45,389,620
Bonuses	**8,263,142**	13,229,990
Retirement benefit cost	**1,190,124**	3,657,262
Directors' remuneration	**3,918,000**	3,105,000
Social security cost	**3,888,463**	2,173,689
Other benefits	**3,055,356**	3,086,608
	65,315,758	70,642,169

Personnel Services benefits include annual salaries, paid leaves, bonuses and other non-monetary benefits. The expenses accrued for the compensated absences of the employees recorded under Salaries and Wages account for the years CY 2023 and 2022 amounted to and P2,527,944 and P2,343,666, respectively. The accrued compensated absences refers to the monetary value of the accumulated leave credit of employees.

The breakdown of Personnel Services as to direct and general and administrative expense as at December 31, 2023 and 2022 is as follows:

	2023	2022
Direct expense – marketing operation	**26,110,411**	21,162,146
General and administrative expense	**39,205,347**	49,480,023
	65,315,758	70,642,169

(b) Retirement benefits

(i) Characteristics and funding

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

[redacted]

retirement benefits (equivalent to 22.5 days pay for every year of service) after satisfying certain age and service requirements.

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

The Retirement Trust Fund account with LBP Trust Banking Group (LBP-TBG) was opened on November 28, 2012. Prior to the opening of Retirement Trust Fund account with LBP and the availability of the Funding Actuarial Valuation report, the Corporation accrues Retirement Costs based on actual services rendered by the employees and Article V of the LBP Subsidiaries Retirement Benefit Plan which defines the percentage of entitlement of incumbents to retirement benefits. Among the salient provisions of the Trust Agreement are the following:

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

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

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

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

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

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

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

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

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

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

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

(ii) Actuarial assumptions

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

The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation are as of December 31, 2023.

The valuation results are based on the employee data as of the valuation dates provided by the Corporation to the independent appraiser. The discount rate assumption is based on the Banker of the Philippines (BAP) PHP Bloomberg BVAL reference rates (BVAL) benchmark reference curve for the government securities market (previously the PDEx (PDST-R2) market yields on government bonds) as of the valuation dates considering the average years of remaining working life of the employees as the estimated term of the benefit obligation.

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

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

	2023	2022
Discount rate	**7.17%**	7.17%
Expected rate of return on plan assets	**7.17%**	7.17%
Salary projection rate	**9.00%**	9.00%
Mortality rate	**2017 Philippine Intercompany Mortality Table**	2017 Philippine Intercompany Mortality Table
Disability rate	**The Disability Study, Period 2 Benefit 5 (Society of Actuaries)**	The Disability Study, Period 2 Benefit 5 (Society of Actuaries)
Normal retirement age	**60**	60
Projected retirement credit	**22.5 days pay per year of service**	22.5 days pay per year of service
Actuarial cost method	**Projected unit credit method**	Projected unit credit method
Manner of benefit payment	**Lump sum**	Lump sum
Withdrawal rates		
19-24	**2.56%**	2.56%
25-29	**14.06%**	14.06%
30-34	**4.52%**	4.52%
35-39	**3.23%**	3.23%
40-44	**5.94%**	5.94%

[redacted]

45-49	**3.94%**	3.94%
50-54	**0.00%**	0.00%
≥55	**0.50%**	0.50%

The summary of valuation results as at the statements of financial position date follows:

	2023	2022
Number of lives covered	**57**	57
Average age in years	**42.2**	42.2
Expected average remaining working lives of employees	**17.80**	17.80
Average years of past service	**9.9**	9.9
Annual covered payroll	**38,167,476**	38,167,476
Present value of defined benefit obligation (DBO)	**40,338,607**	40,338,607
Current service cost (CSC)	**3,058,711**	3,058,711
Fair value of plan assets	**24,782,205**	24,782,205
Deficit / (Surplus)	**15,556,402**	15,556,402
Contributions	**0**	0
Benefits paid from plan assets	**103,452**	103,452
Benefits paid from booked reserved	**0**	0
Settlements from plan assets	**0**	0
Settlements from booked reserved	**0**	0

As of December 31, 2023, the principal balance of the retirement fund stands at P16,746,526 and as compared to P15,556,402 as of December 31, 2022.

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

	Defined benefit obligation		**Fair value of plan assets**		**Net defined liability**	
	2023	2022	**2023**	2022	**2023**	2022
Balance, 1 January	**40,338,607**	36,253,857	(24,782,205)	(24,499,852)	**15,556,402**	11,754,005
Service cost – current	**1,190,124**	3,058,711	**0**	0	**1,190,124**	3,058,711
Interest cost (income)	**0**	1,838,071	**0**	(1,239,520)	**0**	598,551
Included in profit or loss	**1,190,124**	4,896,782	**0**	(1,239,520)	**1,190,124**	3,657,262
Employer Contribution	**0**	0	**0**	0	**0**	0
(a) Actuarial loss (gain) from:						
- Demographic Assumptions	**0**	1,303,212	**0**	0	**0**	1,303,212
- Financial assumptions	**0**	(473,432)	**0**	0	**0**	(473,432)
- Experience adjustments	**0**	(1,538,360)	**0**	0	**0**	(1,538,360)
(b) Return on plan assets (excluding interest)	**0**	0	**0**	853,715	**0**	853,715
Included in other comprehensive income	**0**	(708,580)	**0**	853,715	**0**	145,135
Benefits Paid	**0**	(103,452)	**0**	103,452	**0**	0
Balance, December 31	**40,338,607**	40,338,607	**(24,782,205)**	(24,782,205)	**16,746,526**	15,556,402

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

(iv) Allocation of Plan Assets

Cash and cash equivalents	18.25%
Debt instruments – Government Bonds	82.36%
Others (Market gains/losses, Accrued receivables, etc.)	(0.61%)
	100.00%

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

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

Year	Amount
2023	9,292,945
2024	1,440,208
2025	1,030,357
2026	2,846,309
2027	11,507,047
2028 – 2032	14,678,358

22. RELATED PARTY TRANSACTIONS

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

Provisions are held against receivables from related parties in 2023 and 2022 are broken down as follows:

	2023	2022
Finance Lease Receivables - LBP	**3,622,425**	3,945,469
Due from Parent Bank	**2,894,426**	2,819,441
	6,516,851	6,764,910

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

	2023	2022
Cash in banks	**36,366,014**	49,379,156
Due from Parent Bank (Note 8)	**289,442,648**	281,944,066
Finance Lease Receivables - LBP (Note 8)	**423,988,227**	456,020,090
Bills payable	**1,156,544,500**	1,040,944,231

[redacted]

	2023	2022
Deposit on lease contracts	**72,852,930**	72,852,930
Accrued interest payable	**9,157,371**	5,205,715
Accounts Payable	**0**	0
Accrued Expense Payable	**12,204,037**	10,989,599
Miscellaneous liabilities	**2,681,717**	2,681,717
	2,003,237,444	1,920,017,504

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

	2023	2022
Finance lease income (Note 8)	**248,792,973**	136,684,793
Operating lease income (Note 8)	**0**	44,509,816
Fleet management service fees (Note 18)	**4,113,600**	13,184,055
Fleet management service chauffeuring fees (Note 18)	**33,200,503**	110,546,757
Interest income on deposits	**16,512**	43,652
Interest and finance charges	**63,716,094**	34,926,474
Miscellaneous Expenses	**574,973**	311,567
	350,414,655	340,207,114

a) Bills payable and Interest and Financing Charges

Interest rates on borrowings from the parent company ranges from 5.00per cent to 7.25 per cent. The loans are partially secured by assignment of receivables with terms of maturity ranging from 90 days to 17 years.

(b) Finance Lease Income

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

(c) Operating Lease Income

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

(d) Fleet Management Services

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

(e) Other Related Party Transactions

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

[redacted]

The key management personnel compensations are as follows:

	2023	2022
Salaries and other short-term benefits	**14,126,006**	13,935,202
Post-employment benefits	**1,798,370**	1,972,143
Directors' remuneration	**6,718,787**	4,739,872
	22,643,163	20,647,217

23. INCOME TAX EXPENSE

The income tax expense consists of:

	2023	2022
Current	**38,902,840**	36,189,977
Deferred	**(7,814,179)**	(14,398,700)
	31,088,661	21,791,277

The reconciliation between the income tax expense computed at the statutory income tax rate of 25 per cent in 2023 and 2022, and the provision for income tax expense as shown in the statements of comprehensive income is as follows:

	2023	2022
Net income before income tax	**104,534,565**	62,859,138
Add:		
General and administrative expenses	**123,573,361**	120,845,797
Gross income	**228,107,926**	183,704,935
Less: Optional Standard Deduction (40% of the total of gross income and net amount of non-deductible and non-taxable expenses amounting to P31,260,845 in 2023 and P57,605,872 in 2022)	**103,740,904**	96,506,606
Net income subject to income tax	**124,367,022**	87,198,329
Income tax computed at statutory tax rate of 25%	**31,091,756**	21,799,582
Tax effect of:		
Interest income subject to final tax	**(4,127)**	(11,073)
Interest in arbitrage	**1,032**	2,768
Income tax expense	**31,088,661**	21,791,277

Prepaid Income tax, after deducting creditable withholding taxes and quarterly income tax payments, amounts to P44,112,770 and P45,117,449 as of December 31, 2023 and 2022, respectively, as shown in Note 12, respectively.

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

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

[redacted]

Current tax regulations provide that the Regular Corporate Income Tax (RCIT) rate shall be 25 per cent and interest allowed as a deductible expense shall be reduced by an amount of 20 per cent of interest income subjected to final tax.

The regulations also provide for Minimum Corporate Income Tax (MCIT) of 1.50 per cent and one per cent on modified gross income for 2023 and 2022, respectively. Any excess of the MCIT over the RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, the NOLCO is allowed as deduction from taxable income in the next three years from the year of inception.

MCIT computed at 1.50 per cent and one per cent of gross profit amounted to P3,890,284 and P2,412,665 in 2023 and 2022, respectively.

Republic Act No. 9504, An Act Amending National Internal Revenue Code, provides that starting July 1, 2008, the Optional Standard Deduction (OSD) equivalent to 40 per cent of gross income may be claimed as an alternative deduction in computing for the RCIT.

The Corporation has opted to use OSD in 2023 and 2022. The presentation of the Statements of Comprehensive Income reflects the "Gross Income" which was the basis in computing the OSD to arrive at the taxable income. Direct expenses incurred to provide the services as provided in Section 4 of RA 16-2008 was presented as a deduction from the gross revenue.

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

At December 31, 2021	**P151,273,363**
Charged to operations	14,398,700
At December 31, 2022	**P165,672,063**
Charged to operations	7,814,179
At December 31, 2023	**P173,486,242**

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

	2023			2022		
	Due within 1 year	**Due beyond 1 year**	**Total**	Due within 1 year	Due beyond 1 year	Total
Financial assets						
Cash and cash equivalents	**36,466,014**	**0**	**36,466,014**	49,424,156	0	49,424,156
Financial Assets at Amortised Cost	**1,836,407,146**	**4,167,021,726**	**6,003,428,872**	1,330,933,290	4,252,770,615	5,583,703,905
	1,872,873,160	**4,167,021,726**	**6,039,894,886**	1,380,357,446	4,252,770,615	5,633,128,061
Non-financial assets						
Investment properties	**0**	**31,713,800**	**31,713,800**	0	4,830,500	4,830,500
Equipment and other property for lease	**0**	**525,158,271**	**525,158,271**	0	232,022,273	232,022,273
Property and equipment	**0**	**29,461,837**	**29,461,837**	0	34,032,315	34,032,315
Other assets	**56,191,603**	**2,108,587**	**58,300,190**	64,937,964	520,583	65,458,547

[redacted]

	2023			2022		
	Due within 1 year	Due beyond 1 year	Total	Due within 1 year	Due beyond 1 year	Total
	56,191,603	558,442,495	644,634,098	64,937,964	271,405,671	336,343,635
Total assets	1,929,064,763	4,755,464,221	6,684,528,984	1,445,295,410	4,524,176,286	5,969,471,696
Financial liabilities						
Bills payable	2,290,461,166	1,080,666,667	3,371,127,833	2,225,844,231	710,000,000	2,935,844,231
Accounts Payable – Trade	100,981,911	0	100,981,911	15,782,606	0	15,782,606
Accrued interest payable	22,660,136	0	22,660,136	12,610,622	0	12,610,622
Other payables	105,734,654	0	105,734,654	207,309,837	0	207,309,837
Deposits on lease contracts	271,957,636	640,665,051	912,622,687	214,843,625	457,884,678	672,728,303
Inter-agency payable	15,935,801	0	15,935,801	13,456,460	0	13,456,460
Retirement liability	0	16,746,526	16,746,526	0	15,556,402	15,556,402
Total Liabilities	2,847,731,304	1,738,078,244	4,545,809,548	2,689,847,381	1,183,441,080	3,873,288,461

25. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Corporation has not set-off financial instruments in 2023 and 2022 and does not have offsetting arrangements. Currently, financial assets and financial liabilities are settled on a gross basis; however, each party of the lease agreement will have the option to settle such amount on a net basis in the event of default of the other party. As such, the Corporation's lease contract receivables from the lessees amounting to P2,527,234,331 and P2,026,295,589 as of December 31, 2023 and 2022, respectively, can be offset by the amount of lease deposits amounting to P901,515,487 and P661,621,103 as of December 31, 2023 and 2022 (Note 20), respectively. The balance of lease contract receivables net of lease deposit amounted to P1,625,718,844 and P1,364,674,486 as of December 31, 2023 and 2022, respectively.

26. EARNINGS PER SHARE

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

	2023	2022
Net income after tax	73,445,904	41,067,861
Weighted average number of outstanding shares (Note 17a)	48,555,254	48,555,254
Basic Earnings Per Share	1.51	0.85

There were no outstanding dilutive potential common shares as at December 31, 2023 and 2022.

[redacted]

27. CONTINGENCIES

In the ordinary course of business, the Corporation incurs contingent liabilities and commitments arising from normal business transactions which are not reflected in the accompanying financial statements. As at December 31, 2023, Management does not anticipate significant losses from these contingencies and commitments that would adversely affect the Corporation's financial position and results of operations.

28. FINANCIAL STATEMENTS PRESENTATION

a. Reclassification

The financial statements of the Corporation as of and for the year ended December 31, 2022 were reclassified to reflect the impact of change in error in presentation related to classification of its loans and receivables as to past due and current status (Note 8).

	2022 (as reclassified)	2022	Difference
Loans and receivables financed			
Within 1 year	P279,866,026	P279,866,026	P-
Beyond 1 year	523,702,378	523,702,378	-
	803,568,404	803,568,404	-
Past due receivables	136,772,289	136,772,289	-
Within 1 year	132,711,374	132,711,374	-
Beyond 1 year	4,060,915	4,060,915	-
Restructured accounts	1,615,351,214	384,024,358	1,231,326,856
Within 1 year	148,359,313	2,822,043	145,537,270
Beyond 1 year	1,466,991,901	381,202,315	1,085,789,586
Past due – restructured accounts	150,554,306	1,381,881,162	(1,231,326,856)
Within 1 year	136,271,188	281,808,458	(145,537,270)
Beyond 1 year	14,283,118	1,100,072,704	(1,085,789,586)
Items in litigation	59,613,579	59,613,579	-
Within 1 year	59,613,579	59,613,579	-
Beyond 1 year	-	-	-
	2,765,859,792	2,765,859,792	-
Less: Unearned interest income	138,052,619	138,052,619	-
Within 1 year	53,150,748	53,150,748	-
Beyond 1 year	84,901,871	84,901,871	-
	P2,627,807,173	P2,627,807,173	P-

[redacted]

As Reclassified

	PFRS	PFRS with regulatory relief	Difference
Past Due and Non-performing Lease Receivables	**311,342,197**	**311,342,197**	**0**
Past Due and Non-performing Loans Receivables	**306,608,336**	**306,608,336**	**0**
Allowance for Credit Losses	661,466,341	820,902,036	159,435,695
Retained Earnings	**1,009,286,843**	**889,710,074**	**119,576,771**
Deferred Tax Asset	**165,672,063**	**205,530,987**	**39,858,924**
Provision for credit and impairment losses	**94,512,363**	**44,164,249**	**50,348,114**
Deferred Tax Expense	**(15,441,765)**	**(2,854,736)**	**12,587,029**
Earnings per Share	**0.85**	**1.62**	**0.78**

	PFRS	PFRS with regulatory relief	Difference
Past Due and Non-performing Lease Receivables	311,342,197	311,342,197	0
Past Due and Non-performing Loans Receivables	1,475,117,871	1,475,117,871	0
Allowance for Credit Losses	661,466,341	820,902,036	159,435,695
Retained Earnings	1,009,286,843	889,710,074	119,576,771
Deferred Tax Asset	165,672,063	205,530,987	39,858,924
Provision for credit and impairment losses	94,512,363	44,164,249	50,348,114
Deferred Tax Expense	(15,441,765)	(2,854,736)	12,587,029
Earnings per Share	0.85	1.62	0.78

29. EVENTS AFTER THE REPORTING DATE

Cash Dividend Declaration

On ____________, the Board of Directors of LBP Leasing and Finance Corporation, through its Resolution No. ________, approved the declaration of cash dividends amounting to P__________ or P_______ per share on the 48,555,254 common stocks held by all stockholders as of date of record, December 31, 2023.

30. SUPPLEMENTARY INFORMATION ON REVENUE REGULATIONS

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

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

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

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

2. The documentary stamp taxes paid/accrued on loans availed and renewed during the year totalled P20,806,608 (Note 14).

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

Particulars	Amount
a. Local	
Realty Taxes	285,167
Licenses	1,728,211
Community Tax Certificate	10,500
b. National	
Annual Non-VAT Registration Fee	500

Particulars	Amount
Tax Clearance Application	6,300
Gross Receipt Tax	30,767,470
	32,798,148

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

Compensation and benefits	5,602,821
Expanded withholding taxes	16,359,599
Final Withholding taxes	131,501
VAT and other percentage taxes	34,384,520
	56,478,441

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

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

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

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

1. Sales/Receipts/Fees

	Taxable Amount under Regular Rate
Sale of services	597,169,052
Lease of Properties	0
	597,169,052

2. Cost of Sales/Services

	Amount under Regular Rate
Direct Charges - Salaries, Wages and Benefits	26,110,411
Direct Charges - Depreciation	626,786
Direct Charges - Outside Services	155,480,453
Direct Charges - Others	236,988,205
	419,215,855

3. Non-Operating and Taxable Other Income

	Amount under Regular Rate
Gain on sale	10,491,889
Miscellaneous income - net	70,907,173
	81,399,062

4. Optional Standard Deduction (OSD)

Republic Act No. 9504, An Act Amending National Internal Revenue Code, provides that starting July 1, 2008, the Optional Standard Deduction (OSD) equivalent to 40 per cent of gross income may be claimed as an alternative deduction in computing for the RCIT.

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

5. Taxes and Licenses

The documentary stamp taxes paid/accrued on loans availed and renewed during the year totalled P20,806,608.

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

Particulars	Amount
b. Local	
Realty Taxes	285,167
Licenses	1,728,211
Community Tax Certificate	10,500
b. National	
Annual Non-VAT Registration Fee	500
Tax Clearance Application	6,300
Gross Receipt Tax	30,767,470
	32,798,148

31. OTHER SUPPLEMENTARY INFORMATION

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

	2023	2022
Current ratio	0.60	0.46
Acid test ratio	0.58	0.43
Solvency ratio	0.03	0.04

Debt to equity ratio	2.81	2.42
Asset to equity ratio	3.81	3.42
Interest rate coverage ratio	1.56	1.61
Return on equity	4.57	2.55
Return on assets	1.26	0.79
Net profit margin	12.25	6.33

B. In compliance with BSP Circular No. 1075 dated February 7, 2020, the following are basic quantitative indicators of financial performance of the Corporation:

	2023	2022
Return on average equity	4.57	2.55
Return on average assets	1.26	0.79
Net profit margin	12.25	6.33

[redacted]

Board of Directors as of December 31, 2023

Roberto U. Teo

Chairperson

Mr. Roberto U. Teo, 74 years old, took his oath as a Member of the Board of Directors of LBP Leasing and Finance Corporation in June 2017. As of date, Mr. Teo sits as the Chairperson of LLFC's BOD, Executive Committee and Corporate Governance Committee.

Mr. Teo served as Assistant City Administrator for Operations of Davao City, Assistant City Administrator for Admin and Economic Enterprise Manager. He was also Chief of the Davao City Investments Promotions Center.

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

Mr. Teo graduated from the De La Salle College in 1971 with a degree in BS Chemical Engineering. In 1974, he earned his master's in business management from the Asian Institute of Management. He joined other Programs in Pennsylvania, U.S.A. including Program for Executive in 1978 and Economics, Fall Program from 1977 to 1978.

For 2023, he attended Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) Webinar and Risk Management in the Post-Covid Age trainings and seminars.

Board of Directors as of December 31, 2023

Nanziancino M. Dilay

Vice-Chairperson

Mr. Nanziancino M. Dilay, 74 years old, took his oath as LLFC Director in July 2019. He is currently the Vice-chairperson of the LLFC Board of Directors and the Chairperson of the Audit Committee. He is also a member of the Risk Management Committee.

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

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

For 2023, he attended trainings on Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) Webinar, ICD - Finance for Directors, and Risk Management in the Post-Covid Age trainings and seminars.

Board of Directors as of December 31, 2023

Michael P. Arañas

Member/President and CEO

Mr. Michael P. Arañas, 77 years old, has been a member of the Board since July 30, 2020. He was elected as the President/CEO in November 2021. He is also a member of the Executive Committee.

Mr. Arañas was also appointed in 2017 as a member of the Board of Directors of the Philippine Sugar Corporation which was abolished in 2018. He had banking experience from the various banks namely, Family Bank and Trust Co., BPI Family Bank, Davao Lending House, Inc., Lapanday Agri Development Corporation, Security Bank, Consumer Bank, Phil. Farmers Bank and Corfarm Bank, his training in all aspects of banking has been beneficial as Director for LBP Leasing and Finance Corporation.

He graduated from the University of the Philippines where he obtained his bachelor's in Science major in Electrical Engineering. He also took up AB General and BSBA in Davao Central Colleges and Ateneo de Davao University, respectively. He was awarded the bronze medallion for academic excellence by the Ateneo de Davao University where he obtained his MBA.

For 2023, he attended Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) Webinar, ICD - Finance for Directors, and Risk Management in the Post-Covid Age trainings and seminars.

Board of Directors as of December 31, 2023

Virgilio M. Sangutan

Member

Mr. Virgilio M. Sangutan, 65 years old, took his oath as LLFC Director in May 2019. He is the Chairperson of the Risk Management Committee and a member of the Audit Committee and RPT Committee, respectively.

Mr. Sangutan has been a member of the BOD and President of Davao Inventors Association, Inc. from 2006 to 2010 and a Board of Director of Southeastern Mindanao Inventors Association from 1995 to 2005. He is the owner of MI Herbal Laboratory and currently the President of Inventfoods Manufacturing, Inc. Mr. Sangutan graduated from the Divine Word College of Legaspi in 1982 with a degree in BSC-Banking and Finance. In 1988-1989, he earned some units in the College of Law in Ateneo de Davao University and had a year of Master's in Business Administration at the USEP, Obrero Davao City.

For 2023, he attended Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) Webinar, ICD - Finance for Directors, and Risk Management in the Post-Covid Age trainings and seminars.

Board of Directors as of December 31, 2023

Conrado S. Miñano, Jr.

Member

Mr. Conrado S. Miñano, 70 years old, was appointed as a Member of the Board of Directors of LBP Leasing and Finance Corporation on June 2, 2017. He is a member of the Executive Committee and Corporate Governance Committee.

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

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

For 2023, he attended Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) Webinar and ICD - Finance for Directors trainings.

Board of Directors as of December 31, 2023

Leticia V. Damasco

Member

Ms. Leticia V. Damasco, 74 years old, took her oath as LLFC Director in January 2018. She is also a member of the Audit Committee, Risk Management Committee and Corporate Governance Committee, respectively.

Ms. Damasco has 32 years of banking experience which she gained from Land Bank of the Philippines. Her last LBP 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 to11 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 inPsychology from thePhilippine Statesman College.

Training for 2023, she attended the ICD - Finance for Directors, Updates on the Anti-Money Laundering Act (AMLA), and Risk Management in the Post-Covid Age.

Board of Directors as of December 31, 2023

Edgar Crisanto R. Violan
Member

Mr. Edgar Crisanto R. Violan, 64 years old, was appointed to the LLFC Board in May 2020. Mr. Violan is currently a member of the Executive Committee and Corporate Governance Committee.

Mr. Violan served as a member of the Board of Directors of the Philippine Mining Development Corporation for two years and a former Chief Administrative Officer of DOTC-LTFRB XI. He graduated Cum Laude from the University of Southeastern Philippines with the degree of BS in Public Administration in 1980. He also finished his Bachelor of Laws at the Ateneo de Davao University in 1984 and earned units in master's degree in Economics at the Rizal Memorial Colleges.

Mr. Violan is a Colonel in the Philippine Army, Reserve Force. He is also a Regional Cadre Instructor in the Incident Command System Courses.

For 2023, he attended various trainings and seminars on Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) Webinar, ICD - Building Better Boards Through Diversity, ICD - The Maharlika Investment Fund, ICD - Finance for Directors, and Risk Management in the Post-Covid Age.

Board of Directors as of December 31, 2023

Fritz M. Salazar

Member

Mr. Fritz M. Salazar, 50 years old, was appointed as a Member of the Board of Directors of LLFC on March 16, 2017. He sits as a member of the LLFC's Executive Committee and Related-Party Transaction Committee, respectively.

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 Bank Officer in Metrobank from 1989 to 2010.

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

For 2023, he attended trainings for ICD - Finance for Directors, and Updates on the Anti-Money Laundering Act (AMLA).

Board of Directors as of December 31, 2023

Alvin I. Kong

Member

Mr. Alvin I. Kong, 74 years old, has been a member of the Board since April 29, 2021. As of date, Mr. Kong sits as the Chairperson of RPT Committee and a member of the Risk Management Committee and Audit Committee, respectively.

With the banking experience he had from Associated Citizens Bank, Bank of Commerce, Maybank of the Philippines, Philippine National Bank and Al-Amanah Islamic Bank, his training in all aspects of banking has been beneficial as Director for LBP Leasing and Finance Corporation.

He graduated from the University of the East where he obtained his BSBA major in Economics. He also took up MBA Program from the Lyceum of the Philippines and the University of the East and had taken up a few units of Customs Administration from thse Philippine Maritime Institute.

For 2023, he attended trainings for Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) Webinar, ICD - Finance for Directors, and Risk Management in the Post-Covid Age.

PRODUCTS AND SERVICES

LEASING FACILITIES

I. FINANCE LEASE

- *This credit facility allows clients to acquire equipment and other assets to expand, upgrade or modernize their operations.*
- *For Government accounts it can be used for the acquisition of land, building and/or office space.*

A. DIRECT LEASE

- *A lease arrangement wherein LLFC (Lessor) acquires an asset directly from a third party (usually the supplier or manufacturer) and leases it out to the client (Lessee).*

B. SALE AND LEASEBACK

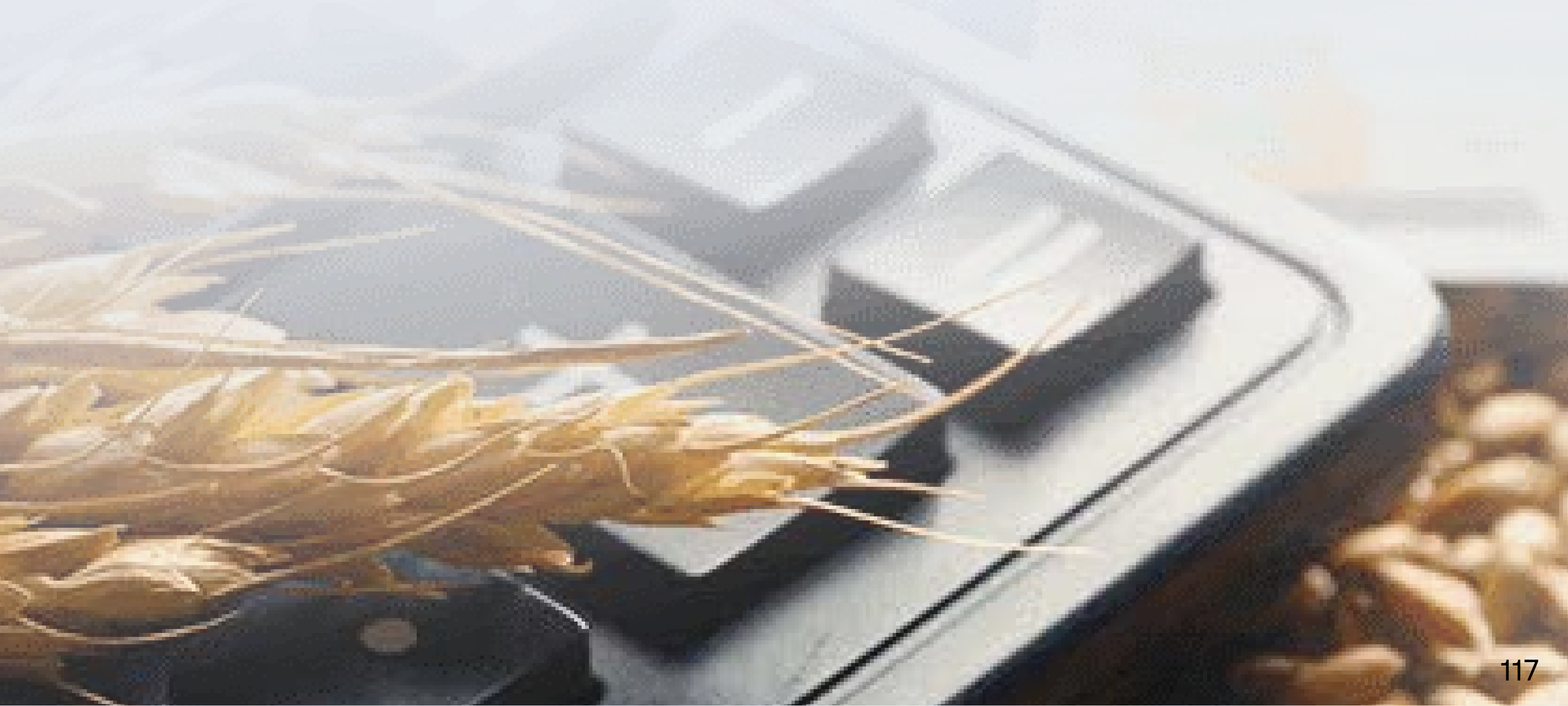
- *A lease arrangement wherein the client may sell an asset to LLFC and leases back the same asset over a lease period. The client becomes the Lessee and LLFC becomes the Lessor. The purpose of a sale and leaseback facility is to liquidate client's fixed asset for working capital.*

C. SUBLEASE ARRANGEMENT

- *A lease arrangement wherein LLFC (Lessor) gives consent to the client (Lessee) to sublease the leased asset to a third party (Sublessee). There is a lease agreement between LLFC (Lessor and owner of the asset or equipment) and the client (Lessee) who transfers the owner's rights to the possession and use of the asset to the Sublessee over an agreed payment period. The Lessee and the Sublessee has a separate contract or agreement.*

II. OPERATING LEASE

- *A Rental; Agreement granted for selected asset types that have long economic life and well-established secondary markets. This facility shall be limited for LBP and its subsidiaries who do not want to be burdened with the acquisition and disposition processes and will rather not have the risks and benefits of ownership on the leased asset*



FINANCING FACILITIES

I. CREDIT LINES

A. SHORT-TERM CREDIT LINE

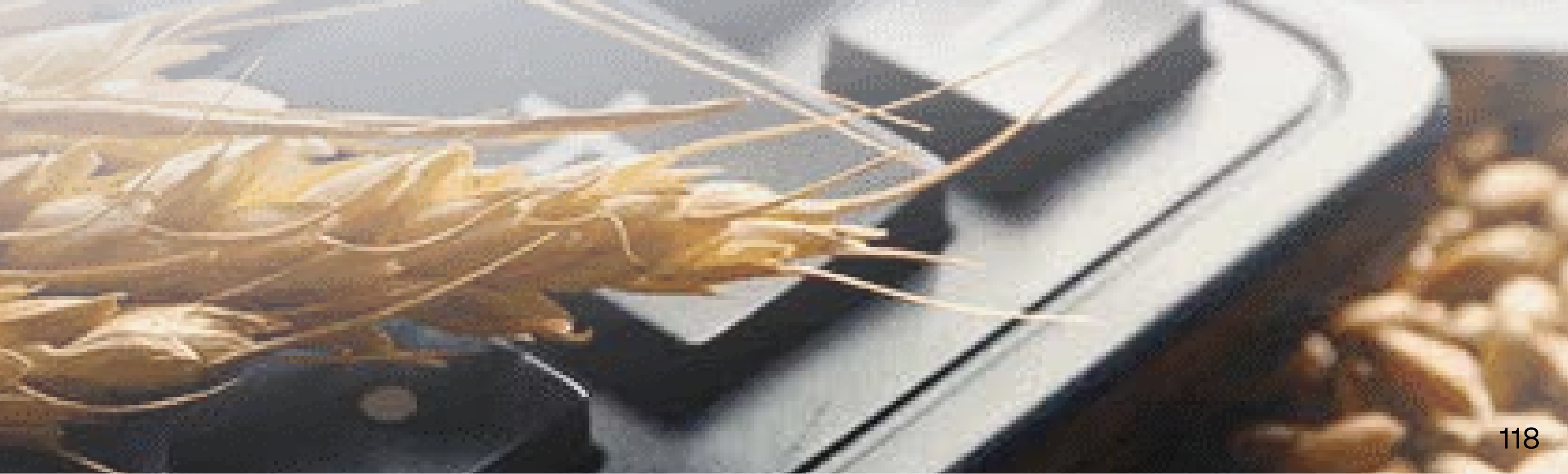
- *Loans/lines with maturities of 360 days or less that can be used for the following purpose:*
    - ***Working Capital Requirement***
      A credit facility that allows the client to augment its working capital. It is normally secured by Chattel Mortgage or Real Estate Mortgage.
    - ***Receivables Financing***
      A financing arrangement wherein the client may borrow against the amount of its outstanding receivables. This allows the client to liquify their receivables to allow them to have additional working capital. Receivables must be from well-established business entities acceptable to LLFC or government institutions/entities.
    - ***Purchase Order/Contract Financing***
      Provides clients additional working capital to finance confirmed purchase/job orders. This allows clients to service large purchase orders/sales contracts from well-established business entities acceptable to LLFC or government institutions/entities.
    - ***Factoring of Receivable***
      A financing agreement wherein there is a direct collection agreement between LLFC, the client and the end-issuer of the receivables.

B. TERM LOANS

- *Provides long-term financing with maturity of more than one (1) year to fund the following:*
    - *Permanent Working Capital normally secured by Chattel Mortgage and/or Real Estate Mortgage.*
    - *Acquisition of equipment or other capital assets to be secured by the object to be financed.*
    - *Acquisition of Land and Building, Construction and/or improvement of client's facilities secured by real estate and/or chattel mortgages.*

C. TERM LOAN REDISCOUNTING FACILITY

- *Provides client with working capital to improve liquidity through the financing of long-term receivables (more than one year). The facility is to be secured by an assignment of the receivables being financed and all accessory documents. The facility is open to financing or lending companies, and equipment suppliers with in-house financing or installment payments.*



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.*

A. SPECIAL FINANCING TO SUPPORT GOVERNMENT PROGRAMS

LLFC can develop special programs to support government initiatives and/or programs. The same can be done in conjunction with the implementing government entity/institution or as a stand-alone program to support the National Government Agenda. This involves the grant of financing for equipmenVassets to upgrade/replace/improve/modernize the facilities of the target beneficiaries, sectors and /or industries.

B. ANCHOR-BASED FINANCING PROGRAMS

A financing program "anchored" on a specific busines entity/institution. LLFC will partner with a specific "Anchor Company" to finance the acquisition of equipment/assets of its suppliers/sub-contractors/partners. Under the program. the credit package (equity position, repayment tenn, etc.) will be pre-defined to suit the needs of the suppliers/subô€€°contractors/partners of the Anchor Company.

C. VENDOR PARTNERSHIP FINANCING PROGRAMS

A financing program where LLFC may partner with established equipment suppliers/vendors to finance its customers. Arrangement may vary from a simple "referral system" to a more advanced arrangement that may include collection arrangements, broker's fees, collection and monitoring systems, etc,

D. CALAMITY REHABILLTATION SUPPORT (CARES) PROGRAM

A financing program designed to help business entities in areas severely affected by natural calamities and other fortuitous events.

E. FLEET MANAGEMENT SERVICES

Administration of vehicles of LBP. such as chauffeuring. insurance and L TO registration, among others.